

**NOTICE OF COMMISSION
MEETING OF THE CHINO
BASIN FINANCING
AUTHORITY AND MEETING OF
THE IEUA BOARD OF
DIRECTORS**

**A CHINO BASIN REGIONAL FINANCING
AUTHORITY MEETING
AND
A BOARD OF DIRECTORS MEETING
OF THE**



**WILL BE HELD ON
WEDNESDAY, DECEMBER 16, 2015
10:00 A.M.**

**AT THE OFFICE OF THE AGENCY
6075 KIMBALL AVENUE, BUILDING A,
CHINO, CA 91761**



AGENDA

**COMMISSION MEETING OF THE
CHINO BASIN REGIONAL FINANCING AUTHORITY
AND
MEETING OF THE
BOARD OF DIRECTORS**

**WEDNESDAY, DECEMBER 16, 2015
10:00 A.M.**

**INLAND EMPIRE UTILITIES AGENCY*
AGENCY HEADQUARTERS
6075 KIMBALL AVENUE, BUILDING A
CHINO, CALIFORNIA 91708**

**CALL TO ORDER
OF THE CHINO BASIN REGIONAL FINANCING AUTHORITY**

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Commission on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by subdivision (b) of Section 54954.2 of the Government Code.

ADDITIONS TO THE AGENDA

In accordance with section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action can be the attention of the local agency subsequent to the agenda being posted.

1. ACTION ITEMS

A. MINUTES

The Commission will be asked to approve the minutes of the November 18, 2015, Chino Basin Regional Financing Authority Commission meeting.

B. ADOPTION OF RESOLUTION NO. 2015-7, AUTHORIZING A SUBSTITUTE CREDIT FACILITY FOR VARIABLE RATE DEMAND REVENUE REFUNDING BONDS

It is recommended that the Commissioners adopt Resolution No. 2015-7, authorizing a substitute credit facility for Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency); Series 2008B (2008B Bonds) for a not-to-exceed amount of \$44,060,000, which approves:

- a. The Letter of Credit Reimbursement Agreement and related Fee Agreement, the Remarketing Agreement, the Restated and Amended Installment Purchase Agreement, and the Restated or Amended Indenture of Trust and execution of certain documents in substantive form;
- b. Preparation and distribution of the Supplement to the Official in substantive form; and
- c. Authorize the President, Vice President, Treasurer or the designee to execute such documents and authorize certain other matters in connection therewith, as required.

C. CHINO BASIN REGIONAL FINANCING AUTHORITY FISCAL YEARS (FYs) 2012/13 THROUGH 2014/15 ANNUAL FINANCIAL STATEMENTS

It is recommended that the Commissioners:

1. Approve the Annual Financial Statements of the Chino Basin Regional Financing Authority (Authority) for FYs ended June 30, 2013, 2014, and 2015; and
2. Direct staff to distribute the reports, as appropriate, to the various federal, state, and local agencies, financial institutions, and other interested parties.

2. ADJOURN

CALL TO ORDER
OF THE INLAND EMPIRE UTILITIES AGENCY BOARD OF DIRECTORS MEETING

FLAG SALUTE

PUBLIC COMMENT

Members of the public may address the Board on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) of Section 54954.2 of the Government Code. Those persons wishing to address the Board on any matter, whether or not it appears on the agenda, are requested to complete and submit to the Board Secretary a "Request to Speak" form which are available on the table in the Board Room. Comments will be limited to five minutes per speaker. Thank you.

ADDITIONS TO THE AGENDA

In accordance with Section 54954.2 of the Government Code (Brown Act), additions to the agenda require two-thirds vote of the legislative body, or, if less than two-thirds of the members are present, a unanimous vote of those members present, that there is a need to take immediate action and that the need for action came to the attention of the local agency subsequent to the agenda being posted.

1. NEW HIRE INTRODUCTIONS

- Mr. Randy Lee, Manager of Operations re-hired on 12/07/15 (Ernest Yeboah)
- Mr. Jerry Burke, Deputy Manager of Engineering, hired on 12/14/15 (Shaun Stone)

2. CONSENT CALENDAR

NOTICE: All matters listed under the Consent Calendar are considered to be routine and non-controversial and will be acted upon by the Board by one motion in the form listed below. There will be no separate discussion on these items prior to the time the Board votes unless any Board members, staff or the public requests specific items be discussed and/or removed from the Consent Calendar for separate action.

A. MINUTES

The Board will be asked to approve the minutes from the November 4, 2015 Joint IEUA Board and Regional Policy Committee meeting.

B. GENERAL DISBURSEMENTS REPORT

It is recommended that the Board approve the total disbursements for the month of October 2015, in the amount of \$12,342,322.01.

C. COURIER SERVICES CONTRACT AWARD

It is recommended that the Committee/Board:

1. Approve the award of a five-year competitively-let contract to PacTrack of Fullerton, California, through December 31, 2020, for Agency-wide courier and laboratory sample delivery services; and
2. Authorize the Manager of Contracts and Facilities Services to execute the contract.

D. UNARMED UNIFORMED SECURITY SERVICES CONTRACT

It is recommended that the Committee/Board:

1. Approve the contract to Universal Protection Services (UPS), through December 31, 2020; for IEUA uniformed security services, for a not-to-exceed amount of \$858,000, for up to a five-year term; and
2. Authorize the Manager of Contracts and Facilities Services to execute the contract

E. FY 2014/15 SINGLE AUDIT REPORT FOR FEDERAL GRANT PROGRAMS

It is recommended that the Committee/Board:

1. Approve the Single Audit Report for FY 2014/15; and
2. Direct staff to distribute the report, as appropriate, to the State Controller's Office, the Federal Clearing House, and other interested parties.

F. CONSTRUCTION CONTRACT AWARD FOR THE FIBER OPTIC PULL BOX UPGRADES

It is recommended that the Committee/Board:

1. Approve the construction contract award for the Fiber Optic Pull Box Upgrades, Project No. EN15030.02, to J.F. Shea Construction, Inc. in the amount of \$248,500; and
2. Authorize the General Manager to execute the contract.

G. ON-CALL CONSTRUCTION SURVEYING AND ENGINEERING RELATED SERVICES CONTRACT AMENDMENT

It is recommended that the Committee/Board:

1. Approve a contract amendment with CASC Engineering and Consulting (CASC) for on-call surveying and engineering related services for a one-year contract extension through January 1, 2017, for an additional amount of \$250,000 to the original contract; and
2. Authorize the General Manager to execute the contract amendment.

H. ENVIRONMENTAL SERVICES MASTER CONTRACT AMENDMENT

It is recommended that the Committee/Board:

1. Approve contract amendment 4600001385-001, with Tom Dodson and Associates (TDA), for an on-call environmental services contract, for an additional amount of \$200,000; and
2. Authorize the General Manager, or in his absence, his designee to execute the contract amendment.

3. ACTION ITEMS

A. IEUA FISCAL YEAR (FY) 2014/15 COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

It is recommended that the Committee/Board:

1. Approve the CAFR for FY ended June 30, 2015; and

2. Direct staff to distribute the report as appropriate, to the various federal, state, and local agencies, financial institutions, bond rating agencies, and other interested parties.

B. AUTHORIZING THE SUBSTITUTION OF THE LETTER OF CREDIT (LOC) PROVIDER FOR THE 2008B VARIABLE RATE DEMAND BONDS

It is recommended that the Committee/Board adopt Resolution No. 2015-12-1, authorizing the substitution of the LOC provider for the Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B, for a not-to-exceed amount of \$44,060,000.

C. CONTRACT AWARD FOR THE REGIONAL WATER RECYCLING PLANT NO. 1 (RP-1) LAWN CONVERSION IMPROVEMENT

It is recommended that the Committee/Board:

1. Approve the landscape services contract for RP-1 Lawn Conversion Improvements, Project No. CP16007, to Conserve LandCare, Inc. for a not-to-exceed amount of \$319,200;
2. Approve a budget amendment to increase the Regional Wastewater Operations & Maintenance (RO) fund revenue and expenses in the amount of \$400,000; and
3. Authorize the General Manager, or in his absence, his designee to execute the contract.

D. JANITORIAL MAINTENANCE SERVICES CONTRACT AWARD

It is recommended that the Committee/Board:

1. Approve the award of a five-year competitively-let contract to Priority Building Services, LLC, for janitorial maintenance services for a total annual amount of \$166,593, effective January 3, 2016; and
2. Authorize the Manager of Contracts and Facilities Services to execute the contract.

4. INFORMATION ITEMS

A. MWD UPDATE (ORAL)

RECEIVE AND FILE INFORMATION ITEMS

B. ENGINEERING AND CONSTRUCTION MANAGEMENT FY 2014/15 MONTHLY UPDATE (POWERPOINT)

C. TREASURER'S REPORT OF FINANCIAL AFFAIRS (WRITTEN/ POWERPOINT)

- D. PUBLIC OUTREACH AND COMMUNICATION (WRITTEN)
- E. LEGISLATIVE REPORT FROM INNOVATIVE FEDERAL STRATEGIES (WRITTEN)
- F. LEGISLATIVE REPORT FROM WEST COAST ADVISORS (WRITTEN)
- G. LEGISLATIVE REPORT FROM AGRICULTURAL RESOURCES (WRITTEN)
- H. CALIFORNIA STRATEGIES, LLC MONTHLY ACTIVITY REPORT (WRITTEN)
- I. FEDERAL LEGISLATIVE TRACKING MATRIX (WRITTEN)
- J. PARTICIPATION IN THE CALIFORNIA ASSET MANAGEMENT PROGRAM (CAMP) (WRITTEN)
- K. INLAND EMPIRE REGIONAL COMPOSTING AUTHORITY FISCAL YEAR 2014/15 ANNUAL FINANCIAL REPORT (WRITTEN)
- L. FIRST QUARTER BUDGET VARIANCE REPORT FOR FISCAL YEAR 2015/16 (WRITTEN)
- M. UPDATES FOR THE AUDIT COMMITTEE AND THE INTERNAL AUDIT DEPARTMENT CHARTERS (WRITTEN)
- N. REGIONAL CONTRACT REVIEW FINAL REPORT (WRITTEN)
- O. INTERNAL AUDIT DEPARTMENT STATUS REPORT FOR DECEMBER 2015 (WRITTEN)
- P. RP-1 & RP-5 PROJECT DESIGN REPORT REQUEST FOR PROPOSAL UPDATE (WRITTEN)

Materials related to an item on this agenda submitted to the Agency, after distribution of the agenda packet, are available for public inspection at the Agency's office located at 6075 Kimball Avenue, Chino, California during normal business hours.

5. AGENCY REPRESENTATIVES' REPORTS

- A. SAWPA REPORT (WRITTEN)
- B. MWD REPORT (WRITTEN)
- C. REGIONAL SEWERAGE PROGRAM POLICY COMMITTEE REPORT
(December and January Meeting cancelled. Next meeting scheduled for February 4, 2016.)
- D. CHINO BASIN WATERMASTER REPORT (WRITTEN)

- 6. **GENERAL MANAGER'S REPORT (WRITTEN)**
- 7. **BOARD OF DIRECTORS' REQUESTED FUTURE AGENDA ITEMS**
- 8. **DIRECTORS' COMMENTS**

A. CONFERENCE REPORTS

This is the time and place for the Members of the Board to report on prescheduled Committee/District Representative Assignment meetings, which were held since the last regular Board meeting, and/or any other items of interest.

9. **CLOSED SESSION**

A. PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a) – CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION

- 1. Chino Basin Municipal Water District vs. City of Chino, Case No. RCV51010
- 2. Martin vs. IEUA, Case No. CIVRS 1000767
- 3. Mwembu vs. IEUA, Case No. CIVDS 1415762

B. PURSUANT TO GOVERNMENT CODE SECTION 54956.8 – CONFERENCE WITH REAL PROPERTY NEGOTIATOR

- 1. Supplemental Water Transfer/Purchase
Negotiating Party: General Manager P. Joseph Grindstaff
Under Negotiation: Price and Terms of Purchase

C. PURSUANT TO GOVERNMENT CODE SECTION 54956.9 CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION

- 1. One (1) Case

D. PURSUANT TO GOVERNMENT CODE SECTION 54957 – PERSONNEL MATTERS

- 1. Various Positions – Compensation Study
- 2. Various Positions.

E. PURSUANT TO GOVERNMENT CODE SECTION 54957 – PERSONNEL MATTERS – PUBLIC EMPLOYEE PERFORMANCE EVALUATION

- 1. Manager of Internal Audit
- 2. Board Secretary/Office Manager

10. **ADJOURN**

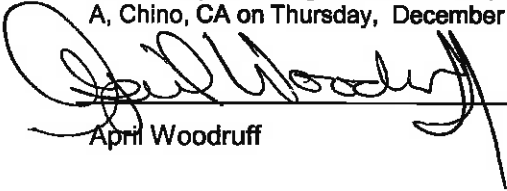
*A Municipal Water District

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary (909) 993-1736, 48 hours prior to the scheduled meeting so that the Agency can make reasonable arrangements.

Proofed by: SR

Declaration of Posting

I, April Woodruff, Board Secretary of the Inland Empire Utilities Agency*, A Municipal Water District, hereby certify that a copy of this agenda has been posted by 5:30 p.m. at the Agency's main office, 6075 Kimball Avenue, Building A, Chino, CA on Thursday, December 10, 2015.



April Woodruff

**ACTION ITEM
1A**

**MINUTES
OF THE
SPECIAL
COMMISSION MEETING OF
THE CHINO BASIN REGIONAL FINANCING AUTHORITY
NOVEMBER 18, 2015**

COMMISSIONERS PRESENT:

Michael Camacho
Terry Catlin, President
Steven J. Elie, Secretary
Jasmin Hall

COMMISSIONERS ABSENT:

Gene Koopman, Vice President

STAFF PRESENT:

Christina Valencia, Chief Financial Officer/Assistant General Manager
Jason Gu, Grants Officer
Sylvie Lee, Manager of Planning and Environmental Resources
Shaun Stone, Manager of Engineering
April Woodruff, Board Secretary/Office Manager

OTHERS PRESENT:

Jean Cihigoyenette, Cihigoyenette, Grossberg & Clouse
Marty Cihigoyenette, Cihigoyenette, Grossberg & Clouse

A special commission meeting of the Chino Basin Regional Financing Authority was held at the office of the Inland Empire Utilities Agency, *A Municipal Water District, 6075 Kimball Avenue Chino, California on the above date.

President Catlin called the meeting to order at 9:46 a.m., and he dispensed the pledge of allegiance. A quorum was present.

President Catlin stated that members of the public may address the Commission. There were no persons desiring to do so.

President Catlin asked if there were any additions/deletions to the agenda. There were no additions/deletions to the agenda.

ACTION ITEM

MINUTES

Upon motion by Commissioner Camacho, seconded by Commissioner Elie, with Director Hall abstaining, the motion carried (3-1):

<p>M2015-11-1 MOVED, approval of the minutes from the Special Commission meeting of October 14, 2015.</p>

ACTION ITEMS

ADOPTION OF RESOLUTION NO. 2015-1 THROUGH 3, FOR THE REGIONAL WATER RECYCLING PROGRAM

Grants Officer Jason Gu stated that in 2014, in response to the Drought State of Emergency, the State Water Resources Control Board offered a 1%, 30-year State Revolving Fund loan incentive program. In 2015, the SWRCB announced the Prop 1 grant for 35% up to \$15 million dollar grant per project whichever is lower, for water recycling projects.

Mr. Gu informed the Board that IEUA has been working with Jurupa Community Service District, Western Municipal Water District, and the Western Riverside County Regional Wastewater Authority on a Recycled Water Intertie Project for a number of years. He explained that this project will build 80,000 linear feet of pipelines in 3 segments, and 2 pump stations to initially deliver 3,000 AFY of additional recycled water supply for groundwater recharge and direct recycled water use on public land (schools and parks) in both IEUA and JCSD service areas.

The project has a total estimated cost of \$52.4 million dollars, which will be shared by IEUA and JCSD. The SRF loan/grant application will be submitted through the Chino Basin Regional Financing Authority as a joint regional project. He stated that in order to qualify, a complete application must be submitted by 12/2/2015.

The SWRCB requires three Resolutions:

1. Resolution No. 2015-1, authorizes IEUA's General Manager to sign the SRF loan application and to execute financial agreement with the SWRCB Board on behalf of CBRFA.
2. Resolution No. 2015-2, pledges revenue sources received from the 2015 Financing Agreements with IEUA and JCSD for the repayment of the loan.
3. Resolution No. 2015-3, expresses the intent to use local cash flow for the initial project costs before the loan agreement is signed.

Grants Officer Jason Gu stated that IEUA's cost share of the \$52.4 million will be approximately \$13 million dollars. IEUA currently has \$10 million budgeted in the adopted TYCIP. Upon approval of grant/loan by the State, the IEUA's budget will be revised to align with grant agreement.

JCSD's cost share of the total \$52.4 million is approximately \$39 million dollars. JCSD will sign the 2015 Financial Agreement with the CBRFA, and pledge fund for their share of the repayment of the SRF loan.

Mr. Gu stated that staff is recommending that the Commissioners adopt Resolution Nos. 2015-1, 2015-2, and 2015-3, authorizing the CBRFA to apply for a grant/SRF loan from the SWRCB, for the joint IEUA-JCSD Recycling Intertie Project.

Upon motion by Commissioner Camacho, seconded by Commissioner Elie, and unanimously carried:

M2015-11-2
MOVED, to:

1. Adopt Resolution No. 2015-1, authorizing IEUA's General Manager, or his designee, to sign and file application and agreement with the State Water Resources Control Board (SWRCB), for the design and construction of the Joint Inland Empire Utilities Agency (IEUA)-Jurupa Community Services District (JCSD) Regional Water Recycling Program (Project) on behalf of the Chino Basin Regional Financing Authority (CBRFA);

Continued...

M2015-11-2, continued.

2. Adopt Resolution No. 2015-2, dedicating net revenues for the repayment of State Revolving Fund (SRF) loan from the SWRCB for the project;
3. Adopt Resolution No. 2015-3, establishing its intention to apply for and be reimbursed for expenditures related to the construction of the Project; and
4. Authorize the CBRFA to enter into Reimbursement Agreements with IEUA and the Jurupa Community Services District (JSCD) for the repayment of the SFR loan and administering the grant/loan agreements on behalf of the CBRFA for the project.

ADOPTION OF RESOLUTION NOS. 2015-4 THROUGH 6, FOR THE REGIONAL WATER INTERTIE PROJECT

Grants Officer Jason Gu stated that IEUA's Planning Department has been working with the City of Pomona and Monte Vista Water District on a Recycled Water Intertie Project for a numbers of years. He explained that this Project will build 38,000 linear feet of pipelines, a pump station, and a 3 million gallons per day (MGD) advanced recycled water treatment plant to initially deliver 1,100 acre feet per year (AFY) of recycled water for groundwater recharge and recycled water direct reuse. It will also address land subsidence problem in the area.

The project has an estimated cost of \$51.9 million dollars. The State Water Resources Control Board (SWRCB) application for a State Revolving Fund (SRF) loan and grant will be submitted through the Chino Basin Regional Financing Authority as a joint regional project.

The SWRCB requires three Resolutions for this application:

1. Resolution No. 2015-4, authorizes IEUA's General Manager to sign the SRF loan/grant application and to execute the funding agreement with the State Water Board on behalf of CBRFA.
2. Resolution No. 2015-5, pledges revenue sources received from the 2015 Financing Agreement with IEUA for the repayment of the loan.
3. Resolution No. 2015-6, expresses the intent to use local cash flow for the initial project costs before a loan agreement is signed.

Mr. Gu stated that this item also recommends that the Board of Commissioners authorize IEUA's General Manager to execute the 2015 Financing Agreement with IEUA on behalf of CBRFA. He explained that IEUA has been working with the City of Pomona and MVWD on a cost sharing agreement. Depending on the result of the cost sharing agreement, IEUA, the City of Pomona and MVWD will likely share the \$51.9 million dollars project cost equally at approximately \$17.3 million dollars each or in proportion to their individual benefits. He further stated that IEUA currently has a \$10-million dollars project in the adopted TYCIP, and upon approval of grant/loan, the TYCIP and the annual capital improvement plan (CIP) budgets will be revised to align with the Funding Agreement.

Mr. Gu stated that staff is recommending the Board of Commissioners of the CBRFA adopt three Resolutions authorizing the CBRFA to apply for a grant/SRF loan from the SWRCB, for the Joint IEUA, Pomona, MVWD Recycled Water Intertie Project.

Upon motion by Commissioner Elie, seconded by Commissioner Hall, and unanimously carried:

M2015-11-3

MOVED, to:

1. Adopt Resolution No. 2015-4, authorizing IEUA's General Manager, or his designee, to sign and file application and agreement with the State Water Resources Control Board (SWRCB), for the design and construction of the Project on behalf of the Chino Basin Regional Financing Authority (CBRFA);
2. Adopt Resolution No. 2015-5, dedicating net revenues for the repayment of State Revolving Fund (SFR) loan from the SWRCB for the Project;
3. Adopt Resolution No. 2015-6, establishing its intention to apply for and be reimbursed for expenditures related to the construction of the Project; and
4. Authorize the CBRFA to enter into agreements with IEUA, the City of Pomona, and Monte Vista Water District (MVWD) for the repayment of the SRF loan and administering the grant/loan agreements on behalf of the CBRFA for the Project.

With no further business, President Catlin adjourned the meeting at 10:55 a.m.

Steven J. Elie, CBRFA Secretary

APPROVED: DECEMBER 16, 2015

**ACTION ITEM
1B**

CHINO BASIN REGIONAL FINANCING AUTHORITY

Date: December 16, 2015

To: The Honorable Commissioners

From: P. Joseph Grindstaff
General Manager

Subject: Adoption of Resolution No. 2015-7, Authorizing a Substitute Credit Facility for Variable Rate Demand Revenue Refunding Bonds

RECOMMENDATION

It is recommended that the Commissioners Adopt Resolution No. 2015-7, authorizing a substitute credit facility for Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B (2008B Bonds) for a not-to-exceed amount of \$44,060,000 which approves;

- a. The Letter of Credit (LOC) Reimbursement Agreement and related Fee Agreement, the Remarketing Agreement, the Restated and Amended Installment Purchase Agreement, and the Restated or Amended Indenture of Trust and execution of certain documents in substantive form;
- b. Preparation and distribution of the Supplement to the Official in substantive form; and
- c. Authorize the President, Vice President, Treasurer, or the designee to execute such documents and authorize certain other matters in connection therewith, as required.

BACKGROUND

The current LOC Agreement with Union Bank for the Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B (2008B Bonds) was set to expire on November 26, 2015. On October 21, 2015, Union Bank agreed to extend the LOC agreement through January 25, 2016, at an increased rate of 45 basis points (bps) from 40 bps. The General Manager advised the Board of Commissioners of the contract extension on September 16, 2015. The 60 day extension allowed for the competitive solicitation of a new LOC provider and remarketing agent. Citigroup Global Markets, Inc. (Citigroup) had served as the remarketing agent since 2001.

Letter of Credit

The LOC provider guarantees timely payment of principal and interest to bondholders in the event of an Agency default or credit downgrade. The LOC “direct-pay” structure, wherein bondholders are paid directly by the LOC provider rather than the issuer, enhances the credit quality and liquidity of the bonds by allowing bondholders to put, or tender, the securities back

to the remarketing agent and receive par value plus accrued interest, making the bonds more marketable.

A Request for Proposal (RFP) for LOC providers was issued by Public Financial Management (PFM), the Authority’s financial advisor, on September 23, 2015. Five banking institutions responded to the RFP; Bank of West, Citibank, N.A., J. P. Morgan Chase Bank, State Street, and Sumitomo Mitsui Banking Corporation (SMBC). Of the five proposals received, SMBC, through its New York Branch, met all of the criteria and was recommended by PFM due to its stable long-term (A1/A/A-) and short-term (P-1/A-1/F-1) credit ratings, a proposed five-year term loan with a fixed commitment fee of 40 bps, and the flexibility to terminate the agreement prior to the expiration date without incurring fees or penalties after the first year.

The 40 bps fee proposed by SMBC is equivalent that of Union Bank’s original three-year agreement at an estimated cost of \$175,000 per year based on the currently outstanding principal amount of \$44,060,000. The table below summarizes the key terms of the current and recommended LOC agreements.

Comparison of Current and Recommended LOC Agreements

Description	Union Bank (Current Provider)	SMBC (Recommended Provider)	Comments
Credit Rating-Long/Short Term	A2/P-1	A1/P-1	Improved long term rating
Maturity Term	3 Years	5 Years	Extended term
Facility/Commitment Fee – basis points (bps)	40	40	No increase in fees
Commitment Fees – 3 Years	\$528,700	\$528,700	Based on \$44,060,000 par
Draw Fees – Annual Cap	\$2,500	\$ 3,000	
Total estimated costs - 3 Years	\$536,200	\$537,700	
Legal Fees	\$ 45,000	\$ 50,000	One Time, capped
Amendment Fee	\$ 1,200	\$ 5,000	One Time
Termination Fees	None	None (After first year)	Maximum of \$180,00 if terminated in the first year only
Risk Exposure to Europe	Medium	Medium	European debt crisis
Parent Bank	Japanese	Japanese	Union Bank is a subsidiary of Mitsubishi UFJ Financial Group

Remarketing Agreement

On October 2, 2015, PFM issued an RFP for remarketing services to 11 banking institutions. A total of seven proposals were received; Barclays, Citigroup (the current provider), Goldman, Sachs & Co., Morgan Stanley, RBC Capital Markets, Wells Fargo Securities, and U.S. Bancorp Investments, Inc. (U.S. Bancorp).

PFM recommended contract negotiations be initiated with U.S. Bancorp based on the proposed fees and positive rating of their overall proposal. The remarketing fee of 5 bps proposed by U.S. Bancorp is 33% lower than the current Citigroup fee of 7.5 bps, resulting in estimated savings of \$22,000 per year. U.S. Bancorp also rated well in other key evaluation areas including, total firm capital, equity, and uncommitted capital, credit ratings, proven ability to market short-term or variable products, and firm’s experience with water/wastewater in California and elsewhere around the county during the last three years, and commitment to purchase and hold unsold securities. The table below compares the U.S. Bancorp and Citigroup (current remarketing agent) proposals:

Description	Citigroup (Current Provider)	U.S. Bancorp (Recommended Provider)	Comments
Credit Rating	A1/A/A+	A1/AA-/AA-	
Remarketing Fee – basis points (bps)	7.5	5.0	33% reduction in fees
Total estimated annual cost	\$33,000	\$22,000	Based on par value of \$44,060,000
Estimated legal fees	\$0	\$7,500	

Legal Documents

Substitution of the LOC service provider and remarketing agent will require the preparation and distribution of a Supplement to Official Statement, and final approval of related documents (in substantive form), by and amongst the Agency, the Authority (Authority), SMBC, U.S. Bank National Association (trustee), and U.S. Bancorp (remarketing agency), including:

- LOC Agreement and the related LOC Reimbursement Agreement (Reimbursement Agreement) and Fee Agreement between the Authority, the Agency, and SMBC allows for the payment of LOC fees to be made directly by the Agency.
- Remarketing Agreement between the Authority and the remarketing agent allows for the offering and sale from time to time in the secondary market of the bonds.
- Resolution to be approved by the Agency and the Authority.

Attached are copies of all of the documents in substantive final form. If technical changes are required to existing the Indenture of Trust and Installment Purchase Agreement, amendments will be prepared and executed.

The new LOC will be put in place prior to the January 25, 2016, expiration date of the extended Union Bank LOC agreement, in accordance with the provisions of the current agreements. Total out-of-pocket costs for the LOC replacement are estimated at \$175,000. These costs are primarily comprised of legal/bond counsel services (for both the Agency and SMBC), financial advisory services, and credit rating agency reviews. Therefore, securing a five-year agreement with SMBC is an added benefit given the cost and resources needed to renew the LOC.

PRIOR BOARD ACTION

On October 17, 2012, the Board authorized the General Manager to proceed with the substitution of the LOC service provider for the 2008B Variable Rate Demand Bonds, and advance contract negotiations with Union Bank, N.A. for a three year term agreement.

On December 17, 2008, the Commissioners adopted Resolution No. 2008-2 authorizing the execution of Amendment No. 1 to the 2008B Indenture of Trust Amendment of certain related documents and authorizing certain acts in connection therewith. Amendment No. 1 permits the Authority to purchase its 2008B VRDOs that fail to remark without defeasing or retiring the bonds, as well as allows for future remarketing.

On September 20, 2006, the Commissioners adopted Resolution No. 2006-4, approving a Standby Bond Purchase Agreement and a Supplement to Official Statement and authorizing certain acts in connection therewith.

On June 19, 2002, the Commissioners approved the issuance of Variable Rate Demand Revenue Bonds (Inland Empire Utilities Agency), Series 2002A in the amount of \$59 million.

On April 17, 2002, the Commissioners adopted Resolution No. 2002-4-5, declaring its intent to issue bonds to reimburse expenditures for capital projects

IMPACT ON BUDGET

Costs associated with the renewal of the LOC and the new Remarketing Agreement and annual cost under the new contracts are funded by the Agency and by Chino Basin Watermaster.

Attachment:

1. Resolution No. 2015-7
2. Supplement to Official Statement (in substantive form)
3. Letter of Credit Reimbursement Agreement (in substantive form)
4. Fee Agreement (in substantive form)
5. Remarketing Agreement (in substantive form)

RESOLUTION NO. 2015-7

**RESOLUTION OF THE BOARD OF COMMISSIONERS OF
THE CHINO BASIN REGIONAL FINANCING
AUTHORITY, SAN BERNARDINO COUNTY,
CALIFORNIA, AUTHORIZING A REPLACEMENT
CREDIT FACILITY FOR ITS VARIABLE RATE DEMAND
REVENUE REFUNDING BONDS (INLAND EMPIRE
UTILITIES AGENCY), SERIES 2008B AND APPROVING
THE EXECUTION OF CERTAIN DOCUMENTS AND
AUTHORIZING CERTAIN ACTS IN CONNECTION
THEREWITH**

WHEREAS, the Chino Basin Regional Financing Authority (the “Authority”), is a joint exercise of powers authority duly organized and existing under and pursuant to the Constitution and laws of the State of California; and

WHEREAS, the Authority was requested by Inland Empire Utilities Agency (“IEUA”) to assist IEUA in financing certain sewer system improvements, certain composting facilities and certain groundwater recharge facilities (the “Project”); and

WHEREAS, in June 2002, in order to provide funds to finance the Project, the Authority issued its \$59,000,000 Variable Rate Demand Revenue Bonds (Inland Empire Utilities Agency) Series 2002A (the “2002 Bonds”); and

WHEREAS, in April 2008, in order to refinance the Project by refunding all of the outstanding 2002 Bonds, the Authority issued its \$55,675,000 Variable Rate Demand Revenue Refunding Bonds (IEUA), Series 2008B (the “2008B Bonds”); and

WHEREAS, the 2008B Bonds were secured by a Letter of Credit issued by Lloyds TSB Bank, plc, acting through its New York Branch (the “Lloyds Letter of Credit”); and

WHEREAS, on November 26, 2012, a letter of credit issued by Union Bank, N.A. (“Union Bank Letter of Credit”) was substituted for the Lloyds Letter of Credit; and

WHEREAS, the Union Bank Letter of Credit, which was originally scheduled to expire on November 26, 2015, was extended and is currently scheduled to expire on January 25, 2016; and

WHEREAS, the Authority has determined that it is in its best interest to replace the Union Bank Letter of Credit and, pursuant to the Indenture of Trust, executed and entered into as of March 1, 2008 as amended to the date hereof (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee, to authorize the delivery of a substitute Letter of Credit (the “Replacement Letter of Credit”) to be issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (“SMBC”).

NOW, THEREFORE, the Commission of the Chino Basin Regional Financing Authority hereby finds, determines, declares, and resolves as follows:

1. Subject to the delivery of the Replacement Letter of Credit, the replacement of the Union Bank Letter of Credit relating to the 2008B Bonds is hereby approved. The General Manager or the designee thereof is hereby authorized and directed to take such actions and execute such documents as are required to replace the Union Bank Letter of Credit upon the terms and conditions thereof.

2. The Reimbursement Agreement, by and among IEUA, the Authority and SMBC (the "Reimbursement Agreement"), and a related Fee Agreement (the "Fee Agreement") in substantially the forms on file with the Authority, are hereby approved. The President, Vice President, or Treasurer, or the designee thereof are hereby authorized and directed to execute and deliver the Reimbursement Agreement and the Fee Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Stradling Yocca Carlson & Rauth, A Professional Corporation ("Bond Counsel") and approved by the officer executing the same, said execution being conclusive evidence of such approval.

3. The Remarketing Agreement (the "Remarketing Agreement"), by and among the Authority, U.S. Bancorp Investments, Inc. ("USBII") and U.S. Bank Municipal Securities Group, a division of U.S. Bank National Association, together with USBII, as replacement remarketing agent, is hereby approved. The President, Vice President, or Treasurer, or the designee thereof are hereby authorized and directed to execute and deliver the Remarketing Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the officer executing the same, said execution being conclusive evidence of such approval.

4. The preparation and distribution of the Supplement to Official Statement, substantially in the form on file with the Authority, is hereby approved. The President, Vice President, or Treasurer, or the designee thereof are hereby authorized and directed to execute and deliver the Supplement to Official Statement with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the officer executing the same, said execution being conclusively evidence of such approval. The Remarketing Agent is hereby authorized to distribute copies of said Supplement to Official Statement to persons who may be interested in the purchase of the 2008B Bonds and is directed to deliver copies of any Supplement to Official Statement to all actual purchasers of the 2008B Bonds.

5. The President, Vice President, or Treasurer, or the designee thereof are hereby authorized and directed to execute and deliver a third amendment to the Indenture or an Amended and Restated Indenture, as applicable, and a third amendment to the Installment Purchase Agreement, dated as of March 1, 2008, by and between IEUA and the Authority, as amended to the date hereof, or an Amended and Restated Installment Purchase Agreement, as applicable, with such changes, insertions and omissions as may be required to implement the Replacement Letter of Credit and which are recommended by General Counsel or Bond Counsel and approved by the officers executing the same, said execution being conclusive evidence of such approval.

6. The President, Vice President, or Treasurer, and any other proper officer of the Authority, acting singly, be and each of them hereby is authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the replacement of the Union Bank Letter of Credit and delivery of the Replacement Letter of Credit, the Reimbursement Agreement, the Fee Agreement, the Supplement to Official Statement, the Amended and Restated Indenture or Third Amendment to Indenture, as applicable, and the Amended and Restated Installment Purchase Agreement or Third Amendment to Installment Purchase Agreement, as applicable, the Remarketing Agreement and this Resolution.

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

This resolution shall take effect immediately.

ADOPTED this 16th day of December, 2015.

Terry Catlin, President of the Chino Basin Regional
Financing Authority and the
Board of Commissioners thereof

ATTEST:

Steven J. Elie, Secretary of the Chino
Basin Regional Financing Authority
and the Board of Commissioners thereof

STATE OF CALIFORNIA)
) ss
COUNTY OF SAN BERNARDINO)

I, Steven J. Elie, Secretary of the Chino Basin Regional Financing Authority, DO HEREBY CERTIFY that the foregoing Resolution being No. 2015-7, was adopted at a regular Board Meeting on December 16, 2015, of said Authority by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Steven J. Elie, Secretary of the Chino Basin Regional Financing Authority and the Board of Commissioners thereof

NOT A NEW ISSUE—BOOK ENTRY ONLY

\$ _____
CHINO BASIN REGIONAL FINANCING AUTHORITY
VARIABLE RATE DEMAND REVENUE REFUNDING BONDS
(INLAND EMPIRE UTILITIES AGENCY), SERIES 2008B
(Weekly VRDOs)

Dated: Date of Delivery

Price: 100%

Due: June 1, 2032

This Supplement to Official Statement amends and restates the Official Statement dated April 14, 2008 and the Supplement to Official Statement dated November 30, 2010 (the "Original Official Statement").

Since November 26, 2011, the regularly scheduled payment of the principal and interest evidenced by the Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B when due has been supported by an irrevocable, direct-pay letter of credit issued first by Union Bank, N.A. upon which the Trustee has been instructed to draw. Assuming issuance on December __, 2015 of an irrevocable, direct pay letter of credit issued by Sumitomo Mitsui Banking Corporation, the letter of credit issued by Union Bank N.A. will be terminated on December __, 2015 and Union Bank N.A. will have no liability for payments of principal of and interest evidenced by the Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B to be made after December __, 2015.

On December __, 2015, an irrevocable, direct-pay letter of credit issued by Sumitomo Mitsui Banking Corporation on December __, 2015 is expected to replace the existing irrevocable, direct pay letter of credit issued by Union Bank, N.A. to support the payment of the principal and purchase price of and interest on the Bonds. The irrevocable, direct-pay letter of credit issued by Sumitomo Mitsui Banking Corporation will support the payment of the principal and interest, and purchase price on the Variable Rate Demand Refunding Bonds (Inland Empire Utilities Agency), Series 2008B.

The Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B were issued by the Authority pursuant to an Indenture of Trust, dated as March 1, 2008, by and between the Authority and U.S. Bank National Association, as trustee, and are payable from the sources described herein. The Bonds were issued (i) to refund the outstanding Chino Basin Regional Financing Authority Variable Rate Demand Revenue Bonds (Inland Empire Utilities Agency) Series 2002A, (ii) to fund the Reserve Fund to the Reserve Requirement with respect to the Bonds, and (iii) to pay the costs of issuing the Bonds.

The Bonds were issued in fully registered book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers will not receive Bonds representing their interest in the Bonds. Individual purchases will be in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereafter. Payments of principal and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. The interest rate on the Bonds will be initially determined weekly in the manner described herein. Interest on the Bonds is payable on the first Wednesday of each month (or on the next Business Day if any Wednesday is not a Business Day).

Regularly scheduled payments of the principal of and interest on the Bonds will be supported by an irrevocable, direct-pay Letter of Credit upon which the Trustee is instructed to draw whenever any such amount is payable on the Bonds. The Trustee may also draw funds under the Letter of Credit to pay the purchase price of Bonds tendered for payment and not remarketed to the extent other moneys are not available therefor. The Letter of Credit with respect to the Bonds will be issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch. The Letter of Credit issued by Sumitomo Mitsui Banking Corporation has a scheduled termination date of December __, 2021, subject to earlier termination under conditions described herein.

The Bonds are subject to optional and mandatory redemption and optional and mandatory tender prior to maturity as set forth herein.

While the Bonds bear interest at a Weekly Interest Rate, the owners of the Bonds have the right, on not less than seven days' prior notice, to tender Bonds for purchase at a price equal to the principal amount and interest accrued thereon, if any, to the date of purchase, as described herein. In the event the interest rate on the Bonds is adjusted to a different interest rate mode or certain events with respect to the Credit Facility occur, the owners of the Bonds will be required to tender their Bonds for purchase, as described herein. [U.S. Bancorp] is the current remarketing agent with respect to the Bonds.

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Revenues consist primarily of (i) payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement, (ii) payments received by the Authority from the Agency pursuant to a Financing Agreement, and (iii) payments received by the Authority from the Chino Basin Watermaster as an operation and maintenance expense of Watermaster pursuant to a Recharge Facilities Agreement. The obligation of the Agency to make 2008B Installment Payments is a special obligation of the Agency payable solely from Net Revenues of the Agency System on a parity with the obligation of the Agency to make Installment Payments pursuant to the 2008A Installment Purchase Agreements and the 2010A Installment Purchase Agreement.

The Agency may incur additional obligations payable from Net Revenues on a parity with the 2008B Installment Payments, subject to the terms and conditions set forth in the 2008A Installment Purchase Agreements, the 2008B Installment Purchase Agreement and the 2010A Installment Purchase Agreement.

This Supplement to Official Statement does not contain information to owners of the Bonds following conversion of the interest rate on the Bonds to any rate other than a Weekly Interest Rate.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF OR ANY MEMBER OF THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AMOUNT OR REDEMPTION PRICE OF, OR INTEREST ON, THE BONDS. THE AUTHORITY HAS NO TAXING POWERS. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF CALIFORNIA OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE AUTHORITY) OR ANY MEMBER OF THE AUTHORITY WITHIN THE MEANING OF ANY STATE OF CALIFORNIA CONSTITUTIONAL OR STATUTORY PROVISION.

Stradling Yocca Carlson & Rauth, a Professional Corporation, previously opined that under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described more fully herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations.

Bond Counsel also previously opined that interest on the Bonds is exempt from State of California personal income tax. See the caption "TAX MATTERS" herein. Bond Counsel has made no attempt to update or reaffirm its previously rendered opinion since the date thereof.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A COMPLETE SUMMARY OF THE BONDS. INVESTORS SHOULD READ THE ENTIRE SUPPLEMENT TO OFFICIAL STATEMENT TO

OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

Certain legal matters related to this Supplement to Official Statement will be passed upon by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, for the Authority and for the Agency by Cihigoyenette, Grossberg & Clouse, Rancho Cucamonga, California, for Watermaster by Brownstein Hyatt Farber Schreck, Santa Barbara, California, for SMBC Bank by Hawkins, Delafield & Wood LLP, Los Angeles, California and by Yumoto, Ota & Miyazaki, Tokyo, Japan, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California. The Bonds are available through the facilities of The Depository Trust Company.

[U.S. Bancorp]
as Remarketing Agent

Dated: December __, 2015

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

This Supplement to Official Statement is not to be construed as a contract with the purchasers or owners of the Bonds. Statements contained in this Supplement to Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Supplement to Official Statement, including any supplement or amendment hereto, is intended to be deposited with a nationally recognized municipal securities depository.

The Remarketing Agent has provided the following sentence for inclusion in this Supplement to Official Statement:

The Remarketing Agent has reviewed the information in this Supplement to Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

The information set forth herein has been obtained from sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Supplement to Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Agency, Watermaster, SMBC Bank or any other parties described herein since the date hereof. All summaries of the Indenture, the Reimbursement Agreement, the Letter of Credit or the 2008B Installment Purchase Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the Authority or Watermaster for further information in connection therewith.

While the Authority, the Agency, SMBC Bank and Watermaster maintain an internet website for various purposes, none of the information on these websites is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds of the Authority or bonds or obligations of the Agency, SMBC Bank or Watermaster.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

CHINO BASIN REGIONAL FINANCING AUTHORITY

6075 Kimball Avenue, Building A
Chino, California 91710
(909) 993-1600

AUTHORITY COMMISSION MEMBERS

Terry Catlin, President
Michael Camacho, Vice-President
Steven J. Elie
Gene Koopman
Jasmin A. Hall

OFFICERS OF THE AUTHORITY

Terry Catlin, President
Gene Koopman, Vice-President
Steven J. Elie, Secretary
Christina Valencia, Treasurer

MANAGEMENT OF THE AGENCY

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Ernest Yeboah, Executive Manager of Operations/Assistant General Manager
Chris Berch, Executive Manager of Engineering/Assistant General Manager
Martha Davis, Executive Manager of Policy Development/Assistant General Manager

AUTHORITY AND AGENCY GENERAL COUNSEL

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BOND COUNSEL

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

TRUSTEE

U.S. Bank National Association
Los Angeles, California

FINANCIAL ADVISOR

Public Financial Management, Inc.
Los Angeles, California

REMARKETING AGENT

[U.S. Bancorp Investments, Inc.]
[New York, New York]

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**CHINO BASIN REGIONAL FINANCING AUTHORITY
VARIABLE RATE DEMAND REVENUE REFUNDING BONDS
(INLAND EMPIRE UTILITIES AGENCY), SERIES 2008B**

INTRODUCTION

This Supplement to Official Statement amends and supplements the Original Official Statement dated April 14, 2008 and the Supplement to Official Statement dated November 16, 2012 with respect to the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B (the “Bonds”).

On December __, 2015, an irrevocable direct-pay letter of credit (the “Credit Facility”) issued by Sumitomo Mitsui Banking Corporation (“SMBC Bank” or the “Credit Facility Provider”) is expected to replace the existing irrevocable direct-pay letter of credit issued by Union Bank, N.A., acting through its New York Branch (“Union”), on November 26, 2012 to support the payment of the principal and purchase price of and interest on the Bonds. The irrevocable direct pay letter of credit issued by SMBC Bank will support the payment of the principal and interest, and purchase price due with respect to the Bonds. The Bonds were originally issued on April 15, 2008 in the original principal amount of \$55,675,000, of which \$44,060,000 remains outstanding. See the caption “THE CREDIT FACILITY.”

General

This Supplement to Official Statement, including the cover page and all appendices hereto, provides certain information concerning the issuance of the Bonds. Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix C hereto entitled “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

The Bonds were issued pursuant to the provisions of an Indenture of Trust (the “Indenture”), entered into as of March 1, 2008, by and between the Chino Basin Regional Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”), and pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Bond Law”).

Neither the faith and credit nor the taxing power of the State of California (the “State”) or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing powers. The Bonds do not constitute a debt, liability or obligation of the State or any public agency thereof (other than the Authority) or any member of the Authority within the meaning of any State Constitutional or statutory provision.

Purpose of the Bonds

The Bonds were issued to (i) refinance the acquisition and construction of certain improvements to the sewer system of the Inland Empire Utilities Agency (the “Agency”), refinance the Agency’s share of the acquisition and construction of a composting facility and refinance the Agency’s and the Chino Basin Watermaster’s (“Watermaster”) share of certain improvements to ground water recharge facilities (the “Recharge Project”) by refunding all of the outstanding Chino Basin Regional Financing Authority Variable Rate Demand Revenue Bonds (Inland Empire Utilities Agency) Series 2002A (the “2002A Bonds”), (ii) fund the Reserve Fund to the Reserve Requirement with respect to the Bonds and (iii) pay the costs of issuance for the Bonds.

Security for the Bonds

The Bonds are limited obligations of the Authority. The Bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the Indenture. Revenues consist primarily of (i) payments received from the Agency pursuant to an Installment Purchase Agreement dated as of March 1, 2008, by and between the Agency and the Authority (the “2008B Installment Purchase Agreement”), (ii) payments received from the Agency pursuant to a Financing Agreement dated as of June 1, 2002, by and between the Agency and the Authority (the “Financing Agreement”) and (iii) payments received from Watermaster as an operation and maintenance expense pursuant to a Recharge Facilities Financing Agreement dated as of June 1, 2002, by and between Watermaster and the Authority (the “Recharge Facilities Agreement,” and, together with the 2008B Installment Purchase Agreement and the Recharge Facilities Agreement, the “Project Agreements”). See the captions “SECURITY FOR THE BONDS—2008B Installment Purchase Agreement,” “—Financing Agreement” and “—Recharge Facilities Agreement.”

The Indenture provides that the Bonds shall be special, limited obligations of the Authority, payable solely from and secured solely by payments under the Project Agreements, and certain other moneys held under the Indenture. The Bonds do not constitute a charge against the general credit of the Authority. The Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except payments under the Project Agreements, and other moneys pledged by the Authority under the Indenture. Neither the faith and credit nor the taxing power of the State or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing power. The Bonds do not constitute a debt, liability or obligation of the State, or any public agency thereof (other than the Authority) or any member of the Authority within the meaning of any State Constitutional or statutory provision.

2008B Installment Purchase Agreement. Pursuant to the 2008B Installment Purchase Agreement, the Agency is obligated to pay the installment payments (the “2008B Installment Payments”) as the price for certain additional acquisition and construction costs for a wastewater treatment plant of the Agency designated as Regional Plant No. 5 (“RP-5”), and certain other regional sewer system improvements (collectively, the “Regional Sewer System Improvements”) and composting facilities of the Inland Empire Regional Composting Facility (the “2002 Composting Facility”). The obligation of the Agency to make the 2008B Installment Payments is a special obligation of the Agency payable solely from Net Revenues, and does not constitute a debt of the Agency or of the State or any political subdivision thereof in contravention of any Constitutional or statutory debt limitation or restriction. Pursuant to the 2008B Installment Purchase Agreement, the Agency has pledged the Revenues of the Agency to secure the prompt payment of the 2008B Installment Payments. Under the 2008B Installment Purchase Agreement the Agency has covenanted not to issue or incur any obligations senior to the 2008B Installment Purchase Agreement or any obligations secured by a pledge of Sewer Revenues prior to the pledge of Sewer Revenues under the 2008B Installment Purchase Agreement. See the captions “SECURITY FOR THE BONDS—2008B Installment Purchase Agreement” and “THE AGENCY—Description of Indebtedness.”

The obligation of the Agency to make the 2008B Installment Payments from Net Revenues is on a parity with the obligation of the Agency to make payments from Net Revenues and to make payments (the “2008A Installment Payments”) from Net Revenues under those certain two Installment Purchase Agreements, each dated as of November 1, 2007, by and between the Agency and the Authority (the “2008A Installment Purchase Agreements”) and to make payments (the “2010A Installment Payments”) from Net Revenues under that certain Installment Purchase Agreement, dated as of March 1, 2010, by and between the Agency and the Authority (the “2010A Installment Purchase Agreement”). See the caption “THE AGENCY—Description of Indebtedness.”

Reserve Fund

A Reserve Fund for the Bonds was established pursuant to the Indenture in an amount equal to \$2,130,836, the Reserve Fund Requirement (as defined under the caption “SECURITY FOR THE BONDS—Reserve Fund”). See the caption “SECURITY FOR THE BONDS—Reserve Fund.”

Financing Agreement

Pursuant to the Financing Agreement, the Agency is obligated to make payments to the Authority for one-half of the Fixed Project Costs for the Recharge Project. Payments by the Agency to the Authority under the Financing Agreement are obligations of the Agency payable from *ad valorem* property taxes received by the Agency pursuant to Section 97 *et seq.* of the Revenue and Taxation Code of the State and supplemental capital outlay funds received by the Agency pursuant to the Regional Contract (the “Pledged Revenues”). See the caption “SECURITY FOR THE BONDS—Financing Agreement” and “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.”

Recharge Facilities Agreement

Pursuant to the Recharge Facilities Agreement, Watermaster is obligated to make payments to the Authority for one-half of the Fixed Project Costs for the Recharge Project. The obligation of Watermaster to make payments under the Recharge Facilities Agreement is a general obligation of Watermaster and is payable as an operation and maintenance expense of Watermaster. See the caption “SECURITY FOR THE BONDS—Recharge Facilities Agreement” and Appendix B—“CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER.”

The Credit Facility

Interest on and principal of the Bonds will be paid pursuant to draws on a direct-pay letter of credit (the “Credit Facility”) issued by SMBC Bank pursuant to and subject to the terms of a Reimbursement Agreement dated as of December __, 2015, by and among the Authority, the Agency and SMBC Bank (the “Reimbursement Agreement”). The purchase price on the Bonds tendered for purchase as described under the caption “THE BONDS—Optional and Mandatory Purchase” and not remarketed will also be paid from draws on the Letter of Credit. The Credit Facility will expire on December __, 2021 unless terminated sooner or extended. See the caption “THE CREDIT FACILITY.”

Remarketing Agent

The Remarketing Agent for the Bonds is [U.S. Bancorp Investments, Inc. (“U.S. Bancorp”).] See the caption “REMARKETING AGENT.”

The Agency

The Agency, formerly known as the Chino Basin Municipal Water District until 1998, was established by a majority vote in a special election on June 6, 1950, for an original population of approximately 80,000 people. In 1951, the Agency annexed to the Metropolitan Water District of Southern California. The Agency has a service area of 242 square miles with a population of approximately 850,000. The Agency is governed by a Board of Directors (the “Board”). The original mission of the Agency was to distribute water imported from the Colorado River. However, during the mid-1960s, the Agency began domestic sewage and industrial waste collection. The Agency’s regional water and wastewater services are essentially wholesale services provided to the cities of Chino, Chino Hills, Fontana, Montclair, Ontario and Upland, and to the Cucamonga Valley Water District, formerly known as the Cucamonga County Water District (collectively, the “Contracting Agencies”). The Agency also provides recycled water to the Contracting Agencies. For more information on the Agency, see the caption “THE AGENCY.”

The Authority

The Authority is a joint exercise of powers agency organized under the provisions of State law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code of the State (the “Act”) and a Joint Exercise of Powers Agreement, dated as of May 1, 1993 (the “Joint Powers Agreement”) between the Agency and the Cucamonga Valley Water District (“CVWD”), formerly known as Cucamonga County Water District, to provide for the financing of public capital improvements for the members of the Authority and other local agencies through the acquisition by the Authority of such public capital improvements, the purchase by the Authority of indebtedness of the members of the Authority and other local agencies pursuant to bond purchase agreements, and the lending or providing of funds by the Authority to the members of the Authority and other local agencies, and any other transaction authorized by law. Under the Act, the Authority has the power to issue bonds to pay the costs of public capital improvements. See the caption “THE AUTHORITY.”

Chino Basin Watermaster

Watermaster is a court-created entity charged with administering adjudicated water rights and managing groundwater resources within the Chino Groundwater Basin. Watermaster was formed pursuant to *Chino Basin Municipal Water District vs. The City of Chino et al.*, San Bernardino Superior Court No. 164327 (the “Chino Basin Judgment”), dated January 27, 1978. Watermaster must abide by the rules and regulations set forth in the Chino Basin Judgment. Pursuant to the Chino Basin Judgment, Watermaster has the power to levy administrative assessments, including assessments to pay for major operating expenses. See the caption “CHINO BASIN WATERMASTER” and Appendix B—“CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER.”

Tax Matters

Stradling Yocca Carlson & Rauth, a Professional Corporation (“Bond Counsel”) has previously opined in an opinion letter dated April 15, 2008 (the “2008 Opinion”) that under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel also previously opined that interest on the Bonds is exempt from State personal income tax. Bond Counsel noted in the 2008 Opinion that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. See the caption “TAX MATTERS” herein with respect to other tax consequences with respect to the Bonds. Bond Counsel has made no attempt to update or reaffirm the 2008 Opinion since the date thereof.

Professionals Involved in this Issue

Certain legal matters related to this Supplement to Official Statement will be passed upon by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, for the Authority and for the Agency by Cihigoyenette, Grossberg & Clouse, Rancho Cucamonga, California, for Watermaster by Brownstein Hyatt Farber Schreck, Santa Barbara, California, for Sumitomo Mitsui Banking Corporation, by its counsel, Hawkins, Delafield & Wood LLP, Los Angeles, California and Yumoto, Ota & Miyazaki, Tokyo, Japan, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Indenture for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference. See Appendix C—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The Bonds are in the aggregate principal amount, are dated as of the date and bear interest in accordance with the terms of the Indenture and mature (subject to redemption) as shown on the cover page of this Supplement to Official Statement. The Bonds will initially bear interest at the Weekly Interest Rate. The Bonds will be issued in fully-registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases will be in principal amounts of \$100,000 and integral multiples of \$5,000 in excess thereafter. Interest on the Bonds is payable on the first Wednesday of each month (or on the next Business Day if any Wednesday is not a Business Day), commencing May 7, 2008, and will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. DTC will act as securities depository for the Bonds. Individual purchases and sales may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. References herein to the Bondholders or Owners shall mean DTC and shall not mean the beneficial owners of the Bonds. Principal of and interest on the Bonds are payable by wire transfer by the Trustee to DTC, which is expected, in turn, to remit such amounts to the DTC Direct Participants for subsequent disbursement to DTC Indirect Participants and beneficial owners. See the caption "—Book-Entry System" and Appendix E—"INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY."

The terms of the Bonds shall be divided into consecutive Interest Rate Periods during each of which the Bonds shall bear interest at the Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates or Long-Term Interest Rate. However, at any given time, all Bonds shall bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate or at Bond Interest Term Rates. No holder of a Bond shall be paid interest for any period at a rate higher than 12% per annum (the "Maximum Rate"); provided, however, to the extent permitted by law, Bank Bonds will not be subject to any Maximum Rate. The first Interest Rate Period shall commence on the date of issuance of the Bonds and shall be a Weekly Interest Rate Period.

Interest shall be paid on the Bonds on each Interest Payment Date therefor. The term "Interest Payment Date" with respect to the Bonds means (a) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day; (b) for any Daily Interest Rate Period, the fifth Business Day of each calendar month; (c) for any Long-Term Interest Rate Period, each June 1 and December 1; (d) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term; (e) for each Interest Rate Period, the day next succeeding the last day thereof; and (f) for Bank Bonds, the days on which interest is due pursuant to the Credit Facility or any agreement providing therefor.

Each Bond shall bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof or, if such date of authentication is an Interest Accrual Date to which interest on the Bonds has been paid in full or duly provided for, from such date of authentication or, if it is the first payment of interest on the Bonds, the date thereof. However, if, as shown by the records of the Trustee, interest on the Bonds is in default, Bonds issued in exchange for Bonds surrendered for registration of transfer or exchange shall bear interest from the date to which interest has been paid in full on the Bonds so surrendered or, if no interest has been paid on the Bonds, from the date thereof.

For any Daily Interest Rate Period for Bonds, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the Interest Accrual Date preceding the prior Interest Payment Date and ending on the last day of such month. For any Weekly Interest Rate Period, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date (or, if any Interest Payment Date is not a Wednesday, commencing on the second preceding Interest Accrual Date) and ending on the Tuesday immediately preceding the Interest Payment Date (or, if

sooner, the last day of such Weekly Interest Rate Period). For any Short-Term Interest Rate Period or Long-Term Interest Rate Period for Bonds, interest on the Bonds shall be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date and ending on the day immediately preceding such Interest Payment Date (or, if sooner, the last day of such Short-Term Interest Rate Period or Long-Term Interest Rate Period). In any event, interest on the Bonds shall be payable for the final Interest Rate Period to but not including the date on which the Bonds have been paid in full.

The determination of the Daily Interest Rate, Weekly Interest Rate and Long-Term Interest Rate and each Bond Interest Term and Bond Interest Term Rate by the Remarketing Agent shall be conclusive and binding upon the Agency, Watermaster, the Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider, if any, and the Bondowners.

The principal and Purchase Price of and premium, if any, and interest on the Bonds shall be payable in lawful money of the United States of America. Such amounts shall be paid by the Trustee on the applicable payment dates (i) in the case of Bonds other than Bonds bearing interest at a Long-Term Interest Rate, by wire transfer of immediately available funds on the applicable Record Date to an account specified by the Owner thereof in writing delivered to the Trustee and (ii) in the case of Bonds bearing interest at the Long-Term Interest Rate, by check mailed by the Trustee to the respective Owners thereof on the applicable Interest Payment Date at their addresses as they appear as of the close of business on the applicable Record Date in the registration books kept by the Trustee, except that in the case of such an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee at least two Business Days before the Record Date, specifying the account or accounts in the continental United States to which such payment shall be made, such payments shall be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. Any request referred to in clause (ii) of the preceding sentence shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. When a Book-Entry System is in effect, interest may be paid by wire transfer in accordance with mutually satisfactory arrangements between the Trustee and the Securities Depository. Principal and interest will be paid in money of the United States that at the time of payment is legal tender for payment of public and private debts or by checks or wire transfers payable in such money.

Each Bond shall bear interest until the principal sum thereof has been paid; provided, however, that if on the maturity date of any Bond funds are available for the payment thereof in full in accordance with the terms of the Indenture, such Bond will cease to bear interest.

Book-Entry System

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the Authority, the Agency, the Remarketing Agent and the Trustee take no responsibility for the accuracy thereof. See Appendix E—"INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY" for a further description of DTC and its book-entry system. Capitalized terms used under this caption and not otherwise defined shall have the respective meanings given to such terms in Appendix E.

DTC will act as securities depository for the Bonds. The Bonds will be issued as a fully registered security registered in the name of Cede & Co. (DTC's partnership nominee) for the year in which the Bonds mature in a denomination equal to the aggregate principal amount of the Bonds, and which will be deposited with DTC. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the owners or holders of the Bonds or owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the Bonds (the "Beneficial Owners").

The Authority, the Agency, Watermaster, SMBC Bank, the Remarketing Agent and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners (i) payments of interest on and principal of the Bonds, (ii) Bonds representing an ownership interest in or other confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to

DTC or Cede & Co., its nominee, as registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described in this Supplement to Official Statement.

Interest Rate Provisions

Determination of Weekly Interest Rate. During each Weekly Interest Rate Period for Bonds, the Bonds shall bear interest at the Weekly Interest Rate, which shall be determined by the Remarketing Agent by 5:00 p.m., New York City time, on Tuesday of each week during the Weekly Interest Rate Period, or if such day is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate for each Weekly Interest Rate Period shall be determined on or prior to the first day of such Weekly Interest Rate Period and shall apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate shall apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period ends on a day other than Tuesday, in which event the last Weekly Interest Rate for such Weekly Interest Rate Period shall apply to the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and ending on and including the last day of such Weekly Interest Rate Period. Each Weekly Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the Bonds, would enable the Remarketing Agent to sell all of the Bonds on the effective date of that rate at a price (without regard to accrued interest) equal to the principal amount thereof. If the Remarketing Agent fails to establish a Weekly Interest Rate for any week on the Bonds bearing interest at such rate, then the Weekly Interest Rate for such week shall be the same as the immediately preceding Weekly Interest Rate if such Weekly Interest Rate was determined by the Remarketing Agent. If the immediately preceding Weekly Interest Rate was not determined by the Remarketing Agent, or if the Weekly Interest Rate determined by the Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week, as determined by the Remarketing Agent, shall be equal to 110% of the SIFMA Index made available for the week preceding the date of determination, or if such index is no longer available, 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* on the day such Weekly Interest Rate would otherwise be determined as provided in the Indenture for such Weekly Interest Rate Period.

Determination of Daily Interest Rate. During each Daily Interest Rate Period for Bonds, the Bonds shall bear interest at the Daily Interest Rate, which shall be determined by the Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) on or before 9:30 a.m., New York City time, on a Business Day to be the minimum interest rate which, if represented by all of the Bonds, would enable the Remarketing Agent to sell the Bonds on such Business Day at a price (without regard to accrued interest) equal to the principal amount thereof. The Daily Interest Rate for any day which is not a Business Day shall be the same as the Daily Interest Rate for the immediately preceding Business Day. If for any reason a Daily Interest Rate is not so established for any Business Day by the Remarketing Agent, the Daily Interest Rate for such Business Day shall be the same as the Daily Interest Rate for the immediately preceding day and such rate shall continue until the earlier of (a) the date on which the Remarketing Agent determines a new Daily Interest Rate or (b) the seventh (7th) day succeeding the first such day on which such Daily Interest Rate is not determined by the Remarketing Agent. In the event that the Daily Interest Rate shall be held to be invalid or unenforceable by a court of law, or the Remarketing Agent fails to determine a new Daily Interest Rate for a period of seven (vii) days as described in clause (b) of the immediately preceding sentence, the interest rate applicable to the Bonds, as determined by the Remarketing Agent, shall be the interest rate per annum equal to 85% of the interest rate on 30-day high grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* as

reported for each Business Day (and for the next preceding Business Day for each day which is not a Business Day) until such Daily Interest Rate is again validly determined by the Remarketing Agent.

Determination of Long-Term Interest Rate. During each Long-Term Interest Rate Period for Bonds, the Bonds shall bear interest at a Long-Term Interest Rate. The Long-Term Interest Rate for each Long-Term Interest Rate Period shall be determined by the Remarketing Agent on a Business Day no later than the effective date of such Long-Term Interest Rate Period. The Long-Term Interest Rate shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate at which the Remarketing Agent will agree to purchase the Bonds on such effective date for resale at a price equal to the principal amount thereof.

Determination of Bond Interest Terms and Bond Interest Term Rates. During each Short-Term Interest Rate Period for Bonds, each Bond shall bear interest during each Bond Interest Term at the Bond Interest Term Rate for that Bond. The Bond Interest Term and the Bond Interest Term Rate for each Bond need not be the same for any two Bonds, even if determined on the same date. Each Bond Interest Term and Bond Interest Term Rate shall be determined by the Remarketing Agent no later than the first day of each Bond Interest Term. Each Bond Interest Term shall be for a period of days within the range or ranges announced by the Remarketing Agent as possible Bond Interest Terms no later than 9:00 a.m., New York City time, on the first day of each Bond Interest Term. Each Bond Interest Term shall be a period of not more than 180 days, determined by the Remarketing Agent in its reasonable judgment to be the period which, together with all other Bond Interest Terms for all Bonds bearing interest at Bond Interest Term Rates then Outstanding, will result in the lowest overall interest expense on the Bonds. Each Bond Interest Term shall end either on a day which immediately precedes a Business Day or on a day immediately preceding the Maturity Date. If for any reason a Bond Interest Term for any Bond bearing interest at Bond Interest Term Rates cannot be determined by the Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term shall be 30 days, but if the day so determined is not a day immediately preceding a Business Day, that Bond Interest Term shall end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the Maturity Date, the Bond Interest Term shall end on the day immediately preceding such Maturity Date. In determining the number of days in each Bond Interest Term, the Remarketing Agent shall take into account the following factors: (i) existing short-term tax-exempt market rates and indices of such short-term rates, (ii) the existing market supply and demand for short-term tax-exempt securities, (iii) existing yield curves for short-term and long-term tax-exempt securities for obligations of credit quality and other characteristics comparable to the Bonds bearing interest at Bond Term Interest Rates, (iv) general economic conditions, (v) industry, economic and financial conditions that may affect or be relevant to the Bonds, (vi) the Bond Interest Terms of other Bonds subject to a Short-Term Interest Rate Period and (vii) such other facts, circumstances and conditions pertaining to financial markets as the Remarketing Agent in its sole discretion shall determine to be relevant; provided, however, that the number of days in any Bond Interest Term shall not exceed the number of days of interest coverage provided under the Credit Facility less five days and no Bond Interest Term shall extend beyond the expiration of the Credit Facility less five days.

The Bond Interest Term Rate for each Bond Interest Term for each Bond in a Short-Term Interest Rate Period shall be the rate of interest per annum determined by the Remarketing Agent (based on an examination of tax-exempt obligations comparable, in the reasonable judgment of the Remarketing Agent, to the Bonds and known by the Remarketing Agent to have been priced or traded under then prevailing market conditions) to be the minimum interest rate which, if borne by such Bond for such Bond Interest Term, would enable the Remarketing Agent to sell such Bond on the effective date of such Bond Interest Term at a price equal to the principal amount thereof.

If for any reason a Bond Interest Term Rate for any Bond in a Short-Term Interest Rate Period (other than a Bank Bond) is not established by the Remarketing Agent for any Bond Interest Term, or the determination

of such Bond Interest Term Rate is held by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term, as determined by the Remarketing Agent, shall be the rate per annum equal to 85% of the interest rate on high-grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* as reported on the first day of such Bond Interest Term and which maturity most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being calculated.

Optional and Mandatory Purchase

During Weekly Interest Rate Period. During any Weekly Interest Rate Period, any Bond (other than a Bank Bond) bearing interest at a Weekly Interest Rate shall be purchased in an Authorized Denomination (provided that the amount of any such Bond not to be purchased shall also be in an Authorized Denomination) from its Owner according to the Operational Arrangements of DTC at the option of the Owner on any Business Day at a purchase price equal to the Purchase Price, upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Bonds and to the Trustee at its Corporate Trust Office of an irrevocable written notice which states the principal amount thereof to be purchased and the date on which the same shall be purchased, which date shall be a Business Day not prior to the seventh (7th) day after the date of the delivery of such notice to the Tender Agent, a copy of such notice to be promptly delivered to the Credit Facility Provider. Any notice delivered to the Tender Agent after 4:00 p.m., New York City time, shall be deemed to have been received on the next succeeding Business Day. Bank Bonds may not be tendered for purchase at the option of the Owner thereof. For payment of the Purchase Price on the Purchase Date, such Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date to the Tender Agent at its Corporate Trust Office for delivery of Bonds accompanied by an instrument of transfer, in form satisfactory to the Tender Agent executed in blank by the Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company, or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase on First Day of Each Interest Rate Period. The Bonds shall be subject to mandatory tender for purchase on the first day of each Interest Rate Period (or on the day which would have been the first day of an Interest Rate Period had one of the events specified in the Indenture not occurred which resulted in the interest rate on the Bonds not being Converted), including the first day of a new Long-Term Interest Rate Period following the end of a Long-Term Interest Rate Period, at the Purchase Price, payable in immediately available funds. For payment of the Purchase Price on the Purchase Date, a Bond must be delivered at or prior to 10:00 a.m., New York City time, on the Purchase Date. If delivered after that time, the Purchase Price shall be paid on the next succeeding Business Day.

Mandatory Tender for Purchase Upon Substitution, Termination or Expiration of Credit Facility. If at any time that the Credit Facility Provider is not in default under the Credit Facility, the Trustee gives notice, in accordance with the Indenture, that the Bonds shall, on the date specified in such notice, be subject to purchase as a result of (i) the substitution of that Credit Facility or the termination or expiration of the term, as extended, of that Credit Facility, including but not limited to termination at the option of the Agency in accordance with the terms of such Credit Facility and (ii) on the fifth Business Day preceding any such termination or expiration of such Credit Facility, and on the day of any such substitution, each such Bond shall be purchased or deemed purchased at the Purchase Price.

Payment of the Purchase Price of any such Bond shall be made by the Tender Agent in immediately available funds by 2:45 p.m., New York City time, on the Purchase Date upon delivery to the Tender Agent at its Corporate Trust Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondowner with the signature of such Bondowner guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange, at or prior to 12:00 noon, New York City time, on the Purchase Date specified in the Indenture.

Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of Bonds in accordance with the Indenture, the Trustee shall give the notice required by this paragraph as a part of the notice given pursuant to the Indenture. Such notice shall state (i) in the case of a mandatory tender for Purchase on the first day of each Interest Rate Period, the type of Interest Rate Period to commence on such mandatory purchase date; (ii) in the case of a mandatory tender for purchase upon substitution, termination or expiration of Credit Facility, that the Credit Facility will expire or terminate and that the Bonds will no longer be payable from the Credit Facility then in effect and that any rating applicable to the Bonds may be reduced or withdrawn and, in the case of a substitution, the name of the new Bank and that information about such new Bank will be forthcoming; (iii) that the Purchase Price of any Bond subject to mandatory tender for purchase shall be payable only upon surrender to the Tender Agent at its Corporate Trust Office for delivery of Bonds, accompanied by an instrument of transfer, in form satisfactory to the Tender Agent, executed in blank by the Bondowner or its duly-authorized attorney, with such signature guaranteed by a commercial bank, trust company or member firm of the New York Stock Exchange; (iv) that, provided that moneys sufficient to effect such purchase shall have been provided through the remarketing of such Bonds by the Remarketing Agent or through the Credit Facility, all Bonds subject to mandatory tender for purchase shall be purchased on the Mandatory Purchase Date; and (v) that if any Owner subject to mandatory tender for purchase does not surrender that Bond to the Tender Agent for purchase on the Mandatory Purchase Date, then that Bond shall be deemed to be an Undelivered Bond, that no interest shall accrue on that Bond on and after the Mandatory Purchase Date and that the Owner shall have no rights under the Indenture other than to receive payment of the Purchase Price.

Notice of Owner's Election to Tender Bond Deemed to be Irrevocable; Undelivered Bonds. The giving of notice by an Owner of Bonds as provided in during a Weekly Interest Rate Period or a Daily Interest Rate Period shall constitute the irrevocable tender for purchase with respect to which such notice is given regardless of whether that Bond is delivered to the Tender Agent for purchase on the relevant Purchase Date.

Redemption

Optional Redemption. If there is no continuing Event of Default, the Bonds shall be subject to redemption from Available Moneys prior to the Maturity Date by the Agency, in whole or in part, in accordance with the provisions described below, subject however to the provision of the Indenture. Notwithstanding the following, no Bond (other than a Bank Bond) shall be optionally redeemed without consent of the Credit Facility Provider while any Bank Bond is Outstanding unless all Outstanding Bank Bonds are redeemed by the Trustee and cancelled concurrently with such redemption.

Bonds bearing interest at a Daily Interest Rate or a Weekly Interest Rate shall be subject to optional redemption by the Agency, in whole or in part, at a Redemption Price of 100% of the principal amount thereof plus accrued interest thereon, if any, on any Business Day during a Weekly Interest Rate Period or a Daily Interest Rate Period. Any Bond bearing interest at Bond Interest Term Rates shall be subject to optional redemption by the Agency, at a Redemption Price of 100% of the principal amount thereof on the day succeeding the last day of any Bond Interest Term with respect to that Bond.

Bank Bonds. Notwithstanding anything to the contrary in this Indenture, the Agency may redeem Bank Bonds, at its option, at any time, upon one Business Day's notice of redemption to the Credit Facility Provider and the Trustee, at a Redemption Price of 100% of the principal amount of the Bank Bonds to be redeemed plus accrued interest, if any, to but not including the redemption date.

Mandatory Redemption. Except as may be provided in the Indenture, the Bonds maturing on June 1, 2032 shall also be subject to redemption prior to their stated maturities, in part, by lot, from Mandatory Redemptions required by and as specified in the Indenture commencing on June 1, 2008, at the principal amount thereof plus accrued interest thereon to but not including the date fixed for redemption, without premium:

<i>Mandatory Redemption Dates (June 1)</i>	<i>Mandatory Redemption</i>
2016	1,865,000
2017	1,910,000
2018	2,015,000
2019	2,095,000
2020	2,180,000
2021	2,270,000
2022	2,355,000
2023	2,430,000
2024	2,550,000
2025	2,650,000
2026	2,755,000
2027	2,865,000
2028	2,970,000
2029	3,100,000
2030	3,220,000
2031	3,350,000
2032 [†]	3,480,000

[†] Final Maturity.

Mandatory Redemption of Bank Bonds. Any Bank Bonds from time to time Outstanding shall be subject to mandatory redemption in the amounts and at the times and at the redemption prices specified therefor in the Credit Facility or other agreement with the Credit Facility Provider applicable thereto.

Selection of Bonds to Be Redeemed. If any Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Indenture, in which case the Trustee shall, without charge to the Owner, authenticate and issue a replacement Bond or Bonds for the unredeemed portion thereof. In the case of a partial redemption of Bonds, the Trustee shall select the Bonds to be redeemed by lot at such times as directed by the Agency in writing at least thirty (30) days prior to the redemption date and if such selection is more than sixty (60) days before a redemption date, shall appropriately identify the Bonds so called for redemption by stamping them at the time any Bonds so selected for redemption is presented to the Trustee for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Trustee, and any Bond or Bonds issued in exchange for, or to replace, any Bond so called for prior redemption shall likewise be stamped or otherwise identified. The Trustee shall not select the Bonds for mandatory redemption pursuant to the Indenture more than sixty (60) days prior to the redemption date.

Notwithstanding anything in the Indenture to the contrary, any Bank Bonds shall be selected for redemption pursuant to the Indenture prior to the selection of any other Bonds.

Notice of Redemption. The Authority shall notify the Trustee at least forty-five (45) days prior to the redemption date for Bonds pursuant to the Indenture. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail and (iii) to the Information Services by first-class mail with a copy to the Credit Facility Provider, if any. Notice of redemption

shall be given in the form and in accordance with the terms of the Indenture. Any notice given by the Trustee with respect to an optional redemption of Bonds shall state that such redemption is conditioned on Available Moneys being used and available therefor.

DEBT SERVICE SCHEDULE

Set forth below is a schedule of Agency payments under the 2008B Installment Payments and payments on Parity Obligations for each annual period ending on June 30 of the years indicated. Excludes payments on obligations payable subordinate to Parity Obligations, which consist primarily of loans from the State of California and agencies related thereto. Also excludes payments by the Agency under the Financing Agreement and by Watermaster under the Recharge Agreement.

<i>Annual Period Ending (June 30)</i>	<i>2008B Installment Payments⁽¹⁾⁽²⁾</i>	<i>Parity Obligations⁽³⁾</i>	<i>Total</i>
2016	\$3,005,432	\$11,541,450	\$14,546,882
2017	3,005,591	11,540,450	14,546,041
2018	3,005,331	11,435,050	14,440,381
2019	3,005,171	11,364,625	14,369,796
2020	3,005,654	11,477,000	14,482,654
2021	3,007,366	11,377,625	14,384,991
2022	3,005,034	11,451,875	14,456,909
2023	3,006,687	6,250,000	9,256,687
2024	3,006,736	8,804,500	11,811,236
2025	3,004,821	8,892,875	11,897,696
2026	3,005,939	9,774,375	12,780,314
2027	3,006,265	9,779,500	12,785,765
2028	3,006,960	9,774,375	12,781,335
2029	3,006,173	10,719,375	13,725,548
2030	3,004,174	10,732,250	13,736,424
2031	3,005,721	10,735,250	13,740,971
2032	3,003,201	10,728,125	13,731,326
2033		14,128,000	14,128,000
2034		14,129,375	14,129,375
2035		14,128,875	14,128,875
2036		14,130,125	14,130,125
2037		14,131,625	14,131,625
2038		14,127,000	14,127,000
2039		<u>14,129,625</u>	14,129,625
TOTAL	\$51,096,255	\$176,378,700	\$227,474,955

(1) Excludes payments from Watermaster under the Recharge Facilities Agreement and the Agency under the Financing Agreement.
(2) At an assumed interest rate of 4% per annum.
(3) Includes payments under the 2008A Installment Purchase Agreements and the 2010A Installment Purchase Agreement.

SECURITY FOR THE BONDS

General

Pursuant to the Indenture, the Authority, for good and valuable consideration, unconditionally has granted, transferred and assigned to the Trustee without recourse all its rights to receive the Revenues (as defined in the Indenture) and to enforce the Project Agreements upon an event of default thereunder for the benefit of the Owners of the Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Bonds under the terms of the Indenture; (b) the observance, performance and discharge of each agreement, condition, covenant and term of the Agency contained in the 2008B Installment Purchase Agreement and the Financing Agreement and of Watermaster contained in the Recharge Facilities Agreement and (c) the payment of all amounts owed to the Credit Facility Provider under the Reimbursement Agreement (including Bank Bonds), and the Trustee hereby accepts such assignment on behalf of the Owners of the Bonds and the Credit Facility Provider, if any.

Under the Indenture, Revenues consists of amounts received by the Authority pursuant to or with respect to the Project Agreements and all interests or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

The Bonds do not constitute a charge against the general credit of the Authority. The Bonds are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts except payments under the Project Agreements, and other moneys pledged by the Authority under the Indenture. Neither the faith and credit nor the taxing power of the State, the County of San Bernardino or any public agency thereof or any member of the Authority is pledged to the payment of the principal amount or redemption price of, or interest on, the Bonds. The Authority has no taxing powers. The Bonds do not constitute a debt, liability or obligation of the State, the County of San Bernardino or any public agency thereof (other than the Authority) or any member of the Authority within the meaning of any State Constitutional or statutory provision.

2008B Installment Purchase Agreement

General. Pursuant to the 2008B Installment Purchase Agreement, the Agency is obligated to pay the 2008B Installment Payments as the purchase price for the Regional Sewer System Improvements and the 2002 Composting Facility. Pursuant to the 2008B Installment Purchase Agreement, the Agency has pledged the Revenues of the Agency to secure the prompt payment of the 2008B Installment Payments. Under the 2008B Installment Purchase Agreement the Agency has covenanted not to issue or incur any obligations senior to the 2008B Installment Purchase Agreement or any obligations secured by a pledge of Sewer Revenues prior to the pledge of Sewer Revenues under the 2008B Installment Purchase Agreement. See the caption “THE AGENCY—Description of Indebtedness.”

The obligation of the Agency to make the 2008B Installment Payments pursuant to the 2008B Installment Purchase Agreement is a limited obligation of the Agency payable solely from Net Revenues of the Agency. The term “Net Revenues” means, for any fiscal year of the Agency (currently, the Agency’s fiscal year ends June 30) (“Fiscal Year”), the Revenues of the Agency for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Revenues mean all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Agency System, including, without limiting the generality of the foregoing, (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the Agency from the sale, furnishing and supplying of sewer services, composting services or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Agency System, plus (2) the earnings on and income derived from the investment of the amounts described in (1) above and the general unrestricted funds of the Agency, but excluding in all cases revenues derived from ownership or operation of the Water System and the Separate Facilities, customer deposits or any other

deposits or advances subject to refund until such deposits or advances have become the property of the Agency, and excluding any proceeds of taxes restricted by law to be used by the Agency to pay bonds hereafter issued.

Operation and Maintenance Costs means costs spent or incurred for maintenance and operation of the Agency System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Agency System in good repair and working order, and including administrative costs of the Agency that are charged directly or apportioned to the Agency System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the Agency or charges other than Debt Service required to be paid by it to comply with the terms of the 2008B Installment Purchase Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Revenues – The Regional Sewage Service Contract. In 1972, for the purpose of establishing the Sewer System, the Agency entered into the Regional Sewage Service Contract (the “Regional Contract”) with the Contracting Agencies. The Regional Contract currently expires on January 2, 2023. Under the terms of the Regional Contract, the Agency is charged with the ownership and operation of the Sewer System for the collection, treatment and disposal of sewage delivered by the Contracting Agencies. The Agency is further obligated to construct certain new regional interceptors and expand regional treatment facilities within a reasonable time frame to be prepared to receive all domestic waste delivered by the Contracting Agencies. The Agency also assumed the responsibility for operating and maintaining these and future facilities in a manner to assure compliance with State and Federally mandated discharge requirements. The responsibility for collection and delivery of sewage to the regional interceptor facilities remains with the Contracting Agencies. The Regional Contract also established a Regional Policy Committee to advise the Agency of the needs and views of the Contracting Agencies concerning the Sewer System. According to the Regional Contract, each Contracting Agency appoints a member from its respective governing body to the Regional Policy Committee.

Allocation of Revenues. Under the 2008B Installment Purchase Agreement, all Revenues will be deposited in a special fund designated as the “Revenue Fund,” which fund includes the accounts described in the definition thereof and which fund the Agency has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. The Agency will, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund will be set aside by the Agency at the following times for the transfer to the following respective special funds in the order of priority described below; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the 2008B Installment Purchase Agreement.

Not later than each Installment Payment Date, the Agency will, from the moneys in the Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The Agency will also, from the moneys in the Revenue Fund to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

On or before each Installment Payment Date the Agency will, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for reserve funds, including the Reserve Fund and/or accounts, if any, as may have been established in connection with the Bonds and any

Parity Obligations, that sum, if any, necessary to restore such reserve funds and/or accounts to an amount equal to the required balance.

Moneys on deposit in the Revenue Fund on each Installment Payment Date not necessary to make any of the payments required above may be expended by the Agency at any time for any purpose permitted by law, subject to compliance with the 2008B Installment Purchase Agreement.

Rate Covenant. The Agency has covenanted in the 2008B Installment Purchase Agreement that, to the fullest extent permitted by law, the Agency will fix, prescribe and collect rates and charges with respect to the Agency System which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of Debt Service (as such term is defined in Appendix C hereto) for such Fiscal Year. The Agency may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but will not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the 2008B Installment Purchase Agreement.

Limitations on Additional Indebtedness. Under the 2008B Installment Purchase Agreement, the Agency may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided:

(1) The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the Agency and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the Agency, shall have produced a sum equal to at least 125% of the Debt Service for such Fiscal Year; and

(2) The Net Revenues for the most recent audited Fiscal Year preceding the date of the execution of such Contract or the date of adoption by the Board of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges with respect to the Agency System approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the Agency, shall have produced a sum equal to at least 125% of the Debt Service for such Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year; and

(3) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of the General Manager of the Agency on file with the Agency, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received with respect to the Agency System and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the General Manager of the Agency on file with the Agency, shall produce a sum equal to at least 125% of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

The requirements set forth in (1), (2) and (3) above notwithstanding, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds

thereof, total Debt Service will not be increased in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding. Nothing in the 2008B Installment Purchase Agreement precludes the Agency from issuing any bonds or executing any contracts under which the payments from Net Revenues are subordinate to any Bonds or Contracts of the Agency.

Reserve Fund

There is established with the Trustee a Reserve Fund which the Trustee will maintain and hold in trust separate and apart from other funds held by it. The Trustee will retain in the Reserve Fund an amount equal to the Reserve Requirement and will apply moneys in the Reserve Fund in accordance with the Indenture.

The Reserve Requirement is equal to \$2,130,836. If one Business Day prior to any Interest Payment Date the money in the Interest Account or the Principal Account is insufficient to make the payments required by this Indenture on such Interest Payment Date, the Trustee will transfer from the Reserve Fund to the Interest Account or the Principal Account, as the case may be, the amount of such insufficiency.

In the event that the Trustee has transferred money from the Reserve Fund to the Interest Account or Principal Account in accordance with the Indenture, upon receipt of the moneys from the Authority to increase the balance in the Reserve Fund to the Reserve Requirement, the Trustee will deposit such money in the Reserve Fund. Any deficiency in the Reserve Fund due to a draw thereon will be replenished by payments received from the Authority within one year of such deficiency in twelve equal monthly installments.

If the amount available and contained in the Reserve Fund exceeds an amount equal to the Reserve Requirement, the Trustee shall (a) semiannually on or before each June 1 and December 1 withdraw the amount of such excess from the Reserve Fund and shall deposit such amount in the Interest Account, or (b) on the date Bonds are defeased in accordance with the provisions of the Indenture shall transfer such amount in accordance with the written directions of the Authority. For these determinations the Trustee shall make a valuation of the Reserve Fund on or before June 1 and December 1 in each year or on or prior to the date of such transfer, as the case may be. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds in the event that no other moneys of the Authority are applied thereto.

Financing Agreement

General. Pursuant to the Financing Agreement, the Agency is obligated to make payments to the Authority equal to one-half of the Fixed Project Costs for the Recharge Project. Fixed Project Costs includes one-half of all capital costs of the Recharge Project, including but not limited to (i) Debt Service on the Recharge Project (including the portion of principal and interest on the Bonds allocable to the Recharge Project) and (ii) reserves for repair and replacement and improvement to the Recharge Project. Defined terms used under the caption “SECURITY FOR THE BONDS—Financing Agreement” and not defined herein have the meanings set forth in the Financing Agreement.

Payments by the Agency to the Authority under the Financing Agreement are obligations of the Agency payable from the portion of Sewer Revenues comprising Pledged Revenues. Pledged Revenues under the Financing Agreement include ad valorem property taxes received by the Agency pursuant to Section 97 et seq. of the Revenue and Taxation Code of the State and supplemental capital outlay funds received by the Agency pursuant to the Regional Contract only and do not include other Sewer Revenues under the Regional Contract. The obligation of the Agency to make payments under the Financing Agreement from Pledged Revenues is subordinate to the obligation of the Agency to apply Pledged Revenues to the payment of the 2008B Installment Purchase Agreement as well as Contracts and Bonds. See the caption “SECURITY FOR THE BONDS—Financing Agreement—Rate Covenant.” Nothing in the Financing Agreement prohibits the Agency from using any other funds and revenues for purposes of satisfying any provisions of the Financing Agreement.

Pursuant to the Financing Agreement, upon failure of the Agency to make any payment in full when due under the Financing Agreement the Authority shall make written demand upon the Agency. If such failure is not remedied within thirty days from the date of such demand or, if Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. If such failure cannot be remedied within thirty days from the date of such demand but the Agency commences remedial action within such thirty day period, such failure shall not constitute a default under the Financing Agreement. Notice of any such demand shall be provided to the Agency by the Authority.

The Agency is obligated to make payments of Fixed Project Costs under the Financing Agreement whether or not the Recharge Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Recharge Project in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Authority under the Financing Agreement or any other agreement.

Rate Covenant. Under the Financing Agreement, to the fullest extent permitted by law, the Agency shall fix, prescribe and collect rates and charges pursuant to the Regional Contract which, along with Pledged Revenues, will be at least sufficient to yield during each Fiscal Year an amount equal to debt service on all Parity Obligations and Subordinate Obligations for such Fiscal Year. The Agency may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the revenues resulting from such reduced rates and charges will at all times be sufficient to meet the requirements of the Financing Agreement.

Limitation on Additional Indebtedness. Under the Financing Agreement, the Agency may at any time issue or incur any Subordinate Obligation; provided the estimated Pledged Revenues for the then current Fiscal Year and for the next Fiscal Year, as evidenced by a certificate of the General Manager of the Agency, shall equal a sum equal to at least the estimated amounts due under the Financing Agreement for such Fiscal Years.

Recharge Facilities Agreement

General. Pursuant to the Recharge Facilities Agreement, Watermaster is obligated to make payments to the Authority for one-half of the Fixed Project Costs for the Recharge Project. The obligation of Watermaster to make payments under the Recharge Facilities Agreement is a general obligation of Watermaster. Watermaster is obligated to make payments under the Recharge Facilities Agreement solely as an operation and maintenance expense (as determined in accordance with generally accepted accounting principles). Watermaster is obligated to make such payments on a parity with other operation and maintenance expenses of Watermaster and prior to any payments other than operation and maintenance expenses of Watermaster. Nothing in the Recharge Facilities Agreement prohibits Watermaster from using any other funds and revenues for purposes of satisfying any provisions of the Recharge Facilities Agreement. Defined terms used under the caption "SECURITY FOR THE BONDS—Recharge Facilities Agreement" and not defined herein have the meanings set forth in the Recharge Facilities Agreement. See Appendix B—"CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER."

Pursuant to the Recharge Facilities Agreement, upon failure of Watermaster to make any payment in full when due under the Recharge Facilities Agreement the Authority shall make written demand upon Watermaster. If such failure is not remedied within thirty days from the date of such demand or, if Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. If such failure cannot be remedied within thirty days from the date of such demand but Watermaster commences remedial action within such thirty day period, such failure shall not constitute a default under the Recharge Facilities Agreement. Notice of any such demand shall be provided to Watermaster by the Authority.

Watermaster is obligated to make payments of Fixed Project Costs under the Recharge Facilities Agreement whether or not the Recharge Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Recharge Project in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Authority under the Recharge Facilities Agreement or any other agreement.

Rate Covenant. Watermaster will fix, prescribe and collect an OBMP Assessment for payments due under the Recharge Facilities Agreement equal to 1.25 times Fixed Project Costs. OBMP Assessments are assessments levied by Watermaster for the purpose of implementing the Optimum Basin Management Program (the "OBMP"). Such OBMP Assessments are deemed "Administrative Assessments" under Paragraph 54 of the Peace Agreement regarding the Chino Groundwater Basin dated June 29, 2000. See the caption "CHINO BASIN WATERMASTER" and [Appendix B]—"CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER."

THE CREDIT FACILITY
[TO BE CONFORMED BY SMBC PRIOR TO POSTING]

The following information has been supplied by Sumitomo Mitsui Banking Corporation for inclusion in this Supplement to Official Statement. No representation is made by the Authority, the Agency, Watermaster or the Remarketing Agent as to the accuracy or completeness of the information.

The Credit Facility

The Credit Facility is being issued by the Credit Facility Provider pursuant to the terms of the Reimbursement Agreement. The Credit Facility is an irrevocable transferable obligation of the Credit Facility Provider. The Credit Facility will be issued in an amount equal to the aggregate outstanding principal amount of the Bonds, plus __ days' interest thereon at the rate of 12% per annum (the "Cap Interest Rate"). The Trustee, upon compliance with the terms of the Credit Facility, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of the Bonds when due, whether at maturity or upon redemption, and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed (a "Liquidity Drawing") equal to the principal amount of the Bonds, plus (b) an amount not to exceed 49 days of accrued interest on the Bonds at the Cap Interest Rate (i) to pay interest on the Bonds when due, and (ii) to pay the portion of the purchase price of the Bonds tendered for purchase and not successfully remarketed, equal to the interest accrued, if any, on such Bonds. No drawing shall be made for Bank Bonds (as defined in the Reimbursement Agreement) or for Bonds bearing interest at a rate other than the Daily Interest Rate or Weekly Interest Rate or for Bonds owned by or on behalf of the Agency or the Authority.

The amount available under the Credit Facility will be automatically reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing to pay interest on the Bonds (an "Interest Drawing"), the amount available under the Credit Facility will be automatically reinstated effective on the fifth (5th) calendar day following the date such Interest Drawing is honored unless the Trustee shall have received notice from the Credit Facility Provider by 5:00 P.M. (New York time) on the fourth (4th) calendar day following the date of such Interest Drawing that the Credit Facility Provider has not been reimbursed in full for such Interest Drawing or any other Event of Default (as defined in the Reimbursement Agreement) has occurred under the Reimbursement Agreement and as a consequence thereof the Credit Facility will not be so reinstated and directing the Trustee to cause the acceleration of the Bonds pursuant to the terms of the Indenture. With respect to a Liquidity Drawing, the Credit Facility will automatically be reduced by an amount equal to the amount of said drawing. Upon a remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of such Liquidity Drawing, the Credit Facility Provider's obligation to honor drawings under the Credit Facility will be automatically reinstated in an amount set forth in a remarketing certificate concurrently upon receipt by the Credit Facility Provider of such remarketing certificate, and receipt

by the Credit Facility Provider or the Trustee on behalf of the Credit Facility Provider of the amount set forth in such remarketing certificate.

The Credit Facility will terminate on the earliest of the Credit Facility Provider's close of business on (a) _____, 2016 (as such date may be extended from time to time); (b) the date which is one (1) Business Day (as defined in the Reimbursement Agreement) following the date on which all of the Bonds have been converted to bear interest at a rate other than the Daily Interest Rate or the Weekly Interest Rate (the "Conversion Date"); (c) the date which is one (1) Business Day following the date of the Credit Facility Provider's receipt of a certificate from the Trustee specifying that no Bonds remain outstanding within the meaning of the Indenture, all drawings required to be made under the Indenture and available under the Credit Facility have been made and honored, or an Alternate Credit Facility (as defined in the Reimbursement Agreement) has been issued to replace the Credit Facility pursuant to the Indenture; (d) the date on which an Acceleration Drawing (as defined in the Reimbursement Agreement) or a Stated Maturity Drawing (as defined in the Reimbursement Agreement) is honored by the Credit Facility Provider; or (e) the date which is ten (10) days following the date the Trustee receives a written notice from the Credit Facility Provider specifying the occurrence of an Event of Default under the Reimbursement Agreement and directing the Trustee to cause a mandatory tender or acceleration of the Bonds.

Reimbursement Agreement - Events of Default

The occurrence of any of the following events (including the expiration of any specified time) shall constitute an "Event of Default" unless waived by the Credit Facility Provider in writing:

(a) (i) Failure of the Agency or the Authority to pay when due any amount owed under the Reimbursement Agreement, under the Fee Agreement (as defined in the Reimbursement Agreement) or under any of the Related Documents (as defined in the Reimbursement Agreement), or (ii) default by the Agency under the Installment Purchase Agreement (as defined in the Reimbursement Agreement) or the Financing Agreement or default by the Watermaster under the Recharge Facilities Agreement if such default is a payment default or causes the acceleration of payments thereunder.

(b) Failure of the Authority to observe any of the specified covenants in the Reimbursement Agreement or failure of the Agency to perform any of the specified covenants in the Installment Purchase Agreement.

(c) Failure of the Authority, the Agency or the Watermaster to observe or perform any of their respective covenants, conditions or provisions in the Reimbursement Agreement or any of the Related Documents (other than as specified in paragraphs (a) or (b) under the caption "Reimbursement Agreement - Events of Default" above) and to remedy such failure within 30 days after the occurrence thereof.

(d) Any representation or warranty made by the Authority or the Agency in the Reimbursement Agreement or by the Authority, the Agency or the Watermaster in any Related Document or in any certificate, financial or other statement furnished by it pursuant to the Reimbursement Agreement or any of the Related Documents shall prove to have been untrue or incomplete in any material respect when made or deemed made.

(e) The occurrence and continuation of an Event of Default under any of the Related Documents (other than as specified in another paragraph under the caption "Reimbursement Agreement - Events of Default").

(f) Other than as specified in paragraph (a) under the caption "Reimbursement Agreement - Events of Default" above, (i) default by the Authority with respect to any Debt (as defined in the Reimbursement Agreement) payable from or secured by a lien on the Revenues (as defined in the Reimbursement Agreement), (ii) default by the Agency with respect to any Debt payable from or secured by a lien on the Agency Revenues (as defined in the Reimbursement Agreement) (including without limitation any Subordinate Obligation (as

defined in the Reimbursement Agreement)) or the Pledged Revenues (as defined in the Financing Agreement), or (iii) default by the Watermaster with respect to any Debt, if the case of (i), (ii) or (iii) of this paragraph such default is a payment default or causes the acceleration of payments thereunder.

(g) Default by the Authority, the Agency or the Watermaster in the payment of any amount due in respect of any Debt owed to the Credit Facility Provider or default by the Authority, the Agency or the Watermaster in the payment of any amount due in respect of any other Debt (measured in the case of any Interest Rate Protection Agreement (as defined in the Reimbursement Agreement), by the Authority's, the Agency's or the Watermaster's Exposure (as defined in the Reimbursement Agreement) thereunder), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Debt is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any act or omission by the Authority, the Agency or the Watermaster under any such mortgage agreement or other instrument which results in such Debt becoming, or being capable of becoming, immediately due and payable (or, with respect to any Interest Rate Protection Agreement, which results in such Interest Rate Protection Agreement being terminated early or being capable of being terminated early).

(h) The entry or filing of any judgment, writ or warrant of attachment or of any similar process (i) against the Authority, (ii) in an amount excess of \$2,500,000 against the Agency, (iii) in an amount in excess of \$2,500,000 against the Watermaster or (iv) against any of the Revenues, and in any such case, failure of the Authority, the Agency or the Watermaster, as applicable, to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days.

(i) The occurrence of an Event of Insolvency with respect to the Authority, the Agency or the Watermaster. As used in this paragraph, Event of Insolvency is defined as follows:

"Event of Insolvency" means, with respect to any Person (as defined in the Reimbursement Agreement), the occurrence of one or more of the following events:

(i) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation, dissolution of, or order of other similar relief against, such Person;

(ii) the commencement by or against such Person of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the such Person or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for such Person or any substantial part of its property or there shall be appointed or designated with respect to it, an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or there shall be declared or introduced or proposed for consideration by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it;

(iii) the making of an assignment for the benefit of creditors by such Person;

(iv) the failure of such Person to generally pay its debts as they become due;

(v) the declaration or imposition of a moratorium, restructuring, adjustment or comparable restriction with respect to the payment of any of the debts of such Person;

(vi) such Person shall admit in writing its inability to pay its debts when due; or

(vii) the initiation of any actions to authorize or further any of the foregoing by or on behalf of such Person.

(j) The unenhanced rating assigned to the Bonds or any Debt of the Authority secured by the Revenues or Debt of the Agency secured by the Agency Revenues by Moody's or S&P, shall be withdrawn, suspended or fall below "A3" by Moody's or "A-" by S&P.

(k) This Reimbursement Agreement or any of the Related Documents, or any material provision of the Reimbursement Agreement or any of the Related Documents, ceases to be valid and binding on the Authority, the Agency or the Watermaster; or the Reimbursement Agreement or any of the Related Documents, or any material provision of the Reimbursement Agreement or any of the Related Documents, is declared null and void, or the validity or enforceability of this Agreement, any Related Document, or any material provision of the Reimbursement Agreement or any of the Related Documents is contested by the Authority, the Agency or the Watermaster or any officer or member of the governing body of the Authority, the Agency or the Watermaster or the Authority, the Agency or the Watermaster denies it has any or further liability under the Reimbursement Agreement or any of the Related Documents.

(l) Any funds or investments on deposit in, or otherwise to the credit of, any of the funds or accounts established under the Reimbursement Agreement or under the Indenture or any of the Related Documents shall become subject to any writ, judgment, warrant or attachment, execution or similar process.

(m) Any change in the Internal Revenue Code of 1986, as amended, or any allegation by the Internal Revenue Service is made which results, or would result, in interest on the Bonds being included in gross income to the holders thereof for purposes of Federal income taxation or not being exempt from State personal income taxes.

(n) The Authority or the Agency fails to receive an unqualified opinion with respect to their respective financial statements.

(o) The powers or the ability of the Authority to collect payments under the Related Documents to which it is a party shall be limited in any way that prevents the Authority from collecting payments in an amount sufficient, along with other moneys of the Authority, to pay its debts as they become due.

(p) A Material Adverse Change (as defined in the Reimbursement Agreement) (other than as specified in another paragraph under the caption "Reimbursement Agreement - Events of Default") occurs, and, in the event any such condition can be repealed, overturned or cured, such condition is not repealed, overturned or cured, or the Authority or the Agency fails to provide sufficient alternative sources of funds to cure such condition, within three (3) months after receipt by the Authority and the Agency of written notice thereof from the Credit Facility Provider.

(q) Any pledge or security interest created by the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or the Reimbursement Agreement to secure any amount due under any Bonds, the Reimbursement Agreement or the Fee Agreement shall fail to be fully enforceable or fail to have the priority required under the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or the Reimbursement Agreement, in either case, by reason of a final, non-appealable judgment of a court of competent jurisdiction.

Reimbursement Agreement - Remedies

Upon the occurrence and continuation of an Event of Default, the Credit Facility Provider, in its sole discretion, (i) may by notice to the Authority and the Trustee, declare the Obligations (as defined in the Reimbursement Agreement) under the Reimbursement Agreement to be immediately due and payable, and the same shall thereupon become immediately due and payable (provided that, the Obligations under the Reimbursement Agreement and under the Fee Agreement shall be and become automatically and immediately due and payable without such notice upon the occurrence of an Event of Default described in paragraph (i) under the caption “Reimbursement Agreement - Events of Default” above), without demand, presentment, protest or further notice of any kind, all of which are expressly waived by the Authority, (ii) may deliver to the Trustee written notice that an Event of Default has been declared under the Reimbursement Agreement and that the Credit Facility will terminate ten (10) days after receipt of such notice together with a written request that the Trustee (A) declare the principal of all Bonds then outstanding and the interest accrued thereon to be immediately due and payable or (B) cause the mandatory tender of the Bonds, (iii) may cure any default, event of default or event of nonperformance under the Reimbursement Agreement or under any of the Related Documents (in which event the Authority shall reimburse the Credit Facility Provider therefor pursuant to the Reimbursement Agreement), (iv) may exercise its banker’s lien, or right of set off, (v) may proceed to protect its right by suit in equity, action at law or other appropriate proceedings, whether for specific performance of any covenant or agreement of the Authority or the Agency contained in the Reimbursement Agreement or in and of the exercise of any power or remedy granted to the Credit Facility Provider under any of the Related Documents or (vi) may exercise any other rights or remedies available under any Related Document, any other agreement or at law or in equity. If the Event of Default is the failure by the Authority to reimburse the Credit Facility Provider on a timely basis for an Interest Drawing (as defined in the Reimbursement Agreement), the Credit Facility Provider may, deliver to the Tender Agent (as defined in the Reimbursement Agreement) notice that the Credit Facility will not be reinstated pursuant to the terms of the Credit Facility. The rights and remedies of the Credit Facility Provider specified in the Reimbursement Agreement are for the sole and exclusive benefit, use and protection of the Credit Facility Provider, and the Credit Facility Provider is entitled, but shall have no duty or obligation to the Authority, the Agency, the Trustee, the Tender Agent, the Bondholders or otherwise, (i) to exercise or to refrain from exercising any right or remedy reserved to the Credit Facility Provider under the Reimbursement Agreement, or (ii) to cause the Trustee or the Tender Agent or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Related Documents.

THE CREDIT FACILITY PROVIDER

The following information has been furnished by Sumitomo Mitsui Banking Corporation for use in this Supplement to Official Statement. Such information has not been independently confirmed or verified by the Authority, the Agency, Watermaster, the Trustee or the Remarketing Agent. No representation is made herein by the Authority, the Agency, Watermaster, the Trustee or the Remarketing Agent that the information contained and incorporated herein by reference is correct. No representation is made as to the accuracy or adequacy of such information subsequent to the date hereof.

[TO BE REVIEWED BY BANK]

Sumitomo Mitsui Banking Corporation

Sumitomo Mitsui Banking Corporation (*Kabushiki Kaisha Mitsui Sumitomo Ginko*) (“SMBC”) is a joint stock corporation with limited liability (*Kabushiki Kaisha*) under the laws of Japan. The registered head office of SMBC is located at 1-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan.

SMBC was established in April 2001 through the merger of two leading banks, The Sakura Bank, Limited and The Sumitomo Bank, Limited. In December 2002, Sumitomo Mitsui Financial Group, Inc. (“SMFG”) was established through a stock transfer as a holding company under which SMBC became a wholly-owned subsidiary. **SMFG reported ¥187,315,077 billion (US\$1,526,361.45 million) in consolidated total**

assets as of June 30, 2015.

SMBC is one of the world's leading commercial banks and provides an extensive range of banking services to its customers in Japan and overseas. In Japan, SMBC accepts deposits, makes loans and extends guarantees to corporations, individuals, governments and governmental entities. It also offers financing solutions such as syndicated lending, structured finance and project finance. SMBC also underwrites and deals in bonds issued by or under the guarantee of the Japanese government and local government authorities, and acts in various administrative and advisory capacities for certain types of corporate and government bonds. Internationally, SMBC operates through a network of branches, representative offices, subsidiaries and affiliates to provide many financing products, including syndicated lending and project finance.

The New York Branch of SMBC is licensed by the State of New York Banking Department to conduct branch banking business at 277 Park Avenue, New York, New York, and is subject to examination by the State of New York Banking Department and the Federal Reserve Bank of New York.

Financial and Other Information

Audited consolidated financial statements for SMFG and its consolidated subsidiaries for the fiscal year 2014 ended March 31, 2015, as well as other corporate data, financial information and analyses, are available in English on SMFG's website at www.smfg.co.jp/english.

The information herein has been obtained from SMBC, which is solely responsible for its content. The delivery of this Supplement to Official Statement shall not create any implication that there has been no change in the affairs of SMBC since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

REMARKETING AGENT

[U.S. Bancorp] has been appointed to serve as the Remarketing Agent for the Bonds. The Remarketing Agent will carry out its duties and obligations in accordance with the Indenture and the Remarketing Agreement executed in connection with the Bonds. The principal office of the Remarketing Agent (for purposes of its responsibilities as Remarketing Agent) is [ADDRESS].

Special Considerations Relating to the Bonds

The Remarketing Agent is Paid by the Agency. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Supplement to Official Statement. The Remarketing Agent is appointed by the Authority and is paid by the Agency for its services. As a result, the interests of the Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing

Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Accrual Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Interest Accrual Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on an Interest Accrual Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the Interest Accrual Date, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process described herein. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process described herein.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee may assume such duties as described in the Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth a summary of the estimated sources and uses of funds associated with the original issuance and sale of the Bonds.

Sources:	
Principal Amount of Bonds	\$ 55,675,000
Contribution from the Agency ⁽¹⁾	513,728
Amounts on deposit in the Bond Payment Fund under the 2002 Indenture	<u>3,058</u>
Total Sources	<u>\$ 56,191,786</u>
Uses:	
Escrow Fund	\$ 53,706,786
Reserve Fund	2,130,836
Costs of Issuance ⁽²⁾	<u>354,164</u>
Total Uses	<u>\$ 56,191,786</u>

⁽¹⁾ Agency contribution equal to interest on the 2002A Bonds through May 7, 2008, less the amount on deposit in the Bond Payment Fund under the 2002 Indenture.

⁽²⁾ Estimate includes legal and financing costs, printing costs, fees of each rating agency, initial fees of Trustee, Financial Advisor fees, the Underwriter's discount, Credit Facility Provider fees, Remarketing Agent fees and Bond Counsel fees.

THE AGENCY

The information set forth below has been provided by the Agency. The Authority makes no representations or warranties as to the accuracy or completeness of any of the information set forth below. Capitalized terms not otherwise defined herein will have the respective meanings ascribed to them elsewhere in the 2008B Installment Purchase Agreement. See Appendix C—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—SUMMARY OF CERTAIN PROVISIONS OF THE 2008B INSTALLMENT PURCHASE AGREEMENT" for the definitions of such terms.

Organization, Purpose and Powers

The Inland Empire Utilities Agency*, formerly known as the Chino Basin Municipal Water District, was established by a majority vote in a special election on June 6, 1950, for an original population of approximately 80,000 people. In 1951, the Agency annexed to the Metropolitan Water District of Southern California ("MWD"). The original boundaries of the Agency encompassed 92 square miles. Three subsequent annexations added land to the Agency, and the current Agency boundaries encompass 242 square miles with a current population of approximately 850,000. The boundaries of the Agency encompass the urban west end of San Bernardino County, immediately east of the Los Angeles County line and include the cities of Ontario, Upland, Montclair, Chino, Chino Hills, Fontana and Rancho Cucamonga. The Agency boundaries extend from the Los Angeles County line to a point near the eastern boundary of the City of Fontana and from the base of the San Gabriel Mountains, south to the Riverside County line and west to the Orange County line.

When formed in 1950, the Agency only operated a water system. During the mid-1960s, the Agency began domestic sewage and industrial waste collection (the "Wastewater System"). In 1969, the Agency started construction of a non-reclaimable wastewater system (the "NRW System"), which has simultaneously curtailed groundwater pollution by existing industry and provided for new industrial development within the Agency's service area. In 1990, the Agency began the design and construction of a facility to co-compost the municipal sludge for the Agency's treatment plants together with dairy manure from the agricultural preserve, which is located in the southeastern section of the City of Chino. The Agency began operation of a recycled water system in 1998.

In an effort to more accurately reflect both the current and future functions of the entity, the Board of Directors of the Chino Basin Municipal Water District approved and made effective on July 1, 1998, the name change from the Chino Basin Municipal Water District to the Inland Empire Utilities Agency.

In 2002, the Agency and the Sanitation Districts of Los Angeles County ("SDLAC") formed the Inland Empire Regional Composting Authority ("IERCA") to provide a composting facility which opened for operations in 2007. Also in 2002, the Agency expanded the scope of operations of the Agency by financing the design and construction, along with the Chino Basin Watermaster, of facilities to replenish the Chino Groundwater Basin by delivering potable water, storm water and recycled water through Agency pipelines to refurbished recharge basins.

Development of the regional recycled water system and related services have been the focus of the Agency over the past decade. In 2013 recycled water sales were approximately 38,000 acre-feet ("AF") for both direct use and groundwater recharge deliveries. In 2015, the final phase of a regional recycled water distribution "backbone" system was completed. Four of the Agency's five water recycling treatment facilities produce recycled water.

* A Municipal Water District.

Board of Directors, Management and Employee Relations

Board of Directors. The current members of the Board and brief biographies of each are set forth below.

Terry Catlin, President
Michael Camacho, Vice President
Steven J. Elie, Secretary/Treasurer
Gene Koopman, Director
Jasmin A. Hall, Director

President Terry Catlin, representing Division 1, the Cities of Upland and Montclair, the unincorporated area of San Antonio Heights, and portions of Ontario and Rancho Cucamonga. Mr. Catlin was elected to the Agency's Board of Directors in 1996, and currently serves as Board President. He served as the Secretary/Treasurer from 1996 to 1999, and served as Vice-President from 1999 to 2004. Mr. Catlin serves as the Chair of the Agency's Audit Committee, and is a member of the Agency's Engineering, Operations and Biosolids Management Committee, as well as the alternate member for the Agency's Finance, Legal and Administration Committee. Mr. Catlin is the Agency's representative to the Regional Sewerage Program Policy Committee and the SAWPA Commission, as well as the Agency's alternate representative to the Chino Basin Watermaster.

Vice President Michael Camacho, representing Division 5 – City of Rancho Cucamonga, a portion of Fontana and a portion of the unincorporated territories in Fontana's sphere of influence. Mr. Camacho has served on the Agency's Board of Directors since 2009, and currently serves as the Vice President. He also serves as a member of the Public, Legislative Affairs, and Water Resources Committee, and serves as Chair of the Agency's Engineering, Operations and Biosolids Management Committee. Mr. Camacho is the Agency's representative to the Metropolitan Water District of Southern California, as well as the alternate representative to the Southern California Water Committee and the Regional Sewerage Policy Committee. He served on the Chino Basin Watermaster CDA Expansion Committee, Legal Review Committee, and is the former Vice Chairman of the Watermaster Board.

Secretary/Treasurer Steven J. Elie, representing Division 3, the City of Chino and the City of Chino Hills, was elected to serve on the Agency's Board of Directors in November 2010, and currently serves as the Secretary/Treasurer. Mr. Elie also serves as Chair of the Agency's Public, Legislative Affairs, and Water Resources Committee, and is a member of the Finance, Legal and Administration Committee. Since January 2011, Mr. Elie has been the Agency's representative to the Chino Basin Watermaster. Mr. Elie is the Agency's representative to the Southern California Water Committee and the Association of Special Districts, as well as the Agency's alternate representative to the Inland Empire Regional Composting Authority. Mr. Elie is an attorney who regularly represents public entities and public utility regulated entities in complex, multiparty litigation and administrative matters, including soil and groundwater contamination.

Director Gene Koopman, representing Division 2, the City of Ontario, and portions of Chino and Fontana, has been an Ontario resident since 1969, and a dairyman since 1964. Mr. Koopman was elected to the Board of Directors in 1998, and currently serves as the Secretary/Treasurer. He also serves as Chair to the Agency Finance, Legal and Administration Committee. In the past, Mr. Koopman served as the Agency representative to the Metropolitan Water District of Southern California. He currently serves as Vice President on the Inland Empire Regional Composting Authority. Mr. Koopman is a founding member of the Chino Basin Watermaster Agricultural Pool since 1978, and serves as Vice President to the Chino Basin Watermaster Agricultural Pool Committee. Mr. Koopman has twenty years of tenure as Director on the Milk Products Council, with ten of those years in the capacity of Chairman. Mr. Koopman is a founding member of the Western States Dairy Producers Association and has served nine years as a Board member of the Southern California Farm Credit Association

Director Jasmin A. Hall, representing Division 4, the City of Fontana and portions of Rialto and Bloomington, was appointed to the Board of Directors in 2013, and elected in 2014. Ms. Hall serves on the Agency's Audit Committee, and is an alternate for the Agency's Public, Legislative Affairs and Water Resources Committee and Engineering, Operations and Biosolids Management Committee. Ms. Hall also serves as the Agency's representative to the California Association of Sanitation Agencies ("CASA"), as well as an alternate representative to the SAWPA Commission, Chino Desalter Authority, and Association of California Water Agencies ("ACWA"). Ms. Hall serves as the Agency's representative on the CASA Utility Leadership Committee. Ms. Hall has over 13 years of experience working on Inland Empire utility issues and extensive experience in community leadership by serving on the Fontana Planning Commission and serving as Chairwoman for the Fontana Parks and Recreation Commission. Ms. Hall has her M.B.A. with a specialization in Human Resource Management, her B.S. degree in Business Management, and a Project Management Certification.

Management. The Agency's management is composed of the following officers:

P. Joseph Grindstaff, General Manager
Christina Valencia, Chief Financial Officer/Assistant General Manager
Ernest Yeboah, Executive Manager of Operations
Chris Berch, Executive Manager of Engineering/Assistant General Manager
Martha Davis, Executive Manager of Policy Development

P. Joseph Grindstaff is currently the General Manager of Inland Empire Utilities Agency. Prior to that, he served as the Executive Officer for the Delta Stewardship Council from 2010 to 2012, where he organized the Delta Stewardship Council and helped establish the Delta Conservancy. From 2005 to 2010, Mr. Grindstaff served as Director of the California Bay-Delta Authority and also served as Deputy Secretary for Water Policy for the Natural Resources Agency from 2006 to 2010. As Deputy Secretary for Water Policy, Mr. Grindstaff took part in the historic 2009 legislative reform package, coordinated water policy, supported Delta Vision, helped CALFED transition to the new paradigm of co-equal goals and oversaw many resource management activities for the State. Mr. Grindstaff has served in various management positions including Chief Deputy Director at Department of Water Resources, General Manager for the Santa Ana Watershed Project Authority, and General Manager of Monte Vista Water District, as well as a range of other key positions.

Christina Valencia is the Chief Financial Officer/Assistant General Manager at the Inland Empire Utilities Agency ("IEUA"). Christina joined IEUA in 1999, and in 2007 she was promoted to Manager of Financial Planning before being named CFO in October 2010. Christina began her career at KDC Pipe & Steel, Inc., where she worked for 18 years and rose to the position of Controller. Christina holds a Bachelor's Degree in Business Administration with a concentration in Accounting from the University of Texas at El Paso. She also earned a Master's Degree in Public Administration from the California State University at Northridge.

Ms. Valencia has over 25 years of experience in both the private and public sector and oversees the Fiscal Management, Finance and Accounting, Human Resources, Contracts Administration and Facilities Services and Business Information Service departments of the Agency.

Ernest Yeboah is the Executive Manager of Operations at IEUA located in Southern California. Prior to joining IEUA, he worked in various positions at the Orange County Sanitation District for fifteen years. Ernest started his career as a Marine Engineer in the Merchant Marines. Ernest has a Bachelor of Engineering ("BE") degree in Marine Engineering from the Arab Academy for Science and Maritime Transport in Egypt, a master's degree in Mechanical Engineering from the California State University, Long Beach, and a second master's degree in Maintenance and Reliability Engineering from Monash University, Australia. He also holds a California Professional Engineer ("PE") license in Mechanical Engineering.

Chris Berch is the Executive Manager of Engineering/Assistant General Manager at IEUA. Chris joined IEUA in 1997, and during his tenure has worked in various capacities in the Agency's Operations, Technical

Services, Engineering and Construction Management, and Planning and Environmental Resources Departments. Chris was promoted to his current position in 2014, and is a Professional Engineer – Civil and a board-certified Environmental Engineer. Chris holds a Bachelor of Science Degree in Environmental Engineering from the University of California, Riverside. He also earned a Master’s Degree in Public Administration from the California State University at San Bernardino.

Martha Davis is the Executive Manager for Policy Development/Assistant General Manager at IEUA. Since 2000, Ms. Davis has led many of the Agency’s award-winning conservation, planning and green programs including initiatives promoting water conservation, renewable energy, storm water capture, recycled water and integrated water management. Previously, Ms. Davis served as the Executive Director of the Mono Lake Committee (1984-1996). She led the citizen’s campaign that culminated in the 1994 landmark public trust decision by the State Water Resources Control Board to protect Mono Lake. She has been a member of the Mono Lake Committee Board of Directors since 1997. Ms. Davis currently serves on the boards of the WaterReuse Association, California Section, Mono Lake Committee, Earth Island Institute and the Sierra Nevada Institute for Community and Environment. She chairs the Energy Committee for the CASA and serves as Vice Chair of the Energy Committee for the ACWA. Ms. Davis graduated from Stanford University cum laude with a degree in human biology and received her master’s degree from the Yale School of Forestry and Environmental Studies. She is the recipient of an honorary PhD in Public Policy from the Kennedy College in Oakland, California.

Employee Relations. Since June 30, 2014 the Agency has had 290 authorized positions. Over the last eight years, the Agency has maintained an average vacancy factor of 8 percent as part of the Agency’s cost containment plan. The Agency currently has five recognized bargaining units, representing a total of 192 positions, with the remaining positions unrepresented. The Agency and its bargaining units and employees are committed to working together to resolve problems of mutual interest. In the fall of 2013, the Agency successfully negotiated 5 year contracts (through June 2018) with all of the bargaining units. The Agency has never experienced a work stoppage or strike.

Defined Benefit Pension Plan. The Agency is a member of the California Public Employees’ Retirement System (“PERS”), an agent multiple-employer retirement system, which provides a contributory defined benefit plan for all regular employees of the Agency. These benefit provisions and all other requirements are established by California law. On behalf of its employees, the Agency currently pays a portion of the employees’ required Employer Paid Member Contribution (“EPMC”) varying from 8% to 7%, depending on the benefit tier. Pursuant to the 5 year contracts negotiated with the bargaining units and the Agency’s Cost Containment Plan, all employees (including unrepresented) will be paying 100% of the EPMC by July 1, 2017.

The Agency, as employer, is required to contribute the remaining amounts necessary to fund PERS, using the actuarial basis specified by California law. For the year ended June 30, 2015, the Agency’s total contribution to PERS was projected to be \$4,677,618. The Agency’s contribution to PERS, all made in accordance with actuarially determined requirements, was 16.641 % of annual covered payroll for the Fiscal Year ended June 30, 2015. By June 30, 2015, the Agency had contributed an additional \$9 million towards its unfunded accrued liability account per the Agency’s 2015 Strategic Plan and key objective to achieve full funding status. The Agency also participates in the Social Security Program pursuant to the Federal Insurance Contribution Act.

For more information with respect to the Agency’s Plan, see Note 5 to the Agency’s audited financial statements attached hereto as Appendix A.

Other Post-Employment Benefits. The Agency also provides post-employment health benefits to retired employees through PERS. The Agency’s fixed fee contributions to PERS for post-employment health benefits are financed on a pay-as-you-go basis for retired employees and eligible dependents, based on the hiring date of such employee, age of retirement and length of employment with the Agency. Such Agency contributions are reduced when a retiree becomes eligible for Medicare. In the Fiscal Year ended June 30, 2015, the Agency paid approximately \$432,671 for post-employment health benefits for 96 retired employees.

In May 2014, the Agency established an irrevocable trust account with the California Employer's Retiree Benefit Trust ("CERBT"). As of June 30, 2015, the Agency has contributed approximately \$7,000,000 toward the accrued liability as reported in its financial statements for the Fiscal Year ended June 30, 2013. In compliance with the Governmental Accounting Standards Board which requires that governmental agencies are on a pay-as-you-go basis with respect to post-retirement health benefits, the Agency accounts for and reports the outstanding obligations and commitments related to such post-employment. The Agency does not expect that any increased funding of post-employment benefits will have a material adverse effect on the ability of the Agency to make payments under the 2008B Installment Purchase Agreement.

Governmental Accounting Standards Board Statement No. 45 ("GASB 45") requires that governmental agencies that fund post-employment benefits on a pay-as-you-go basis, such as the Agency, account for and report the outstanding obligations and commitments related to such post-employment benefits in essentially the same manner as for pensions. The Agency contracted an independent pension consultant and actuaries to perform an actuarial valuation of the other post-employment benefits. The actuarial report states that as of June 30, 2015, the total unfunded actuarial accrued liability for the Agency's other post-employment benefits was \$8,807,608. The amount required to fund the Fiscal Year 2015 ARC was \$937,681. While requiring the Agency to disclose the unfunded actuarial accrued liability and the ARC in its financial statements, GASB 45 does not require the Agency to fund the ARC.

For more information with respect to the Agency's Other Post-Employment Benefits, see Note 1.d to the Agency's audited financial statements attached hereto as Appendix A.

Public Liability. The Agency maintains a self-insurance program for losses up to \$500,000 in connection with all of its general liability and public official errors liability, and up to \$25,000 for automobile liability claims. Interest earnings on such self-insurance reserve fund balance have been sufficient to maintain the reserve fund and to pay any minor claims made. As of June 30, 2015, the unaudited self-insurance fund balance was \$4,364,500. The Agency has purchased an excess policy providing coverage up to \$10,000,000 on an annual aggregate basis for general and public official errors losses in excess of \$500,000.

The Agency is a self-insured public entity and maintains a self-insurance program for risks associated with workers' compensation, accounting for and financing workers' compensation losses up to \$350,000 in a risk retention reserve fund. As of June 30, 2015, the risk retention reserve fund balance was \$1,499,000. The Agency has purchased a \$25,000,000 excess policy to cover workers' compensation losses in excess of \$1,000,000. The Agency has never had a single workers' compensation loss in excess of \$250,000 and has never had aggregate workers' compensation losses in any single Fiscal Year in excess of \$300,000.

Fire and Extended Coverage Insurance. The Agency maintains a self-insurance program for property damage claims up to \$25,000. Any property damage claims are paid out of existing annual appropriations. The Agency maintains replacement insurance coverage up to \$50,000,000 for its buildings and equipment, covering all perils except earthquakes and floods for property damage claims in excess of \$25,000. Contractors are required to provide insurance coverage which names the Agency as an additional insured during their participation in all capital and large maintenance projects.

Additionally, the Agency maintains a standard public official bond for the actions of the Chief Financial Officer/Assistant General Manager, the General Manager and the Secretary/Treasurer of the Board and a standard blanket honesty policy for each employee.

Regional Wastewater System

General. The Agency provides wastewater treatment services to the cities of Chino, Chino Hills, Fontana, Montclair, Ontario and Upland, and to the Cucamonga County Water District in the City of Rancho Cucamonga (collectively, the "Contracting Agencies"). In 1972, for the purpose of establishing the Wastewater System, the Agency entered into the Regional Sewage Service Contract (the "Regional Contract") with the

Contracting Agencies. Under the terms of the Regional Contract, the Agency is charged with the ownership and operation of the Wastewater System for the collection, treatment and disposal of sewage delivered by the Contracting Agencies. As the operator of the Regional Wastewater system, the Agency assumed the responsibility of meeting the region's annual obligation to deliver 17,000 AF of water to the Santa Ana River as mandated by the Orange County Water District vs. City of Chino (Superior Court Case #117628). The Agency is further obligated to construct certain new regional interceptors and expand regional treatment facilities within a reasonable time frame to be prepared to receive all domestic waste delivered by the Contracting Agencies. See the caption "THE BONDS."

Regional Wastewater System Facilities. The Regional Wastewater System includes four regional water recycling plants ("RWRPs") which produce recycled water that meet Title 22 standards for indirect reuse and groundwater recharge. All of the RWRPs have primary, secondary, and tertiary treatment and recycled water pumping facilities that are interconnected in a regional network. Agency staff uses influent bypass and diversion facilities, such as the San Bernardino Lift Station and Etiwanda Truck Line to route flows between regional plants in order to optimize capacity utilization, maximize recycled water deliveries, and minimize overall pumping and treatment costs. The Agency's aggregate designed treatment capacity is 85 million gallons per day ("MGD"), plus 90 miles of regional sewage interceptors.

In addition, the Agency has three facilities where the biosolids from the RWRPs are handled: Regional Plant No. 1 ("RP-1") Solids Handling Facility, RP-2 Solids Handling Facility, and the Inland Empire Regional Composting Facility ("IERCA"). The Agency also has a solids handling facility at RP-5 which is leased to a private enterprise that produces biogas and energy from food and dairy waste.

In July 2015, the Agency updated its Wastewater Facilities Master Plan ("WWFMP"), prepared in 2002 and last updated in 2007. The planning period of the WWFMP was for year 2035 and the ultimate year 2060. Capital projects were developed based on the expansion needs for each of the RWRPs for the next 20 years. The WWFMP will be evaluated every ten years, or as major changes are identified.

Regional Water Recycling Plant No. 1. Regional Water Recycling Plant No. 1 was originally commissioned in 1948 and originally owned jointly by the cities of Ontario and Upland. Upon completion of the negotiations that led to the Regional Contract in 1972, ownership and operation of the facility were passed to the Agency. Over the years, RP-1 has undergone several expansions to increase the design wastewater treatment capacity as the population and economic activity within its service area (the cities of Montclair, Upland, Ontario, Rancho Cucamonga and Fontana) have increased. The current design wastewater treatment capacity is approximately 44 MGD. The 2015 WWFMP identified expansion of the RP-1 Solids Treatment and Liquid Treatment capacity over the next 10 years.

Regional Plant No. 2. Regional Water Recycling Plant No. 2 ("RP-2") was acquired in the same manner as RP-1 from the City of Chino in 1972 and has been in operation since 1960. When RP-5 came online in March, 2004, the liquid stream portion of the treatment facilities ceased operations and was taken offline. However, the Agency continues to process solids from RP-5 and CCWRF at RP-2. Relocation of the RP-2 solids handling processes to the RP-5 facility is planned over the next 7 years. RP-2 is located on land leased from the U. S. Army Corps of Engineers (the "Corps") and is within the flood zone behind Prado Dam. The Corps and Orange County Flood Control District have plans to raise the maximum operational water level behind Prado Dam to allow greater water storage and conservation. Since RP-2 does not have physical flood protections, relocation to RP-5 is planned to be completed by 2022. The RP-2 lease expires in 2035. Beyond 2020 there will be a major project to decommission RP-2.

Regional Plant No. 3. Regional Plant No. 3 ("RP-3") was acquired in the same manner as RP-1 from the City of Fontana. Following acquisition in 1972, minor modifications were made to extend its useful life until a new regional interceptor could be constructed which would transport flows directly to RP-1 for processing. Subsequent to the completion of the regional interceptor, the treatment facilities ceased operations and were taken offline in 1988. Plans to develop a new wastewater treatment plant at the 63.3 acre RP-3 site were

abandoned by agreement with the City of Fontana. A substantial portion of the RP-3 site is being used as a recharge basin.

Carbon Canyon Water Recycling Facility. Located in the City of Chino, the Carbon Canyon Water Recycling Facility (“CCWRF”) has been in operation since 1992. The CCWRF works in tandem with RP-2 and RP-5 to serve the areas of Chino, Chino Hills, Montclair, and Upland and provides recycled water to local industries, parks, golf courses, freeway landscape, and city greenbelt areas. It was designed to treat an annual average flow of 11.4 MGD and treats approximately 7.1 MGD. There are no major expansion projects planned for CCWRF over the next 30 years.

Regional Water Recycling Plant No. 4. Located in the City of Rancho Cucamonga, RP-4 has been in operation since September 1997. In 2009, RP-4 was expanded from 7 MGD to 14 MGD. This treatment plant serves the fast developing areas of the northeastern section of the City of Rancho Cucamonga and the northwestern section of the City of Fontana, treating approximately 10 MGD. Part of the original construction included an eight-mile outfall line that connects RP-4 to RP-1, allowing recycled water to be distributed from either facility. There are no major expansion projects planned for RP-4 over the next 30 years.

Regional Water Recycling Plant No. 5. Regional Water Recycling Plant No. 5 (“RP-5”) is located on 89.8 acres of land in the unincorporated area of the City of Chino. The Agency completed construction of RP-5 and began operation in March, 2004. The Agency constructed RP-5 to replace the liquid treatment processes of the aging RP-2 located below the new “take-line” behind the Prado Dam which is subject to a potential flood threat. RP-5 is situated above the new “take-line” behind the Prado Dam is not subject to a potential flood threat. RP-5 is a state-of-the-art treatment plant, and is designed to handle 15.0 MGD of raw wastewater and 1.3 MGD of solids processing return or recycled flows from RP-2. RP-5 processes sewage flow from the cities of Chino, Chino Hills, and Ontario, treating approximately 9.9 MGD. Based on member agency projections, approximately 60% of future growth is projected to occur in the cities of Ontario and Fontana increasing flows between 15.4 and 16.1 MDG by 2025. Expansion of the RP-5 facility is planned over the next 10 years.

Regional Interceptors. The Regional Contract defines sewers which function solely as transport facilities as “regional interceptors.” These interceptors receive sewage from the most downstream point of a Contracting Agency’s community collection system and transport it to the treatment plants for processing. The regional interceptors are designed, constructed and maintained by the Agency. As development occurs, the regional interceptor network is expanded and modified to stay ahead of demand. To date, there are nearly sixty miles of regional interceptor pipelines identified in the Wastewater System.

Wastewater Facility Usage. The following tables present actual and projected wastewater flows for the Fiscal Years ended June 30, 2011 through June 30, 2015.

Actual Wastewater Flow For Fiscal Years 2011-2015

<i>Fiscal Year (Ending June 30)</i>	<i>RP-1 and RP-4 (MGD)</i>	<i>RP-2, RP-5 and CCWRF (MGD)</i>	<i>Total (MGD)</i>
2011	38.4	14.9	53.3
2012	37.0	15.5	52.5
2013	37.4	15.4	52.8
2014	37.0	15.2	52.2
2015 ⁽¹⁾	35.5	15.2	50.7

⁽¹⁾ Lower wastewater flows resulting from indoor conservation measures in response to the current drought in California account for the lower MGD flows in 2015.

Source: Agency.

The Agency projects increases in wastewater flows over the current and next four Fiscal Years as a result of a growth from new development in the service areas.

Projected Wastewater Flow For Fiscal Years 2016-2020

<i>Fiscal Year (Ending June 30)</i>	<i>RP-1 and RP-4 (MGD)</i>	<i>RP-2, RP-5 and CCWRF (MGD)</i>	<i>Total (MGD)</i>
2016 ⁽¹⁾	36.0	16.2	52.2
2017	36.5	17.3	53.8
2018	37.1	18.0	55.1
2019	37.7	18.5	56.2
2020	38.4	18.9	57.3

Source: The Agency.

The following table presents Fiscal Year 2015 wastewater production within the Agency’s service area.

**Wastewater Production
Fiscal Year Ending June 30, 2015**

<i>User</i>	<i>Total EDUs⁽¹⁾</i>	<i>Wastewater (MGD)</i>
City of Ontario	58,778	10.9
CVWD	68,294	12.8
City of Fontana	52,180	9.8
City of Upland	27,027	5.0
City of Chino	28,803	5.4
City of Chino Hills	24,176	4.5
City of Montclair	<u>12,086</u>	<u>2.3</u>
Total	271,344	50.7

⁽¹⁾ Equivalent Dwelling Units – one EDU represents the sewage flow from a single family residential household and is measured as 270 gallons per day of sewage discharge pursuant to the Regional Sewage Service Contract

Source: The Agency.

The following table presents the current design capacities and flows of the Agency’s wastewater facilities as of June 30, 2015.

**Agency Wastewater Facilities
Design Capacity and Average Flow
as of June 30, 2015**

<i>Facility</i>	<i>Design Capacity (MGD)</i>	<i>Average Flow (MGD)</i>	<i>Average Flow as Percentage of Design Capacity</i>
RP-1	44.0	25.8	58.6%
RP-5	15.0	8.0	53.3
RP-4	14.0	9.8	70.0
CCWRF	<u>11.4</u>	<u>7.1</u>	<u>62.2</u>
Total	84.4	50.7	60.0%

Source: The Agency.

Wastewater System Rates and Charges - Sewer Charges. Sewer rates for both the Wastewater System and the NRW System are established by the Board of Directors (“Board”). The budget, including such sewer rates, is adopted by the Board of Directors no later than June. Beginning Fiscal Year 2016, the Agency transitioned to a biennial budget with the adoption of a two year budget for Fiscal Years 2016 and 2017. Included in the adopted budget were the multi-year sewer service rates approved by Board in March 2015 for Fiscal Years 2016 – 2020. Subsequent to Board actions, the Contracting Agencies each set rate structures reflecting any necessary changes.

The following table presents a summary of the Wastewater System sewer service rates charged to the Contracting Agencies for the Fiscal Years ending June 30, 2011 to June 30, 2015.

Historical Wastewater System Sewer Service Rates

<i>Fiscal Year (Ending June 30)</i>	<i>Sewer Rates per EDU/mo.*</i>
2015	\$14.39
2014	13.39
2013	12.39
2012	11.14
2011	11.14

* Equivalent Dwelling Unit per month.
Source: The Agency.

Wastewater System sewer service charge rates for Fiscal Year 2016 through 2020 were adopted by the Board of the Agency in March 2015. These rates will take effect on July 1st of the respective Fiscal Year (with the exception of 2016 which was effective October 1, 2015) pursuant to the notice, public hearing and protest procedures of Proposition 218, see the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES.”

The Wastewater System sewer service rate charged to the Contracting Agencies for the Fiscal Years ended June 30, 2016 to June 30, 2020, as adopted by the Agency’s Board of Directors, as follows:

Adopted Wastewater System Sewer Service Rates

<i>Fiscal Year</i>	<i>Sewer Rates per EDU/mo.*</i>
2016	\$15.89
2017	17.14
2018	18.39
2019	19.59
2020	20.00

* Equivalent Dwelling Unit per month.
Source: The Agency.

Wastewater System Revenues. The following table presents a summary of the Wastewater System sewer service revenues for Fiscal Years 2011 through 2015.

Wastewater System Sewer Service Revenues

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Service Revenues</i>
2015	\$46,696,753
2014	42,669,716
2013	39,386,881
2012	35,144,460
2011	34,297,681

Source: The Agency and Comprehensive Annual Financial Report (“CAFR”) of the Agency for Fiscal Years 2010 through 2014 and [unaudited financial statements] for Fiscal Year 2015.

The following table presents a summary of projected Wastewater System sewer service revenues for Fiscal Years 2016 through 2020 based on the adopted sewer service rates over the same period.

Projected Wastewater System Sewer Service Revenues

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2016	\$49,563,196
2017	54,890,361
2018	59,040,099
2019	63,049,341
2020	64,529,657

Source: The Agency.

Standby Charges. Pursuant to the Regional Contract and Section 71631 of the State Water Code, the Agency may, by ordinance, annually fix availability or standby charges in the Agency, or any portion of the Agency, whether such sewage services are actually used or not. The standby assessment or availability charge shall not exceed ten dollars per acre per year for each acre of land on which the charge is levied or ten dollars per year for parcels of less than an acre. To date, the Agency has not imposed any such charges. However, if and to the extent the Agency’s standby assessment or availability charges are determined to be for a property related service within the meaning of Article XIII D of the State Constitution, increases in such standby assessment or availability charges may be subject to the provisions thereof. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Article XIID.”

Wastewater Capital Connection Fees. Under the Regional Contract, the Contracting Agencies collect fees for each new equivalent dwelling unit (“EDU”) connected to a Contracting Agency’s community collection system and consequently to the Regional Wastewater System (“Wastewater Capital Connection Fees”). The fee for such Wastewater Capital Connection Fees has been revised periodically and is currently \$5,107 per EDU.

Under the Regional Contract, the Agency is required to maintain a regional capital reserve fund (the “RCIF”) with a maximum excess reserve balance of \$1,000,000. On a quarterly basis, Agency staff projects capital funding requirements of the Agency for the following six months. The Agency “calls” for Wastewater Capital Connection Fees from the Contracting Agencies when the Agency projects a need for additional funds. Wastewater Capital Connection Fee payments are calculated based on the percentage of each individual Contracting Agency’s reimbursement account balance relative to the total balance of all Contracting Agency-

held funds. That percentage is then utilized to calculate each Contracting Agency’s contribution to the Agency’s “call” for funds from the Wastewater Capital Connection Fees.

Starting in 2004 the Agency began recognizing Wastewater Capital Connection Fees as revenues when collected by the Contracting Agency rather than when the Agency calls for the Contracting Agency to transfer the Wastewater Capital Connection Fees to the Agency. The Agency believes such accounting treatment more accurately represents the date such Wastewater Capital Connection Fees are received and available to the Agency. The following table presents a summary of the Wastewater Capital Connection Fees when recognized by the Agency in Fiscal Years 2011 through 2015.

Historic Wastewater Capital Connection Fee Revenue

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2015	\$15,073,882
2014	9,788,634
2013	14,614,387
2012	7,686,126
2011	5,398,048

Source: The Agency.

The following table presents a summary of projected Wastewater Capital Connection Fees for Fiscal Years 2016 through 2020 based on the adopted fees and projected growth.

Projected Wastewater Capital Connection Fee Revenue

<i>Fiscal Year (Ending June 30)</i>	<i>Wastewater System Sewer Revenues</i>
2016	\$22,646,766
2017	26,160,090
2018	23,564,115
2019	21,925,440
2020	22,916,725

Source: The Agency.

The Wastewater Capital Connection Fees were imposed by the Board of the Agency in May 2015, effective January 1 for Fiscal Years 2016 and 2017 and July 1 of each Fiscal Year thereafter. The following table presents a summary of the adopted rates for Fiscal Years 2016 through 2020.

Projected Wastewater Capital Connection Fees

<i>Fiscal Year</i>	<i>Effective Date</i>	<i>Connection Fee per EDU*</i>
2016	January 1, 2016	\$5,415
2017	July 1, 2016	5,415
	January 1, 2017	6,009
2018	July 1, 2017	6,309
2019	July 1, 2018	6,624
2020	July 1, 2019	6,955

* Equivalent Dwelling Unit
Source: The Agency.

Ad Valorem Property Taxes. Prior to the passage of Proposition 13, the Agency established an annual tax levy for the support of Agency activities. Pursuant to Proposition 13, the County Auditor became responsible for the fixed establishment of a county-wide tax rate allocation. Such allocation was determined by averaging the tax levy of each taxing agency for the three Fiscal Years prior to the passage of Proposition 13. The County Auditor then determined the allocation of the county-wide 1% property tax levy between all of the County’s taxing agencies on a pro rata basis. See the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Article XIII.A.”

The Agency had two tax levies in place when Proposition 13 was implemented: A General allocation and an allocation to Improvement District “C.” The revenue to Improvement District “C” is applied to the funding of Regional Wastewater System capital requirements. The General allocation is applied to fund general Agency activities.

From time to time legislation has been considered as part of the State budget to shift property tax revenues from special districts to school districts or other governmental entities. While legislation enacted in connection with the 1992-93 State budget shifted many special districts’ shares of the countywide one percent *ad valorem* tax, the share of the countywide one percent *ad valorem* tax allowable to multi-county special districts, such as the Agency, was exempted.

On November 2, 2004, State voters approved Proposition 1A, which amends the State Constitution to significantly reduce the State’s authority over major local government revenue sources. Under Proposition 1A, the State may not, among other things: (i) shift property taxes from local governments to schools or community colleges; or (ii) change how Property Tax Revenues are shared among local governments without two-thirds approval of both houses of the State Legislature.

In Fiscal Year 2010, the State shifted to schools and community colleges a limited amount of local government property tax revenues after certain conditions were met, including: (a) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State; and (b) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. No additional shifts may occur until the State repays the 2009-10 shift. The Agency participated in the State of California Proposition 1A Receivables Program to securitize its receivable from the State, and as a result received the funds shifted, without interest, in two installment payments in 2010. The Agency received its first installment payment of \$1,070,028 in January 2010 and the second installment of equal amount in May 2010. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

On November 2, 2010, the voters of the State approved Proposition 22, known as “The Local Taxpayer, Public Safety, and Transportation Protection Act” (“Proposition 22”). Proposition 22, among other things, broadens the restrictions established by Proposition 1A. While Proposition 1A permits the State to appropriate

or borrow local property tax revenues on a temporary basis during times of severe financial hardship, Proposition 22 amends Article XIII of the State Constitution to prohibit the State from appropriating or borrowing local property tax revenues under any circumstances. The State can no longer borrow local property tax revenues on a temporary basis even during times of severe financial hardship. Proposition 22 also prohibits the State from appropriating or borrowing proceeds derived from any tax levied by a local government solely for the local government's purposes. Furthermore, Proposition 22 restricts the State's ability to redirect redevelopment agency property tax revenues to school districts and other local governments and limits uses of certain other funds. Proposition 22 is intended to stabilize local government revenue sources by restricting the State government's control over local revenues.

There can be no assurance that the property tax revenues the Agency currently expects to receive will not be further reduced pursuant to State legislation enacted in the future. If the formula is changed in the future it could have a material adverse effect on the receipt of property tax revenues by the Agency, including property tax revenues received pursuant to Section 97.23 of the Revenue and Taxation Code of the State of California for the payment of the 2010A Bonds (Refunding of the 1994 Bonds).

The table below sets forth the assessed value of property within the Agency and the amount of property tax revenue received by the Agency in each of the last five Fiscal Years.

Agency Historical Assessed Values and Property Tax Receipts For Fiscal Years 2011 to 2015

<i>Fiscal Year (Ending June 30)</i>	<i>Assessed Value</i>	<i>Property Tax Receipts</i>
2015	\$59,866,639,000	\$40,946,003
2014	55,989,042,000	38,486,730
2013	54,144,254,000	48,086,946
2012	53,653,776,000	32,694,517
2011	53,241,770,000	33,419,237

Included in Fiscal Year 2013 \$48.1 million was approximately \$10.2 million of unobligated incremental taxes returned by the successor agencies to the County Tax/Assessor. These unobligated funds were re-distribution by the County Tax/Assessor to eligible taxing agencies. The return of unobligated funds is the result of the dissolution of redevelopment agencies which took effect on February 1, 2012.

The table below sets forth the assessed value of property within the Agency's service area and the amount of property taxes projected to be received by the Agency over the next five Fiscal Years.

**Agency Projected Assessed Values and Property Tax Receipts
For Fiscal Years 2016 to 2020**

<i>Fiscal Year</i>	<i>Property Tax Receipts</i>	<i>Assessed Value*</i>
2016	\$61,662,638,000	\$41,156,630
2017	62,279,264,000	42,391,329
2018	62,902,058,000	43,663,069
2019	63,531,078,000	44,536,330
2020	64,166,389,000	45,427,057

Source: The Agency.

Assessed Value was based on 2015 Actual with an escalation factor projection of 3% for 2016 and 1% thereafter. Property Tax Receipts was based on Fiscal Year 2015 projected actual with an escalation factor projection of 4% for Fiscal Year 2016, 3% for Fiscal Years 2017 and 2018, and 2% thereafter.

Non-Reclaimable Wastewater System

General. The Non-Reclaimable Wastewater System provides a collection system which includes pipelines and pump station to export the high-salinity industrial wastewater generated within the Agency's service area for treatment and eventual discharge to the Pacific Ocean. The NRW System is physically separated from the Agency's Regional Wastewater System, ensuring further compliance with the California Regional Water Quality Control Board and state regulations related to environmental criteria, and improving the quality of recycled water for local use. Maximizing the use of the NRW System helps ensure that the Agency complies with the final effluent total dissolved solids ("TDS") limits which are required under the National Pollutant Discharge Elimination System ("NPDES") permits.

The NRW System operated by the Agency is comprised of two independent collection systems, the north and south systems which serve different patrons.

The south NRW System, which serves approximately 15 industries, truckers and the Chino Basin Desalter Authority, which is owned by the Santa Ana Watershed Project Authority ("SAWPA"), conveys wastewater to the Inland Empire Brine Line ("IEBL"), and from there the wastewater is carried to the Orange County Sanitation Districts facility in the City of Fountain Valley for treatment and ocean discharge. The IEBL is an independent collections system that serves the southern portion of the Agency's service area. The highest and best use of the brine line is the removal of salts from the watershed to keep them from degrading water quality within the watershed, thereby allowing better use of groundwater resources and expanding the ability to reclaim water. The long-term goal of achieving salt balance within the region depends on the ability to remove salts from the watershed via the brine line.

The north NRW System, serves approximately 42 industries and municipalities for brine groundwater treatment facilities. The north NRW System also collects wastewater from the Agency's Regional Recycling Plant No. 1 ("RP-1") belt press filtrate and centrate. The north NRW System conveys the non-reclaimable wastewater to the SDLAC treatment facility in Carson, where it is treated and discharged to the ocean.

The SDLAC and the Agency previously entered into various agreements dating back in 1966 under which the SDLAC agreed to accept a portion of the Agency's industrial wastewater flows from the NRW System. The SDLAC's methods for calculation of capacity charges, treatment/conveyance fees as well as treatment standards for industries in their service area have changed significantly. However, billings to the Agency were prone to high fluctuations from year to year, particularly for the SDLAC 4R (Relocation, Reconstruction, Repair, and Replacement) charges. Additionally, the annual reconciliation of volumetric charges by SDLAC resulted in retroactive billing adjustments to the NRW System industries, making it very challenging to predict costs and budget accordingly. The 50-year agreement between the SDLAC and Agency, which was set to expire on May 1, 2018, was replaced by the new NRW System Wastewater Disposal Agreement that took effect on July 1, 2014. Under the new Agreement, the pass-through rates from SDLAC are expected to be more stable and predictable, making it easier for NRW System industries to more effectively plan for their annual budgets. The new Agreement allows the Agency to continue discharging to the SDLAC up to a specific attributed capacity unit. This limitation has been determined by converting the capacity rights from the 1679 Agreements into new capacity units to which rates developed under the SDLAC's current program can be applied. The Agreement allows Agency to allocate a baseline capacity at no cost to existing industries based on their average use.

Non-Reclaimable Wastewater System Rates and Charges. The following tables present summaries of NRW System service rates and charges relating to the Agency's north and south NRW System for the Fiscal Years 2011 through 2015.

Historical NRW System Sewer Service Rates

<i>Fiscal Year</i>	<i>North NRW System Monthly Volumetric Rate per MG</i>	<i>South NRW System Monthly Volumetric Rate* per MG</i>
2015	\$ 835.80*	\$777.00
2014	1,437.49	736.00
2013	1,465.26	794.00
2012	1,486.46	830.00
2011	1,522.36	891.00

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC on rates effective July 1, 2014.
Source: The Agency.

<i>Fiscal Year</i>	<i>North NRW System Monthly Capacity Charge Rate per Capacity Unit</i>	<i>South NRW System Monthly Capacity Charge Rate* per Capacity Unit</i>
2015	none*	\$334.43
2014	\$319.00	318.49
2013	123.27	277.17
2012	192.91	244.04
2011	268.46	204.88

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC on service rates effective July 1, 2014. The Agreement allows Agency to allocate a baseline capacity at no cost to existing industries based on their average use.
Source: The Agency.

<i>Fiscal Year</i>	<i>North NRW System Excessive Strength Charges Rate per 1000 lbs</i>		<i>South NRW System Excessive Strength Charges Rate per 1000 lbs</i>	
2015	*TSS ⁽¹⁾	\$147.84	TSS ⁽¹⁾	\$411
	*COD ⁽²⁾	\$418.22	BOD ⁽³⁾	\$295
2014	TSS ⁽¹⁾	\$294.21	TSS ⁽¹⁾	\$395
	COD ⁽²⁾	\$110.81	BOD ⁽³⁾	\$266
2013	TSS ⁽¹⁾	\$268.60	TSS ⁽¹⁾	\$376
	COD ⁽²⁾	\$101.16	BOD ⁽³⁾	\$253
2012	TSS ⁽¹⁾	\$268.60	TSS ⁽¹⁾	\$335
	COD ⁽²⁾	\$101.16	BOD ⁽³⁾	\$225
2011	*TSS ⁽¹⁾	\$245.44	TSS ⁽¹⁾	\$462
	*COD ⁽²⁾	\$92.94	BOD ⁽³⁾	\$312

⁽¹⁾ Total Suspended Solids.

⁽²⁾ Chemical Oxygen Demand.

⁽³⁾ Biochemical Oxygen Demand.

* The new NRW System Wastewater Disposal Agreement between the Agency and SDLAC effective July 1, 2014. The new agreement does not have a threshold for strength charges which will be pass through to industries.

Source: The Agency.

NRW System Revenues. The following table presents a summary of NRW System service revenues for Fiscal Years 2011 through 2015. Such revenues have been derived from the Agency financial statements, but exclude certain non-cash items and include certain other adjustments.

Historical NRW System Sewer Service Revenues

<i>Fiscal Year</i>	<i>NRW System Sewer Service Revenues</i>
2015	\$11,242,300
2014	8,199,986
2013	7,909,829
2012	6,249,994
2011	6,772,637

Source: The Agency.

The following table presents a summary of projected NRW System sewer service revenues for Fiscal Years 2016 through 2020.

<i>Fiscal Year</i>	<i>NRW System Sewer Service Revenues</i>
2016	\$11,725,000
2017	12,143,694
2018	12,668,320
2019	12,999,053
2020	13,336,077

Source: The Agency.

Recycled Water System

General. In 2005, the Agency Board approved Regional Recycled Water Expansion Program. Construction of the first phases, Phases I through [V], was completed between June 2005 and June 2008. Project design for Phase IV was started in 2008 and completed in June 2015. Currently underway and scheduled to be completed in the beginning of Fiscal Year 2016 is the Central/Wineville area projects. These projects, collectively known as the Regional Recycled Water Distribution System (“RRWDS”), are the backbone of the recycled water regional distribution system. The Agency’s recycled water production is directly related to influent wastewater flow and currently averages over 50 MGD.

Expansion and improvements of the RRWDS only increases the water that can be used to meet the water demands of the current 850,000 residents in the Agency’s service area. The Agency will continue to develop, expand, and provide flexibility to the program to allow the region to utilize of all available recycled water supplies.

Recycled water volumetric rates support the costs associated with the operations and maintenance of the Agency’s water recycling facilities, non-reimbursable operating costs for groundwater recharge basins, including the Agency’s pro-rata share for basins recharged with recycled water, and debt service costs related to the financing of existing facilities and infrastructure.

Recycled Water System Rates. The following table presents a summary of the Recycled Water System Rates for Fiscal Years 2011 to 2015.

Historic Recycled Water System

<i>Fiscal Year</i>	<i>Direct Delivery Recycled Water Rates per AF⁽¹⁾</i>	<i>Groundwater Recharge Rates per AF</i>
2015	\$290	\$335
2014	215	255
2013	155	195
2012	115	145
2011	95	115

* Acre-feet.
Source: The Agency.

In May 2015, the Agency’s Board of Directors adopted Recycled Water System rates for Fiscal Years 2016 -2020 as follows:

Projected Recycled Water System

<i>Fiscal Year</i>	<i>Direct Deliveries Recycled Water Rates per AF[*]</i>	<i>Groundwater Recharge Rates per AF</i>
2016 ⁽¹⁾	\$350	\$410
2017	410	470
2018	470	530
2019	480	540
2020	490	550

* Acre-feet.
⁽¹⁾ 2016 rates effective October 1, 2015. Rates for future Fiscal Years are effective July 1 of the respective year.
Source: The Agency.

Recycled Water System Revenues. The following table presents a summary of the Recycled Water System revenues for Fiscal Years 2011 to 2015.

Historic Recycled Water System Revenues

<i>Fiscal Year</i>	<i>AF[*]</i>	<i>Recycled Water Sales</i>	<i>MWD Rebate</i>	<i>Total Recycled Water Revenues</i>
2015	33,053	\$9,968,164	\$2,079,000	\$12,047,164
2014	37,989	8,751,500	2,079,000	10,830,500
2013	32,319	5,872,605	2,079,000	7,951,605
2012	28,988	3,930,469	2,079,000	6,009,469
2011	24,472	2,326,716	2,026,086	4,352,802

* Deliveries in acre-feet for both recycled water direct and groundwater recharge.
Source: The Agency.

The following table presents a summary of projected Recycled Water System revenues for Fiscal Years 2016 to 2020.

Projected Recycled Water System Revenues

<i>Fiscal Year</i>	<i>AF*</i>	<i>Recycled Water Sales</i>	<i>MWD Rebate⁽¹⁾</i>	<i>Total Recycled Water Revenues</i>
2016	35,150	\$11,942,682	\$2,079,000	\$14,021,682
2017	37,100	15,735,000	2,079,000	17,814,000
2018	37,300	18,055,000	-	18,055,000
2019	42,950	21,467,000	-	21,467,000
2020	45,770	23,375,500	-	23,375,500

* Deliveries in acre-feet for both recycled water direct and groundwater recharge

⁽¹⁾ MWD rebate expires June 30, 2017

Source: The Agency.

Composting

General. In 2002, the Agency and the SDLAC formed the Inland Empire Regional Composting Authority (“IERCA”), a Joint Powers Authority, to construct the Inland Empire Regional Composting Facility (“IERCF”), a fully enclosed state of the art facility located in Rancho Cucamonga, CA. The facility was constructed to further treat the biosolids generated from IEUA and SDLAC creating a high quality soil amendment (compost) for beneficial reuse. The purchase of the property and existing warehouse was made by the Agency in December 2001 and transferred to IERCA in July 2002. Construction was completed and the facility began operations in April 2007.

The IERCF has been operating at its full design capacity processing over 200,000 wet tons per year which includes 150,000 wet tons of biosolids and 50,000 tons of greenwaste. The Agency’s portion of the capacity in IERCF (75,000 wet tons per year), is enough to process all of the biosolids currently produced at the Agency’s wastewater treatment facilities. The Agency is responsible for the day-to-day operations of the facility. Staff at the IERCA are employees of the Agency. Employment costs are recorded as part of the Agency’s regional wastewater program, including the tipping fees paid to the IERCA which are recorded as biosolids processing costs.

The Agency phased out its Chino-based co-composting facility as IERCF became active, and decommissioned the 1990 Chino facility in Fiscal Year 2006. The revenues generated from tipping fees at the IERCF are sufficient to cover the operating expenses.

Financial Information

Audited Financial Statements. [A copy of the most recent financial statements of the Agency audited by White Nelson Diehl Evans LLP, Irvine, California (the “Auditor”) are included as Appendix A hereto (the “Financial Statements”). The Financial Statements include a statement that the Auditor conducted an audit of the Financial Statements in accordance with auditing standards generally accepted in the United States of America and government auditing standards issued by the Comptroller General of the United States. The Auditor opines that the Financial Statements present fairly, in all material aspects, the respective financial position of each major fund and the aggregate remaining fund information of the Agency as of June 30, 2014 and the respective changes in financial position and cash flows of the Agency for the year then ended in conformity with accounting principles generally accepted in United States of America.] The Financial Statements include certain notes to the financial statements which may not be fully described below under the subheading “Significant Accounting Policies” or in the footnotes to the Tables. Such notes constitute an integral part of the audited financial

statements. The Auditor’s consent to inclusion of the Financial Statements in the Official Statement was not requested.

Significant Accounting Policies. Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations restrictions or limitations. For financial reporting purposes, the Agency has two major funds: (i) recycled water, and (ii) regional wastewater. Revenues accounted from recycled water and regional wastewater programs are pledged to the repayment of the 2008B Installment Purchase Agreements.

The Financial Statements were prepared on the accrual basis of accounting. Revenues are accrued when earned and expenses are recorded when liability is incurred.

The Agency accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the Agency (“GAAP”). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See “APPENDIX A — AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, [2014.]” Except as otherwise expressly noted herein, all financial information derived from the Agency’s audited financial statement reflect the application of GAAP.

See the Financial Statements attached hereto as Appendix A for a discussion of other accounting practices of the Agency.

Description of Indebtedness

Parity Indebtedness.

The Agency has two installment purchase agreements payable on a parity with the 2008B Installment Purchase Agreement as described below.

The obligation of the Agency to make 2008A Installment Payments under the 2008A Installment Purchase Agreements secures in part the issuance of the Chino Basin Regional Financing Authority Revenue Bonds, Series 2008A (Inland Empire Utilities Agency) in the original aggregate principal amount of \$125,000,000 (the “2008A Bonds”). The 2008A Installment Payments are payable in annual principal installments through 2038, have a current outstanding principal amount of \$125,000,000 and have an average annual payment of approximately \$9,100,000. As set forth in the 2008A Installment Purchase Agreements, 2008A Installment Payments are payable from the Net Revenues of the Agency.

The obligation of the Agency to make 2010A Installment Payments under the 2010A Installment Purchase Agreement secures in part the issuance of the Chino Basin Regional Financing Authority Refunding Revenue Bonds, Series 2010A (Inland Empire Utilities Agency) in the original aggregate principal amount of \$45,570,000 (the “2010A Bonds”). The 2010A Installment Payments are payable in annual principal installments through 2022, have a current outstanding principal amount of \$30,950,000 and have an average annual payment of approximately \$5,200,000. As set forth in the 2010A Installment Purchase Agreements, 2010A Installment Payments are payable from the Net Revenues of the Agency.

Subordinate Obligations

The Agency has nine outstanding State revolving financing loans (the “State Revolving Financing Loans”) due to the State Water Resources Control Board (the “SWRCB”), with an aggregate outstanding principal amount of approximately \$108,000,000.

Repayment of the principal of each SRF is amortized over a 20 to 30 year period at fixed interest rates ranging from 1.0% to 2.60% with payments commencing one year after the completion of the related capital construction projects.

Annual installment payments of principal and interest expense for outstanding SRF loans are estimated to be \$8,200,000.

Although the security provisions of the SRF loans vary from loan-to-loan, the payment of amounts due thereunder are payable from Net Revenues subordinate to the payment of the 2008A Installment Payments, the 2008B Installment Payments, and the 2010A Installment Payments. Future state loans are also expected to be payable from Net Revenues subordinate to the 2008A Installment Payments, the 2008B Installment Payments, and the 2010A Installment Payments.

Additionally, in Fiscal Year 1998, the Agency acquired from the SAWPA 1.5 MGD Santa Ana River Interceptor pipeline capacity and agreed to pay for such capacity over 20 years (the “SAWPA Sari Capacity Purchase Loan”). Repayment of the SAWPA Sari Capacity Purchase Loan is subordinate to the payment of the 2008A Installment Payments, the 2008B Installment Payments, and the 2010A Installment Payments.

In Fiscal Year 2009, the Agency entered into a reimbursement agreement with the City of Fontana for the for the construction of the San Bernardino Regional Lift Station and Force Main to convey wastewater to the Agency’s regional water recycling facility. The City of Fontana received a 20-year loan payable from the State Water Resources Control Board for \$9,577,747, less \$1,596,323 in deferred interest charges for a net loan amount of \$7,981,424. The project was completed on June 30, 2010, title and ownership of the regional lift station and force main was transferred to the Agency from the City of Fontana. The Agency’s obligation to make payments under this reimbursement agreement is [subordinate to the Agency’s obligation to make payments under the 2008B Installment Purchase Agreement].

Historic Operating Results

The following table is a summary of historic operating results of the Agency for the Wastewater System, NRW System, Recycled Water (sometimes collectively referred to herein as the “Agency System”) and Composter for the past five Fiscal Years. These results have been derived from the Agency financial statements, but exclude certain non-cash items and include certain other adjustments. The table has not been audited by the Agency’s external auditor.

AGENCY SYSTEM
Historical Operating Results
Fiscal Years Ended June 30

	2015	2014	2013	2012	2011
Revenues ⁽¹⁾	<i>Unaudited</i>				
Wastewater System Service Charges ⁽²⁾	\$ 46,696,753	\$ 42,669,716	\$ 39,386,881	\$ 35,144,460	\$ 34,297,681
Wastewater Capital Connection Fees ⁽³⁾	15,073,882	9,788,634	14,614,387	7,686,126	5,398,047
Property Tax ⁽⁴⁾	40,946,003	38,486,730	47,986,078	32,694,517	33,419,237
NRW System Service Charges ⁽⁵⁾	11,242,300	8,199,986	7,909,829	6,249,994	6,772,637
Interest	395,668	510,114	755,578	882,525	1,062,216
Recycled Water Sales ⁽⁶⁾	12,047,164	10,830,500	7,951,605	6,009,468	4,352,800
Desalter/Composter Services ⁽⁷⁾	4,655,432	4,231,808	4,640,059	3,776,581	3,572,954
Other ⁽⁸⁾	<u>2,665,777</u>	<u>2,066,760</u>	<u>2,582,940</u>	<u>3,378,489</u>	<u>2,293,467</u>
Total Revenues	\$ 133,722,979	\$ 116,784,248	\$ 125,827,357	\$ 95,822,160	\$ 91,169,039
Operation and Maintenance Costs					
Wastewater Treatment	\$ 19,001,130	\$ 20,505,666	\$ 18,910,308	\$ 17,377,464	\$ 17,208,487
Administration and General ⁽⁹⁾	27,830,670	30,658,425	22,997,395	21,398,258	20,465,087
Wastewater Disposal	7,996,871	7,705,551	8,612,642	11,316,321	10,663,787
Wastewater Collection	8,088,875	5,622,638	4,656,679	5,629,431	6,517,257
Desalter/Composter Services	4,655,376	3,764,958	3,195,541	2,986,686	2,599,721
Operations and Maintenance	3,262,561	4,231,808	4,848,111	3,776,581	3,572,954
Other ⁽¹⁰⁾	<u>621,672</u>	<u>457,439</u>	<u>1,873,791</u>	<u>1,722,151</u>	<u>3,710,497</u>
Total Operation and Maintenance Costs	\$ 71,457,155	\$ 72,946,485	\$ 65,094,467	\$ 64,206,892	\$ 64,737,790
Revenues Available to Pay Senior Debt Service	\$ 62,265,824	\$ 43,837,763	\$ 60,732,890	\$ 31,615,268	\$ 26,431,249
Senior Obligation Debt Service					
1994 Installment Purchase Payments ⁽¹¹⁾	\$ 0	\$ 0	\$ 0	0	4,797,581
1999 Installment Purchase Payments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Senior Obligation Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,797,581
Senior Obligation Debt Service Coverage		-	-	-	5.51
Net Revenues	\$ 62,265,824	\$ 43,837,763	\$ 60,732,890	\$ 31,615,268	\$ 21,633,668
Parity Obligation Debt Service					
2010A Installment Payments ⁽¹¹⁾	\$ 5,292,500	5,295,150	5,286,650	5,256,343	963,686
2008A Installment Payments	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000
2008B Installment Payments	1,811,533	1,750,447	1,737,000	1,624,171	1,652,879
2005A Installment Payments	<u>1,873,854</u>	<u>2,135,933</u>	<u>2,213,213</u>	<u>2,205,825</u>	<u>2,219,988</u>
Total Parity Obligation Debt Service	\$ 15,227,887	\$ 15,431,530	\$ 15,486,863	\$ 15,336,339	\$ 11,086,553
Parity Obligation Debt Service Coverage	4.09	2.84	3.92	2.06	1.95
Net Revenues Available to Pay Subordinate Obligations	\$ 47,037,937	\$ 28,406,233	\$ 45,246,027	\$ 16,278,929	\$ 10,547,115
Subordinate Obligations					
State Revolving Fund Loan	\$ 4,720,863	\$ 4,709,347	\$ 4,660,665	\$ 2,673,187	\$ 1,898,602
SAWPA SARI Capacity Purchase	267,188	267,188	267,188	267,188	267,188
City of Fontana Agreement	<u>562,402</u>	<u>562,402</u>	<u>562,401</u>	<u>482,578</u>	<u>482,578</u>
Total Subordinate Obligations	\$ 5,550,453	\$ 5,538,937	\$ 5,490,254	\$ 3,422,953	\$ 2,648,368
Remaining Net Revenue	<u>\$ 41,487,484</u>	<u>\$ 22,867,296</u>	<u>\$ 39,755,773</u>	<u>\$ 12,855,976</u>	<u>\$ 7,898,747</u>

- (1) Revenues do not include grants obtained by the Agency in the aggregate principal amount of approximately \$7,100,000 in Fiscal Year 2011, \$4,700,000 in Fiscal Year 2012, \$2,800,000 in Fiscal Year 2013, \$2,400,000 in Fiscal Year 2014, and \$5,900,000 in Fiscal Year 2015. These grant receipts supported capital investments in infrastructure.
- (2) Wastewater System Service Charge per EDU is \$11.14 for Fiscal Years 2011 and 2012, \$12.39 for Fiscal Year 2013, \$13.39 for Fiscal Year 2014, and \$14.39 for Fiscal Year 2015. Average volumetric growth was 1.20% over the last 5 years.
- (3) Wastewater Capital Connection Fees are collected and held by the Contracting Agencies until the Agency requisitions funds to support regional wastewater capital costs. Effective June 30, 2004, the Agency began recognizing Wastewater Capital Connection Fees held by the Contracting Agencies as revenue when the funds are received by each Contracting Agency, as opposed to recording such funds as revenue when the Agency calls for the funds.
- (4) Agency share of the County's 1% ad valorem property tax. Tax receipts at the end of the Fiscal Year were \$40.9 million. General ad-valorem property taxes received from the San Bernardino County Tax Assessor ("County") were \$28.9 million and "pass through" incremental tax receipts were \$12 million. Actual property tax growth for Fiscal Year 2015 was 2% compared to the Fiscal Year 2014 actual. TOTAL PROPERTY TAXES IN 2015 TO 2020 INCLUDE AN ALLOCATION OF \$1.5M TO WATER FUND EACH YEAR. SHOULD THIS ALLOCATION BE EXCLUDED, SINCE THE FINANCIALS DO NOT INCLUDE WATER FUND'S REVENUES AND EXPENSES?
- (5) NRW System Service charges at the end of the Fiscal Year 2015 were \$11.2 million. The increase of approximately \$3 million from Fiscal Year 2014 can be attributed to higher strength and imbalance charges (pass through) in the NRW System.
- (6) Recycled Water sales include approximately \$2,100,000 each Fiscal Year from Metropolitan Water District ("MWD") Local Projects Program ("LPP") rebate which is set to expire in June 2017.

- (7) Desalter/Composter service revenues are primarily from Chino Desalter Authority for the Agency's ("CDA") operations of the Chino Basin Desalter 1 facility and the reimbursement from the Inland Empire Regional Composting Authority ("IERCA") for Agency's operations and maintenance costs (including employment costs) incurred from the operation of the facility.
- (8) Other revenues includes; (1) Operations and maintenance costs for the groundwater recharge basins partially funded by Chino Basin Watermaster, (2) MWD reimbursement for public retrofit and lateral capital investments, (3) reimbursement of miscellaneous capital construction, (4) lease revenue, (5) miscellaneous revenues from certain pass-through charges and other contract services.
- (9) The significant increases in administrative expenses in Fiscal Year 2014 can be attributed to the payment of \$3.5 million against the Agency's Other Post-Employment Benefits ("OPEB") accrued unfunded liability. In May 2014, the Agency established an irrevocable trust account with California Employer's Retiree Benefit Trust ("CERBT"). A second payment of \$3.5 million was made on July 1, 2014.
- (10) Between Fiscal Years 2011 and 2013, some capital projects were reclassified to operations and maintenance ("O&M") costs based on the actual work performed, such as recurring maintenance versus improvement of the existing asset.
- (11) \$55,040,000 of the outstanding revenue bond, Series 1994 was refunded in Fiscal Year 2011 to revenue bond, Series 2010A.

Source: The Agency.

Projected Operating Results

The Agency's estimated projected operating results for the current and next four Fiscal Years for the Agency System are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents the Agency's estimate of the projected financial results based upon the Agency's judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of financial projections for the Agency, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See the caption "FORWARD LOOKING STATEMENTS."

AGENCY SYSTEM
Projected Operating Results
Fiscal Years Ended June 30

	2016	2017	2018	2019	2020
Revenues ⁽¹⁾					
Wastewater System Service Charges ⁽²⁾	\$ 49,563,196	\$ 54,890,361	\$ 59,040,099	\$ 63,049,341	\$ 64,529,657
Wastewater Capital Connection Fees ⁽³⁾	22,646,766	26,160,960	23,564,115	21,925,440	22,916,725
Water Connection Fees ⁽⁴⁾	682,657	4,475,240	5,190,044	4,829,949	5,052,455
Property Tax ⁽⁵⁾	41,156,629	42,391,328	43,663,068	44,536,331	45,427,057
NRW System Service Charges	11,725,000	12,143,694	12,668,320	12,999,053	13,336,077
Interest ⁽⁶⁾	931,474	1,199,999	1,717,750	2,282,595	2,964,901
Recycled Water Sales ⁽⁷⁾	14,021,682	17,814,000	18,055,000	21,467,000	23,375,500
Desalter/Composter Services	4,740,935	4,916,449	5,175,567	5,310,913	5,444,527
Other ⁽⁸⁾	<u>1,550,859</u>	<u>1,137,672</u>	<u>1,112,000</u>	<u>1,135,000</u>	<u>1,160,000</u>
Total Revenues	\$ 147,019,198	\$ 165,129,703	\$ 170,185,963	\$ 177,535,622	\$ 184,206,899
Operation and Maintenance Costs:					
Wastewater Treatment	\$ 27,010,429	\$ 25,574,416	\$ 24,963,191	\$ 25,880,202	\$ 26,696,949
Administration and General ⁽⁹⁾	39,561,769	37,458,463	36,563,210	37,906,344	39,102,620
Wastewater Disposal	11,367,688	10,763,323	10,506,081	10,892,017	11,235,756
Wastewater Collection	11,498,473	10,887,155	10,626,954	11,017,330	11,365,023
Desalter/Composter Services	4,740,935	4,916,449	5,175,567	5,310,913	5,444,527
Operations and maintenance	<u>4,637,786</u>	<u>4,391,217</u>	<u>4,286,268</u>	<u>4,443,722</u>	<u>4,583,960</u>
Total Operation and Maintenance Costs:	\$ 98,817,080	\$ 93,991,023	\$ 92,121,271	\$ 95,450,528	\$ 98,428,835
Revenues Available to Pay Senior Debt Service	\$ 48,202,118	\$ 71,138,680	\$ 78,064,692	\$ 82,085,094	\$ 85,778,064
Senior Obligation Debt Service					
1994 Installment Payments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Senior Obligation Debt Service	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net Revenues	\$ 48,202,118	\$ 71,138,680	\$ 78,064,692	\$ 82,085,094	\$ 85,778,064
Parity Obligation Debt Service					
2010A Installment Payments	5,291,450	5,290,450	5,185,050	5,114,625	5,227,000
2008A Installment Purchase Payments	6,250,000	6,250,000	6,250,000	6,250,000	6,250,000
2008B installment Purchase Payments ⁽¹⁰⁾	<u>2,287,000</u>	<u>2,716,000</u>	<u>3,163,000</u>	<u>3,180,000</u>	<u>3,200,000</u>
Total Parity Obligation Debt Service	\$ 13,828,450	\$ 14,256,450	\$ 14,598,050	\$ 14,544,625	\$ 14,677,000
Parity Obligation Debt Service Coverage	3.49	4.99	5.35	5.64	5.84
Net Revenues	\$ 34,373,668	\$ 56,882,230	\$ 63,466,642	\$ 67,540,469	\$ 71,101,064
Subordinate Obligations					
State Revolving Fund Loan	\$ 6,068,449	\$ 7,095,274	\$ 7,821,782	\$ 8,621,825	\$ 9,481,824
Fontana Loan	562,394	562,394	562,394	562,394	562,394
SAWPA Sari Capacity Purchase	<u>280,647</u>	<u>281,455</u>	<u>15,124</u>	<u>0</u>	<u>0</u>
Total Subordinate Obligations	\$ 6,911,490	\$ 7,939,123	\$ 8,399,300	\$ 9,184,219	\$ 10,044,220
Remaining Net Revenue	<u>\$ 27,462,178</u>	<u>\$ 48,943,107</u>	<u>\$ 55,067,342</u>	<u>\$ 58,356,250</u>	<u>\$ 61,056,844</u>

Notes to Projected Operating Results:

- (1) Revenues do not include grants and or future debt proceeds obtained by the Agency.
- (2) The adopted Fiscal Years 2016 – 2017 biennial operating budget includes the first two years of the five year rates (Fiscal Years 2016 - 2020) wastewater system service rates, adopted by the Board of Directors in March 2015. The Wastewater System Service Charge per EDU for Fiscal Year 2016 is \$14.39 from July 1 through September 30, 2015, and \$15.89 from October 1, 2015 through June 30, 2016, \$17.14 for Fiscal Year 2017, \$18.39 for Fiscal Year 2018, \$19.59 for Fiscal Year 2019, and \$20.00 for Fiscal Year 2020. IEUA operates on a Fiscal Year from July 1 to June 30.
- (3) Wastewater Capital Connection Fees are collected and held by the Contracting Agencies until the Agency requisitions such payments. The wastewater connection fee supports the acquisition, construction, improvement, and expansion of the Agency's regional wastewater system. Proposed Wastewater Connection Fees: \$5,415/EDU effective 1/1/2016; \$6,009/EDU effective 1/1/2017; \$6,309/EDU effective 7/1/2017; \$6,624/EDU for 7/1/2018; \$6,955/EDU for 7/1/2019
- (4) The Agency established a new water connection fee, effective January 1, 2016 to support future expansion and enhancement of its regional water system which is comprised of potable water, recycled water, and groundwater recharge facilities. The new water connection fee will be levied on new development to ensure future customers pay their proportionate share for the benefit received from existing available capacity and expansion of the system to meet their future needs. Proposed Water Connection Fees: \$693/MEU effective 1/1/2016; \$1,455/MEU effective 1/1/2017; \$1,527/MEU effective 7/1/2017; \$1,604/MEU for 7/1/2018; \$1,684/MEU for 7/1/2019
- (5) Agency share of the County's 1% ad valorem property tax. Based on the San Bernardino County Tax Assessor estimate, a 4 percent increase in total property tax receipts is assumed for Fiscal Year 2016 (based on 2015 Projected Actual) and a 3 percent increase in Fiscal Year 2017.
- (6) Interest income is based on a projected average rate of return of 0.75% Repayment of inter-fund loan interest is excluded.
- (7) Recycled water sales projected to increase from 35,150 acre-feet in Fiscal Year 2016 to 45,770 AF in Fiscal Year 2020, including both direct and groundwater recharge deliveries. Completion of recycled water facilities in the cities of Chino and Ontario primarily servicing industrial users and groundwater recharge basins account for the increase in projected recycled water deliveries. Revenues are based on the adopted budget recycled water rates for direct deliveries of \$350 per AF in Fiscal Year 2016, \$40 per AF in Fiscal Year 2017, \$470

per AF in Fiscal Year 2018, and an annual incremental increase of \$10 per AF thereafter. The Groundwater recharge rates includes an additional \$60/AF surcharge to support a portion of groundwater recharge basin maintenance operating and maintenance costs not covered by Chino Basin Watermaster (“CBWM”), including the Agency’s pro rata share of operating costs for recharge basins recharged with recycled water. Recycled water sales also includes MWD’s LPP rebate of \$154 per AF for total recycled water sold in excess of 3,500 AF and up to 17,000 AF, excluding groundwater recharge deliveries. The LPP rebate is set to expire in June 2017.

⁽⁸⁾ Other revenues include; (1) operations and maintenance costs for the groundwater recharge basins partially funded by Chino Basin Watermaster, (2) MWD reimbursement for public retrofit and lateral capital investments, (3) reimbursement of miscellaneous capital construction, (4) lease revenue, and (5) miscellaneous revenues from certain pass-through charges and other contract services.

⁽⁹⁾ Significant increases in administrative expenses from Fiscal Year 2016 to Fiscal Year 2020, compared to Fiscal Year 2015 are due to increases in special O&M project costs; approximately \$15 million for water conservation and resiliency projects, \$12 million for water quality related projects, and planned annual payments of \$4.5 million towards the Agency’s unfunded pension liability.

⁽¹⁰⁾ 2008B Series Variable Rate Revenue Demand bond average interest rate of .05% in Fiscal Year 2015, 1.0% in Fiscal Year 2016, 2% in Fiscal Year 2017 and increase to 3% to 4% thereafter.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Proposition 218

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

Article XIII D

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

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

In addition, Article XIII D includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Based upon the California Court of Appeal decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIII D did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the “Bighorn Case”), however, that fees for ongoing water service

through an existing connection were property-related fees and charges. [CONFIRM WITH JC As a wholesale water agency, the Agency and Agency General Counsel do not believe Agency rates are subject to the substantive and procedural requirements of Article XIID.]

Article XIIC

Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge,” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the *Bighorn* case that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. The Agency and Agency General Counsel do not believe that Article XIIC grants to the voters within the Agency the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the Agency. However, there can be no assurance of the availability of particular remedies adequate to protect the Bond Owners. Remedies available to Bond Owners in the event of a default by the Agency are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

Article XIIA

On June 6, 1978, State voters approved Proposition 13, which added Article XIIA to the State Constitution (“Article XIIA”). Article XIIA limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and (as a result of an amendment to Article XIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property that has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIIA defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975/76 tax bill under ‘full cash value’ or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIIA has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Article XIIA limits the ability of the Agency to collect ad valorem property taxes which are pledged to the payment of the 2008B Installment Payments.

Legislation Implementing Article XIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by each California county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon the location of reappraised property and the value of property within each taxing agency. Any such allocation made to a local agency continues as part of its allocation in future years.

Article XIII B

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on November 6, 1979 thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The Agency is of the opinion that its Wastewater System and NRW System service charges for such services in the Agency’s service area do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The Agency has covenanted in the 2008B Installment Purchase Agreement that it will prescribe Agency System rates and charges sufficient to provide for payment of 2008B Installment Payments in each year. See the caption “SECURITY FOR THE BONDS—Rate Covenant.”

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting Agency revenues or the Agency’s ability to expend revenues.

Bankruptcy

In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations with respect to the Bonds and the 2008B Installment Purchase Agreement are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

THE AUTHORITY

The Authority is a joint exercise of powers agency organized under the provisions of the Act and a Joint Exercise of Powers Agreement, dated as of May 1, 1993 (the “Joint Powers Agreement”) between the Agency and the CVWD to provide for the financing of public capital improvements for the members of the Authority and other local agencies through the acquisition by the Authority of such public capital improvements, the purchase by the Authority of indebtedness of the members of the Authority and other local agencies pursuant to bond purchase agreements, and the lending or providing of funds by the Authority to the members of the Authority and other local agencies, and any other transaction authorized by law. Under the Act, the Authority has the power to issue bonds to pay the costs of public capital improvements.

CHINO BASIN WATERMASTER

Watermaster is a court-created entity charged with administering adjudicated water rights and managing groundwater resources within the Chino Groundwater Basin. Watermaster was formed pursuant to *Chino Basin Municipal Water District versus the City of Chino et al*, San Bernardino Superior Court Number 164327 (the “Judgment”), dated January 27, 1978. Watermaster must abide by the rules and regulations set forth in the Judgment. Pursuant to the Judgment, Watermaster has the power to levy administrative assessments, including assessments to pay for major operating expenses. Such administrative assessments include the OMBP Assessment. Other Watermaster responsibilities include, among other things, (i) managing and controlling the replenishment of water supplies in the Chino Groundwater Basin, (ii) determining the amount of groundwater that each producer is entitled to extract without incurring a replenishment obligation for the succeeding Fiscal Year, and (iii) approving and facilitating the storage of supplemental water in the Chino Groundwater Basin. See Appendix B—“CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER.”

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters related to this Supplement to Official Statement will be passed upon by Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, for the Authority and for the Agency by Cihigoyenette, Grossberg & Clouse, Rancho Cucamonga, California, for Watermaster by Brownstein Hyatt Farber Schreck, Santa Barbara, California, for Sumitomo Mitsui Banking Corporation, by its counsel, Hawkins, Delafield & Wood LLP, Los Angeles, California and Yumoto, Ota & Miyazaki, Tokyo, Japan, and for the Trustee by Dorsey & Whitney LLP, Costa Mesa, California.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority affecting the existence of the Authority or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the issuance of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity of the Bonds, the Indenture, or any action of the Authority contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Supplement to Official Statement or any amendment or supplement thereto, or contesting the powers of the Authority or its authority with respect to the Bonds or any action of the Authority contemplated by any of said documents, nor to the knowledge of the Authority, is there any basis therefor.

TAX MATTERS

Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), previously opined in the 2008 Opinion that under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax

imposed on individuals and corporations. In the 2008 Opinion, Bond Counsel further opined that interest on the Bonds is exempt from State of California personal income tax and noted in the 2008 Opinion that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. Bond Counsel has made no attempt to update or reaffirm the 2008 Opinion since the date thereof.

Bond Counsel noted in the 2008 Opinion that its opinion as to the exclusion from gross income of interest on the Bonds is based upon certain representations of fact and certifications made by the Authority and others and is subject to the condition that the Authority complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds will not become includable in gross income for federal income tax purposes. Bond Counsel noted in the 2008 Opinion that failure to comply with such requirements of the Code might cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements.

Bond Counsel noted in the Original Official Statement that it is possible that subsequent to the date of issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. Bond Counsel further noted in the Original Official Statement that no assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur. On May 21, 2007, the U.S. Supreme Court agreed to review a Kentucky state court decision, in the matter of *Kentucky v. Davis*, on the issue of whether the U.S. Constitution commerce clause precludes states from giving more favorable tax treatment to state and local government bonds issued within that state than the tax treatment given bonds issued outside that state. The outcome of this or any similar case cannot be predicted, but the ultimate result could be a change in the treatment for state tax purposes of interest with respect to the Bonds. Bond Counsel noted in the Original Official Statement that if the *Kentucky v. Davis* decision is affirmed by the United States Supreme Court, states such as California may be required to eliminate the disparity between the income tax treatment of out-of-state tax-exempt obligations and the income tax treatment of in-state tax-exempt obligations, such as the Bonds, and that the impact of such a United States Supreme Court decision may also affect the market price for, or the marketability of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding this matter.

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

Bond Counsel noted in the 2008 Opinion that its opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof and that Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Bond Counsel further noted in the 2008 Opinion that the Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. The 2008 Opinion expresses no opinion as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest on the Bonds is excluded from gross income for federal income tax purposes provided that the Authority continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the 2008 Opinion is attached hereto as Appendix D.

RATINGS

In connection with this Supplement to Official Statement, it is expected that Moody's will assign the Bonds the short term rating of "VMIG 1" and assign the Bonds the jointly supported long term rating of "Aa1", with the understanding that the Letter of Credit will be issued by Sumitomo Mitsui Banking Corporation with respect to the Bonds on [December __, 2015.] In connection with this Supplement to Official Statement, it is also expected that S&P will assign the Bonds a short term rating of "A-1" and assign the Bonds the jointly supported long term rating of "AAA" with the understanding that the Letter of Credit will be issued by SMBC Bank with respect to the Bonds on [December __, 2015.] See the caption "THE CREDIT FACILITY." On April 15, 2008, in connection with the issuance of the Bonds, S&P assigned the Bonds the underlying long term rating of "AA-", which rating was affirmed by S&P most recently on _____, 2015. S&P has determined not to review such underlying long-term rating in connection with the Letter of Credit expected to be issued by SMBC Bank with respect to the Bonds on [December __, 2015.] Such ratings are based on information and material furnished directly to Moody's and S&P, respectively, and on investigations, studies and assumptions made by Moody's and S&P, respectively. The ratings of each rating agency reflect only the views of S&P and Moody's, respectively, and an explanation of the significance of such ratings may be obtained from Standard & Poor's Credit Services, 55 Water Street, New York, New York 10041 and Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 (212) 553-0470, respectively. The Authority makes no representation as to the appropriateness of the ratings. Further, there is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely, if, in the sole judgment of such S&P or Moody's, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on trading value and the market price of the Bonds. The Authority undertakes no responsibility either to bring to the attention of the owners of the Bonds any downward revisions or withdrawal of any ratings obtained or to oppose any such revision or withdrawal.

FINANCIAL ADVISOR

Public Financial Management, Inc. (the "Financial Advisor") has assisted the Agency with various matters relating to the remarketing of the Bonds. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor will receive compensation from the Agency contingent upon the sale and delivery of the Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Supplement to Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

Because the Bonds are initially issued in denominations of at least \$100,000 and are subject to tender for purchase at the option of the registered owners at least every nine months, the Bonds are currently exempt from the continuing disclosure requirements of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (the "Rule").

[AGENCY COMPLIANCE TO COME]

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Supplement to Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions “SECURITY FOR THE BONDS,” “THE AGENCY” and Appendix B—“CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER.”

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS SUPPLEMENT TO OFFICIAL STATEMENT.

MISCELLANEOUS

Insofar as any statements made in this Supplement to Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Supplement to Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The execution and delivery of this Supplement to Official Statement have been duly authorized by the Authority.

CHINO BASIN REGIONAL FINANCING AUTHORITY

By: _____ /s/ Terry Catlin
President

APPENDIX A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE AGENCY
FOR THE FISCAL YEAR ENDING JUNE 30, 2014**

The full CAFR to be found on the IEUA website:

<http://www.ieua.org/wp-content/uploads/2015/01/FY-2013.14-Comprehensive-Annual-Financial-Report-Fiscal-Year-Ended-June-30-2014.pdf>

APPENDIX B

CERTAIN INFORMATION RELATING TO THE CHINO BASIN WATERMASTER

The information set forth below has been provided by the Chino Basin Watermaster (“Watermaster”). The Chino Basin Regional Financing Authority (the “Authority”) makes no representations or warranties as to the accuracy or completeness of any of the information set forth below. Capitalized terms not otherwise defined herein will have the respective meanings ascribed thereto in the Recharge Facilities Agreement by and between Watermaster and the Authority dated as of June 1, 2002 (the “Recharge Facilities Agreement”). See Appendix C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Recharge Facilities Agreement” for the definitions of such terms.

General

The Chino Basin. The Chino Basin is one of the largest groundwater basins in southern California containing approximately 6,000,000 acre-feet of water and has an unused storage capacity of approximately 500,000 acre-feet. The Chino Basin consists of approximately 235 square miles of the upper Santa Ana River watershed and lies within portions of the counties of San Bernardino, Riverside, and Los Angeles. Approximately 5% of the Chino Basin is located in Los Angeles County, 15% in Riverside County, and 80% in San Bernardino County. The Chino Basin is bounded by the Cucamonga Basin and the San Gabriel Mountains to the north, the Temescal Basin to the south, Chino Hills and Puente Hills to the southwest, San Jose Hills and the Pomona and Claremont Basins on the northwest and the Rialto/Colton Basins on the east. The legal boundaries of the Chino Basin are defined in the Judgment in “Chino Basin Municipal Water District v. City of Chino et. al.” in California State Superior Court for San Bernardino County (the “Court”) Number 164327, dated January 27, 1978 (the “Judgment”).

The Chino Basin has a rapidly growing population. As of January 1, 2012, the population of the Chino Basin was approximately 800,000, and is estimated to reach approximately 1.3 million by 2020. Watermaster projects the demand for water from the Chino Basin will continue to rise.

Historical Overview. In the 1970s, Chino Basin water users became concerned with increasing water production, a decreasing water supply and declining water quality in the Chino Basin. By 1975, several major Chino Basin water users and the State of California initiated studies of the problem of allocating water rights within the Chino Basin, and began to negotiate a solution. During the negotiations, three pools of Chino Basin water users with similar interests in the allocation of the Chino Basin emerged: (i) agricultural users, including dairy farmers and the State of California (the “Agricultural Pool”), (ii) industrial users (the “Non-Agricultural Pool”), and (iii) municipal water providers and other government entities (the “Appropriative Pool”) (the Agricultural Pool, the Non-Agricultural Pool and the Appropriative Pool are sometimes collectively referred to herein as the “Pools” and each individually as a “Pool”).

On January 2, 1975, several Chino Basin producers filed suit in the Court to settle the problem of allocating water rights in the Chino Basin. On January 30, 1978, the Court entered the Judgment adjudicating water rights in the Chino Basin and establishing Watermaster.

Watermaster is a Court created entity established pursuant to the Judgment. The Judgment adjudicated all groundwater rights in Chino Basin and contains a physical solution to meet the requirements of water users having rights in or dependent upon the Chino Basin, and appointed Watermaster to account for and implement the management of the Chino Basin. The Judgment declared that the Initial Operating Safe Yield of the Chino Basin is 140,000 acre feet per year, which is allocated (i) 82,800 acre feet per year to the Agricultural Pool, (ii) 7,366 acre feet per year to the Non-Agricultural Pool, and (iii) 54,834 acre feet per year to the Appropriative Pool.

Organization, Purposes and Powers

Optimum Basin Management Program. Under Paragraph 41 of the Judgment, Watermaster has the authority to develop an Optimum Basin Management Program for the Chino Basin, which Watermaster submitted to the Court on September 22, 1999 (the “OBMP”). The Peace Agreement regarding the Chino Basin dated June 29, 2000 (the “Peace Agreement”), further clarifies Watermaster’s commitments and sets forth the adoption and implementation of the OBMP. The OBMP provides a strategy for increasing the quality and quantity of water within the Chino Basin through the implementation of nine elements of the OBMP strategy: (i) a groundwater monitoring program, (ii) a recharge program, (iii) supplying water to impaired areas of the Chino Basin, (iv) separating and managing the Chino Basin groundwater basin by management zones, (v) a regional supplemental water program, (vi) cooperative programs to improve management of the Chino Basin, (vii) a salt management program, (viii) a groundwater storage management program, and (ix) conjunctive-use programs. The recharge program element of the OBMP includes improvements to facilities to increase recharge in the Chino Basin by capturing more storm water and importing water to deposit into storage in the Chino Basin. Watermaster is entering into the Recharge Facilities Agreement as part of the recharge program of the OBMP.

Assessments. Watermaster has express powers and duties provided in the Judgment, and as additionally ordered or authorized by the Court in exercise of the Court’s continuing jurisdiction, including without limitation the power to (i) levy and collect assessments in amounts sufficient to replace water production in excess of allocated safe yields with supplemental water (“Replenishment Assessments”), (ii) levy and collect assessments for Watermaster and Pool administration (“Administrative Assessments”), and (iii) levy and collect assessments for the implementation of the OBMP (the “OBMP Assessments”) (Replenishment Assessments, Administrative Assessments and OBMP Assessments are sometimes collectively referred to herein as the “Assessments”). See the caption “Sources of Revenues.”

Watermaster Board and Committees. Under the Judgment, the Board of Directors of Chino Basin Municipal Water District, predecessor to Inland Empire Utilities Agency (“IEUA”), was originally appointed to act as Watermaster. In 1998, the Court appointed a nine-member Watermaster board consisting of representatives from each of the Agricultural Pool, the Non-Agricultural Pool, the Appropriative Pool, and three municipal water districts (the “Board”). See the caption “Board of Directors, Management and Employee Relations — Watermaster Board.” Under the Judgment, the Pools are each represented by a separate committee comprised of such Pool’s members (each a “Pool Committee” and collectively, the “Pool Committees”). The composition of each Pool Committee is determined according to each Pool’s respective pooling plan. Each Pool Committee has the opportunity to approve the Watermaster budget for its Pool for each Fiscal Year.

In addition to the Pool Committees, each of the Pools is represented on a committee called the “Advisory Committee.” The Advisory Committee acts on all matters that affect more than one Pool before such matters are forwarded to the Watermaster Board for action. Voting on the Advisory Committee consists of 100 votes allocated to the respective Pools based on the proportion of total Assessments paid to Watermaster during the preceding year, provided that the minimum number of votes is 20 votes for the Agricultural Pool, 20 votes for the Appropriative Pool and 5 votes for the Non-Agricultural Pool. The Advisory Committee must approve and recommend to the Board the budget for Watermaster for each Fiscal Year.

Board of Directors, Management and Employee Relations

Watermaster Board. The current nine member Board, their producer affiliation and brief biographies are set forth below.

CHINO BASIN WATERMASTER BOARD

<i>Board Member</i>	<i>Designation</i>	<i>Party</i>
Steven J. Elie, Chairman	Municipal Water Districts	Inland Empire Utilities Agency
Paul Hofer	Agricultural Pool	Crops
Arnold Rodriguez	Appropriative Pool/Minor	Santa Ana River Water Company
Robert Bowcock	Non-Agricultural Pool	Vulcan Materials
Jim Bowman	Appropriative Pool	City of Ontario
Don Galleano	Municipal Water Districts	Western Municipal Water District
Mark Kinsey	Appropriative Pool	Monte Vista Water District
Bob G. Kuhn	Municipal Water Districts	Three Valleys Municipal Water District
Geoffrey Vanden Heuvel	Agricultural Pool	Dairy

Steven J. Elie, Chair. Mr. Elie was elected to serve on the Inland Empire Utilities Agency’s Board of Directors in November, 2010, and currently serves as the Secretary/Treasurer. He represents Division 3 - the City of Chino, the City of Chino Hills, and portions of Ontario. He joined the Chino Basin Watermaster Board in January of 2011.

Mr. Elie also serves as a Committee member on the Public, Legislative Affairs, & Water Resources Committee, the Finance, Legal & Administration Committee, IEUA’s representative to the Association of Special Districts, and as alternate representative to the Southern California Water Committee and the Inland Empire Regional Composting Authority.

Mr. Elie is an attorney who regularly represents public entities and public utility regulated entities in complex, multiparty litigation and administrative matters, including soil and groundwater contamination.

Paul Hofer, Vice-Chair. Represents the Agricultural Pool. Mr. Hofer has served on the Chino Basin Water Conservation District Board of Directors since 1996, and is currently serving as Vice-President. Mr. Hofer is a resident of Ontario where he has spent his lifetime career as a farmer.

Arnold Rodriguez, Secretary/Treasurer. Mr. Arnold Rodriguez has lived in the Mira Loma area for 35 years. He has also been employed with the Santa Ana River Water Company for 35 years and has been their General Manager for 22 years. Mr. Rodriguez has previously served on the Chino Desalter Authority’s Board for 13 years, is the current President of the Inland Counties Water Association, and also the current President of the California Mutual Water Companies Association.

Robert Bowcock. Represents the Non-Agricultural Pool. Mr. Robert Bowcock has served on several Watermaster Boards since 1990. Mr. Bowcock currently represents municipal, industrial and commercial parties in the Chino, San Gabriel, Raymond, Mojave, Central and West Los Angeles, Upper Los Angeles River, Santa Clara and San Diego River Basin Judgments in California. Mr. Bowcock founded Integrated Resource Management, LLC in 1997 after serving as a Water Utility Manager in Azusa (1991-97) and Huntington Park (1987-91), California. Mr. Bowcock worked for the Metropolitan Water District of Southern California (1982-87), and as a United States Army Civil Affairs Team Leader designed and constructed water treatment and distribution systems for various federal branches of government in Southeast Asia and South America. Mr. Bowcock is a licensed California Grade V Water Treatment Operator and maintains various other water industry licenses and certifications. Mr. Bowcock routinely provides expert witness testimony to both state and federal courts and conducts research and writes reports for legal firms in the specific area of water resource management.

Jim Bowman. Represents the Appropriative Pool. Mr. Bowman has had a 36 year career in fire service and retired as fire chief. He has served numerous terms on the Ontario City Council. Mr. Bowman has represented Ontario on many regional boards. Mr. Bowman is a former member of the Board of Directors of

the Ontario Convention Center, the California-Nevada Super Speed Train Commission, the San Bernardino County Economic and Development Commission, and the San Bernardino County Emergency Medical Care Commission. Mr. Bowman currently serves on the Chino Basin Desalter Authority, the Chino Basin Watermaster Board, the Inland Empire Utilities Agency Regional Policy Committee, the Southern California Water Committee and the Water Facilities Authority.

Don Galleano. Don Galleano is currently serving his third term representing Division 4 on the Western Municipal Water District Board of Directors. With a population of more than 175,000, Division 4 includes the cities of Eastvale, Jurupa Valley and Norco, and the communities of Mira Loma, Rubidoux and Glen Avon. A member agency of Metropolitan Water District, Western serves a population of roughly one million across a 527-square mile service area.

As a representative for Western's interests in the greater watershed, Galleano also serves on the Santa Ana Watershed Project Authority, one of California's leading regional water agencies whose mission is to plan and build facilities that protect the water quality in the watershed. Galleano is proud to work collaboratively with SAWPA's member agencies, which include Eastern Municipal Water District, San Bernardino Valley Municipal Water District, Inland Empire Utilities Agency and Orange County Water District, in addition to Western. He is also the representative for Western on the Chino Basin Watermaster Board, appointed in September 2014.

Prior to joining Western, Galleano served for nearly 25 years on the Jurupa Community Services District Board of Directors. He is also past president of the Western Riverside County Businessman's Association and the Jurupa Chamber of Commerce.

Mr. Galleano is a third-generation winegrower at the Historic Cantu-Galleano Ranch and the owner of Galleano Winery in Mira Loma. He is past chairman of the National Orange Show and currently serves as the chairman of the Pacific Rim Wine Competition.

Mark Kinsey. Mark Kinsey, General Manager of Monte Vista Water District, has over 30 years of experience in urban, regional and financial planning. Over the past 15 years he has overseen expansion of the District services to include wholesale water deliveries to the city of Chino Hills, enhanced groundwater recharge within the Chino Groundwater Basin, and recycled water distribution within the city of Montclair.

Prior to his current position, Mr. Kinsey worked for the Inland Empire Utilities Agency, where he oversaw water resources and the initial development of the agency's regional recycled water program. He has been involved in several technical and management committees responsible for developing long-range water supplies and water quality improvements in the Santa Ana River Watershed and the Chino Groundwater Basin. He has played an active role on the Chino Basin Watermaster process, serving for 15 years on the Appropriative Pool and Advisory Committees, including Appropriative Pool Committee Chair in 2010.

Bob G. Kuhn. Bob Kuhn has been a resident of Glendora for over 30 years and served eight years on the Glendora City Council, most notably as Mayor in 1990-91 and 1993-94. He was a delegate to the League of California Cities, San Gabriel Valley Association of Cities, and Southern California Association of Governments. He is a member and past President of Foothill Transit and has served as President for the Independent Cities Risk Management Authority. Director Kuhn has been a member of the Glendora Planning Commission, the East San Gabriel Valley Planning Committee and alternate member for the Local Agency Formation Commission. He is also a member of the Foothill Presbyterian Hospital Men's Club. Director Kuhn is President of a Glendora based insurance agency.

Geoff Vanden Heuvel. Mr. Vanden Heuvel has been a dairy farmer in Chino since 1979. He is very interested and involved in water issues. He serves as a Trustee and a member of the Executive Committee of the Southern California Water Committee. He currently represents agricultural groundwater users on the

Chino Basin Watermaster Board and serves as an elected director of the Chino Basin Water Conservation District

Employees/Management. Watermaster currently employs a staff of nine employees, headed by the General Manager, to conduct the day-to-day business and technical activities of Watermaster. From time to time, as necessary to perform its duties, Watermaster also engages the services of consultants for special projects and in areas where specialized expertise are necessary. Watermaster is composed of the following officers:

General Manager – Peter Kavounas, PE

Assistant General Manager – Danielle Maurizio, PE

Chief Financial Officer – Joseph S. Joswiak, MBA

Peter Kavounas, General Manager. Mr. Kavounas was hired as the General Manager of Chino Basin Watermaster on September 4, 2012. Mr. Kavounas has over 25 years' experience and is a licensed Professional Engineer in the State of California. He worked for the Los Angeles Department of Water and Power as the Eastern Sierra Environmental Issues Manager, and subsequently for the City of Glendale's Water and Power Department as the Assistant General Manager-Water Services.

Mr. Kavounas has a Bachelor of Science degree in Civil Engineering from the University of Minnesota, a Master of Engineering-Structural from UC Berkeley, and a Master of Science-Water Resources from USC. He is also a graduate of Leadership Southern California Class XII.

Danielle Maurizio, Assistant General Manager. Ms. Maurizio is currently the Assistant General Manager, a position she has held since July 2012. Prior to her promotion to Assistant General Manager, she was the Senior Engineer. Ms. Maurizio joined the Chino Basin Watermaster in August 2003 as the Senior Engineer. As Senior Engineer for Watermaster, she compiled the Assessment Package and the Annual Report. She also worked on tasks such as data requests, water transactions, well production and ownership monitoring, groundwater level and quality monitoring, land use conversion/well destruction, the Dry Year Yield program, hydraulic control, subsidence issues, and she served on various IEUA and SAWPA committees.

Ms. Maurizio received a BS in Civil/Environmental Engineering from Cal Poly Pomona in 1997 and a MS from UCLA in Environmental Engineering in 1998. Before joining Watermaster, she worked in both the Planning and Environmental Compliance Departments at Inland Empire Utilities Agency and in the Process Development Section at Metropolitan Water District of Southern California.

Joseph S. Joswiak, Chief Financial Officer. Mr. Joswiak joined the Chino Basin Watermaster as CFO on April 5, 2010. Under the direction of the General Manager, the CFO provides leadership, coordination and administration of all functional activities and policies related to treasury and finance, accounting, budgeting, human resources, risk management and administrative functions of the organization. Mr. Joswiak has worked in both the public and private sectors and has a diversified career in finance and administration with more than 25+ years in manufacturing, transportation, banking, professional services and hospital management industries.

Prior to joining Chino Basin Watermaster, Mr. Joswiak was the Financial Services Manager/Assistant Treasurer for Fleetwood Enterprises, Inc., a former Fortune 500 company and the nation's leading producer of manufactured housing and recreational vehicles. He was also the Vice President of Finance and Administration for Cofiroute USA, formerly California Private Transportation Company ("CPTC"), which owned and operated the highly acclaimed 91 Express Lanes - the world's first fully automated toll highway.

Mr. Joswiak's past professional affiliations include management positions with Notting America, Inc.; CU Cooperative Systems, Inc.; California Credit Union League; Care Enterprises, Inc.; and Sony Corporation.

Additionally, he served four years in the United States Navy assigned to the Naval Support Force Antarctica, which included deployments "on the ice" at McMurdo Station, Antarctica.

Mr. Joswiak earned an MBA from the University of Redlands, and received his Bachelor of Arts in Business Administration from California State University, Fullerton.

Employee Benefits. Permanent Watermaster employees earn from 10 to 20 vacation days a year, depending on length of employment, and 12 sick days per year. In addition, Watermaster pays for 10 observed and 2 floating holidays. Employees may carry vacation days forward up to the equivalent number of days earned in the immediately preceding twenty-four month period. There is no maximum accumulation of sick leave. Upon separation from employment, except by retirement, employees who have been employed for five (5) or more years of continuous regular and/or introductory employment will be paid at their current rate of pay for twenty five (25) percent of their accrued unused sick leave. Employees who are terminated for cause, or resign in lieu of termination shall not be paid for accrued sick leave in any case. Employees who retire at or after age 55 with a minimum of five (5) years of continuous regular and/or introductory employment will be paid at their current base rate of pay for fifty percent (50%) of their accrued, unused sick leave, up to a maximum of 600 hours, and for one hundred percent (100%) of their accrued unused sick leave if retiring with a minimum of twenty (20) years of continuous regular and/or introductory employment, up to a maximum of 600 hours.

Deferred Compensation Plan. Watermaster has established a deferred compensation plan for all employees of Watermaster in accordance with Internal Revenue Code Section 457. Under such plan, employees authorize the Watermaster to defer a portion of their salary to be deposited in individual investment accounts. Participation in the plans is voluntary and may be revoked at any time upon advance written notice. Watermaster makes no contribution under the plan. Watermaster employees can also participate in the 401(a) Retirement Plan which could allow contributions to be made by the employee, Watermaster, or both. Currently, Watermaster does not contribute any funds towards the 401(a) Retirement Plan.

As of June 30, 2015, the deferred compensation plan assets were held in trust accounts for the sole benefit of the employees and their beneficiaries, and accordingly have been excluded from the Watermaster's reported assets.

Defined Benefit Pension Plan. Watermaster is a member of the California Public Employees' Retirement System ("PERS"), an agent multiple-employer retirement system, which provides a contributory defined benefit plan for all regular employees of Watermaster. Benefits and all other employee compensation requirements are established by state statute and Watermaster resolutions. Employees are required to contribute 8% of their annual covered salary. With the adoption of Public Employees' Pension Reform Act of 2013 ("PEPRA"), the pension system has changed. Depending upon employee's member classification "Classic or New" with PERS, Watermaster may pay a portion of the employee contribution to CalPERS or the employee could be responsible for the entire employee portion to PERS. All regular and introductory employees hired after January 1, 2013 will be enrolled in the 2% @ 62 Public Employees Retirement System PERS, and shall be subject to such terms and conditions as Watermaster may contract for with PERS. All regular and introductory employees hired before January 1, 2013 will be enrolled in the 2.5% @ 55 Public Employees Retirement System, and shall be subject to such terms and conditions as Watermaster may contract for with PERS.

Watermaster makes the contributions required by the employees on such employees' behalf and for their account. Watermaster's annual pension cost for the year ended June 30, 2015 was equal to Watermaster's required and actual contributions of \$207,844.

Funding Policy. Watermaster participates in the 2.5% at 55 Risk Pool. As noted above, participants are required to contribute 8% of their annual covered salary. Watermaster makes the contributions required of

the employees on their behalf and for their account. Benefit provisions and all other requirements are established by state statute and Watermaster contract with employee bargaining groups.

Also, Watermaster is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The required employer contribution rates are equal to the annual pension costs (“APC”) percentage of payroll for Fiscal Years 2015, 2014, 2013 and 2012 as noted below. The contribution requirements of the plan members are established by State statute, and the employer contribution rate is established and may be amended by PERS. For Fiscal Years 2015, 2014, 2013 and 2012, Watermaster’s annual contributions for the PERS plan were equal to the Agencies required and actual contributions for each Fiscal Year as follows:

Four Year Trend Information:

<i>Fiscal Year</i>	<i>Annual Pension Cost (APC)</i>	<i>Percentage of APC Contributed</i>	<i>Net Pension Obligation</i>	<i>APC Percentage of Payroll</i>
2012	184,073	100%	-	14.298%
2013	154,432	100%	-	14.978%
2014	150,977	100%	-	14.660%
2015	133,410	100%	-	15.701%

For more information with respect to Watermaster’s Plan, see Note 7 to the Watermaster’s audited financial statements attached hereto as Appendix B-1.

Three-Year History of Net OPEB Obligation:

<i>Fiscal Year Ended</i>	<i>Annual OPEB Cost</i>	<i>Age Adjusted Contribution</i>	<i>Percentage of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation Payable</i>
2015	\$ 98,033	1,464	1.49%	245,013
2014	79,030	1,123	1.40%	148,444
2013	71,017	1,380	1.94%	69,637

Sources of Revenues

The main sources of revenues of Watermaster are Assessments. Watermaster levies and collects (i) Administrative Assessments, (ii) OBMP Assessments, and (iii) Replenishment Assessments. Watermaster has covenanted in the Recharge Facilities Agreement to fix, prescribe and collect an OBMP Assessment for Fixed Project Costs equal to 1.25 times Fixed Project Costs.

Administrative Assessments. Administrative Assessments are categorized under Paragraph 54 of the Judgment as either (i) general Watermaster administrative expenses, or (ii) special project expenses. General Watermaster administrative expenses include office rental, general personnel expense, supplies and office equipment, and related incidental expense and general overhead. Special project expenses are comprised of special engineering, economic or other studies, litigation expense, meter testing or other major operating expenses. Such administrative expenses are allocated and assessed against the respective Pools based upon allocations made by the Watermaster. Special project expenses are allocated to a specific Pool by express assent and a finding of benefit by the applicable Pool Committee, or pursuant to written order of the Court.

Optimum Basin Management Assessments. OBMP Assessments are allocated by Watermaster to the Pools to implement the OBMP, including OBMP Assessments to be levied and collected by Watermaster

pursuant to the Recharge Facilities Agreement. The Peace Agreement states that OBMP Assessments are categorized as Administrative Assessments under the Judgment.

Replenishment Assessments. Watermaster levies Replenishment Assessments to purchase replenishment water to replace production by any Watermaster Party during the preceding year which exceeds such Party's allocated production right. Each Party is assessed only the amount necessary for the cost of replenishment water at the rate available to meet the replenishment obligation.

The following table sets forth the historic Assessments Revenues of Watermaster for Fiscal Years June 30, 2011 through 2015.

**CHINO BASIN WATERMASTER
Historic Assessments Revenues
For Fiscal Year Ending June 30**

	<i>Administrative Assessments</i>	<i>Replenishment Assessments</i>	<i>OBMP Assessments</i>	<i>Total</i>
2011	\$ 847,339	\$9,617,128	\$5,660,830	\$16,125,297
2012	1,166,403	13,361,467	5,059,125	19,586,995
2013	1,169,587	2,434,208	5,442,932	9,046,727
2014	1,458,804	6,802,795	5,093,966	13,355,565
2015	1,970,758	1,903,179	5,553,748	9,427,685

Source: Watermaster.

The following table sets forth the projected assessment revenues of Watermaster for Fiscal Years June 30, 2016 through 2020

**CHINO BASIN WATERMASTER
Projected Assessment Revenues
For Fiscal Year Ending June 30**

	<i>Administrative Assessments</i>	<i>Replenishment Assessments</i>	<i>OBMP Assessments</i>	<i>Total</i>
2016	\$1,958,313	\$3,825,000	\$7,031,902	\$12,815,215
2017	2,056,229	4,016,250	11,043,338	17,115,817
2018	2,159,040	4,217,063	11,595,505	17,971,608
2019	2,266,992	4,427,916	12,175,280	18,870,188
2020	2,380,342	4,649,312	11,979,495	19,009,149

Source: Watermaster.

Since the development of the OBMP, Assessments have been dramatically increased to cover the costs of implementing the OBMP and the Peace Agreement. The OBMP Assessment increases projected above include increases to pay Watermaster's share of debt service costs of the Chino Basin Regional Financing Authority Variable Rate Demand Refunding Revenue Bonds (Inland Empire Utilities Agency), Series 2008B allocable to Watermaster under the Recharge Facilities Agreement. See the caption "SECURITY FOR THE BONDS — Recharge Facilities Agreement."

Billing and Collection of Assessments

Payment of Assessments. Watermaster typically bills the applicable parties within each pool for Assessments once per year, in either November or December. Each invoice is payable within 30 days. The Assessments are the obligations of the parties or successors owning the water production facilities at the time written notice of Assessment is given, unless prior arrangement for payment by others has been made in writing and filed with Watermaster.

Delinquency of Assessments. Any Assessment owed to Watermaster which is not paid within 30 days after notice bears interest at 10% per annum (or such greater rate as shall equal the average current cost of borrowed funds to Watermaster) from the due date thereof. Such delinquent Assessments and interest may be collected by Watermaster in a show-cause proceeding by Watermaster provided for in the Judgment, in which case the Court may allow Watermaster its reasonable costs of collection, including attorney's fees.

Investments. The Judgment provides that Watermaster may hold and invest any and all Watermaster funds in investments authorized for public agencies of the State of California. California State statutes and the Watermaster's investment policy authorize Watermaster to invest in certificates of deposit with financial institutions having an operating branch within Watermaster geographic area, and the State of California Treasurer's Investment pool, the Local Agency Investment Fund ("LAIF"). The Watermaster is a voluntary participant in LAIF. As of June 30, 2015, Watermaster had a deposit balance with LAIF of \$9,169,018. The balance available for withdrawal is based on the investment accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Financial Information

Audited Financial Statements. A copy of the most recent financial statements of Watermaster audited by Fedak & Brown LLP, Cypress, California (the "Auditor") are included as Appendix B-1 to the Official Statement (the "Financial Statements"). The Financial Statements include a statement that the Auditor conducted an audit of the Financial Statements in accordance with auditing standards generally accepted in the United States of America. The Auditor opines that the Financial Statements present fairly, in all material aspects, the financial position of the Watermaster as of June 30, 2015 and the results of Watermaster's operations for the year then ended in conformity with accounting principles generally accepted in the United States of America. The Financial Statements include certain notes to the financial statements which may not be fully described below under the subheading "Significant Accounting Policies" or in the footnotes to the Tables. Such notes constitute an integral part of the Financial Statements. The Auditor's consent to inclusion of the Financial Statements in the Official Statement was not requested.

Significant Accounting Policies. Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations restrictions or limitations.

The Financial Statements are prepared on the modified accrual basis of accounting. Revenues are accrued when they become both measurable and available. "Available" means collected in the current period or soon enough thereafter to pay for the expenditures incurred during the current period. Expenditures are recorded when the related liability for goods or services received is incurred.

Watermaster accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as Watermaster ("GAAP"). In certain cases GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized in a subsequent Fiscal Year. See "APPENDIX B-1 — AUDITED GENERAL PURPOSE FINANCIAL

STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2015.” Except as otherwise expressly noted herein, all financial information derived from Watermaster’s audited financial statement reflect the application of GAAP.

See the Financial Statements attached hereto as Appendix B-1 for a discussion of other accounting practices of Watermaster.

Historic Operating Results

The following table is a summary of historic operating results of Watermaster for the past five Fiscal Years. Data for all five years are from audited financial statements. These results have been derived from Watermaster financial statements, but exclude certain non-cash items and include certain other adjustments. The table has not been audited by Watermaster’s auditor. Watermaster has covenanted in the Recharge Facilities Agreement to fix, prescribe and collect OBMP Assessments for Fixed Project Costs equal to at least 1.25 times Fixed Project Costs. The following table shows the Fixed Project Costs coverage ratio, which is equal to OBMP Assessments divided by Fixed Project Costs for the past five Fiscal Years.

CHINO BASIN WATERMASTER HISTORIC OPERATING RESULTS For Fiscal Years Ended June 30

	2011	2012	2013	2014	2015
<u>Revenues:</u>					
OBMP Assessments	\$ 5,660,830	\$ 5,059,125	\$ 5,442,932	\$ 5,093,966	\$ 5,553,748
Replenishment Assessments	9,617,128	13,361,467	2,434,208	6,802,795	1,903,179
Administrative Assessments	847,339	1,166,403	1,169,587	1,458,804	1,970,758
Interest	65,086	12,557	13,380	17,215	23,370
Other	<u>111,000</u>	<u>705,777</u>	<u>173,848</u>	<u>153,036</u>	<u>155,608</u>
Total Revenues	\$ 16,301,383	\$ 20,305,329	\$ 9,233,955	\$ 13,525,816	\$ 9,606,663
<u>Expenses:</u>					
OBMP Expenses	\$ 4,528,305	\$ 5,377,803	\$ 3,739,004	\$ 3,662,852	\$ 4,334,189
Fixed Project Costs ⁽¹⁾	366,789	178,039	315,751	311,245	415,978
Replenishment	10,991,245	12,862,992	2,289,276	6,838,642	1,151,196
Watermaster Administration	565,483	701,102	1,084,995	1,566,328	1,307,336
Pool Administration	452,163	523,712	572,464	441,352	613,666
Other ⁽²⁾	<u>375</u>	<u>2,633,585</u>	<u>858,284</u>	<u>90,791</u>	<u>104,866</u>
Total Expenses	\$ 16,904,360	\$ 22,277,233	\$ 8,859,774	\$ 12,911,210	\$ 7,927,231
Net Revenues	\$ (602,977)	\$ (1,971,904)	\$ 374,181	\$ 614,606	\$ 1,679,432
Fixed Project Costs Coverage Ratio ⁽³⁾	15.43	28.42	17.24	16.37	13.35

(1) Includes amounts payable under the Recharge Facilities Agreement as Fixed Project Costs.

(2) Fiscal Year includes excess reserves refunded to the parties and other post-employment benefits (“OPEB”) expenses.

(3) Calculated by dividing OBMP Assessments by Fixed Project Costs.

Source: Watermaster.

Projected Operating Results

Watermaster’s estimated projected operating results for the current and next four Fiscal Years are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents Watermaster’s estimate of the projected financial results based upon Watermaster’s judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart below are material in the development of financial projections for

Watermaster, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**CHINO BASIN WATERMASTER
Projected Operating Results
For Fiscal Years Ended June 30,**

	<i>2016⁽¹⁾</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
Revenues:					
OBMP Assessments ⁽²⁾⁽⁴⁾	\$ 7,031,902	\$ 11,043,338	\$ 11,595,505	\$ 12,175,280	\$ 11,979,495
Replenishment Assessments ⁽³⁾	3,825,000	4,016,250	4,217,063	4,427,916	4,649,312
Administrative Assessments ⁽⁵⁾	1,958,313	2,056,229	2,159,040	2,266,992	2,380,342
Interest ⁽⁶⁾	22,050	27,562	34,453	43,066	53,833
Other	<u>157,941</u>	<u>165,838</u>	<u>174,130</u>	<u>182,836</u>	<u>191,978</u>
Total Revenues	\$ 12,995,206	\$ 17,309,217	\$ 18,180,191	\$ 19,096,090	\$ 19,254,961
Expenses:					
OBMP Expenses ⁽⁵⁾	\$ 6,507,985	\$ 7,422,959	\$ 7,894,107	\$ 8,388,812	\$ 8,808,253
Fixed Project Costs ⁽⁷⁾⁽⁸⁾	460,202	3,550,000	3,550,000	3,550,000	3,550,000
Replenishment Water Purchases ⁽⁵⁾	3,825,000	4,016,250	4,217,063	4,427,916	4,649,312
Watermaster Administration ⁽⁴⁾	1,449,686	1,522,170	1,598,279	1,678,193	1,762,103
Pool Administration ⁽⁵⁾	596,333	623,000	654,150	686,858	721,201
Other	<u>103,250</u>	<u>108,413</u>	<u>113,834</u>	<u>119,525</u>	<u>125,502</u>
Total Expenses	\$ 12,942,456	\$ 17,242,792	\$ 18,027,433	\$ 18,851,304	\$ 19,616,371
Net Revenues	\$ 52,750	\$ 66,425	\$ 152,758	\$ 244,786	\$ 361,410
Fixed Project Costs Coverage Ratio ⁽⁹⁾	15.28	3.11	3.27	3.43	3.37

⁽¹⁾ Fiscal Year 2016 projection based on actual and anticipated revenues and expenses for Fiscal Year 2016.

⁽²⁾ Includes OBMP Assessments sufficient to cover payments by Watermaster under the Recharge Facilities Agreement.

⁽³⁾ Projected to vary each year.

⁽⁴⁾ Projected to increase at 4.5% per annum from Fiscal Year 2016 projected amounts.

⁽⁵⁾ Projected to increase at 5.0% per annum from Fiscal Year 2016 projected amounts.

⁽⁶⁾ Interest income varies each year based on projected cash balance.

⁽⁷⁾ Includes amounts payable under Recharge Facilities Agreement as Fixed Project Costs.

⁽⁸⁾ Includes amounts payable as Fixed Project Costs under the Recharge Facilities Agreement at an assumed interest rate of 5% per annum.

⁽⁹⁾ Calculated by dividing OBMP Assessments by Fixed Project Costs.

Source: Watermaster.

APPENDIX B-1

**ANNUAL FINANCIAL REPORT OF THE WATERMASTER
FOR THE FISCAL YEAR ENDING JUNE 30, 2015**

The full AFR can be found on the CBWM website (paste or type the link below into your browser to access the report):

<http://www.cbwm.org/docs/financedocs/Audited%20Financial%20Statements%20Fiscal%20June%2030,%202015.pdf>

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the 2008B Installment Purchase Agreement, the Financing Agreement, the Recharge Facilities Agreement and the Indenture which are not described elsewhere in the Supplement to Official Statement. This summary does not purport to be comprehensive and reference should be made to the 2008B Installment Purchase Agreement, the Financing Agreement, the Recharge Facilities Agreement and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in the body of the Supplement to Official Statement have the meanings set forth in the 2008B Installment Purchase Agreement, the Financing Agreement, the Recharge Facilities Agreement and the Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE 2008B INSTALLMENT PURCHASE AGREEMENT

DEFINITIONS

The terms set forth below shall have the meanings ascribed to such terms as follows for all purposes of the Installment Purchase Agreement and the Official Statement unless the context clearly indicates some other meaning:

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Agreement. The term "Agreement" means the 2008B Installment Purchase Agreement, by and between the Agency and the Authority, dated as of March 1, 2008, as originally executed and as it may from time to time be amended or supplemented in accordance with the 2008B Installment Purchase Agreement.

Agency. The term "Agency" means Inland Empire Utilities Agency, a municipal water district duly organized and existing under and by virtue of the laws of the State of California.

Agency System. The term "Agency System" means all facilities of the Agency.

Authority. The term "Authority" means the Chino Basin Regional Financing Authority, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Bonds. The term "Bonds" means all revenue bonds or notes of the Agency authorized, executed, issued and delivered by the Agency, the payments of which are on a parity with the Installment Payments and which are secured by a pledge of and lien on the Revenues as described in the 2008B Installment Purchase Agreement.

Business Day. The term "Business Day" means any day other than (i) a Saturday or Sunday or (ii) a day on which banks located (A) in the city in which the corporate trust office of the Trustee is located, (B) in the city in which drawings under the applicable Credit Facility, if any, are to be honored (initially, New York, New York) is located, (C) in the city in which the Corporate Trust Office of the Tender Agent at which the Bonds may be tendered for purchase by the owners thereof is located or (D) in the city in which the principal office of the Remarketing Agent is located, are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

Component A of the Project. The term “Component A of the Project” means the facilities described in Exhibit B to the 2008B Installment Purchase Agreement.

Component B of the Project. The term “Component B of the Project” means the facilities described in Exhibit C to the 2008B Installment Purchase Agreement.

Contracts. The term “Contracts” means the 2008B Installment Purchase Agreement and any amendments and supplements hereto, and all contracts of the Agency previously or thereafter authorized and executed by the Agency, the Parity Installment Payments under which are on a parity with the Installment Payments and which are secured by a pledge and lien on the Revenues as described in the 2008B Installment Purchase Agreement, including the 2005 Installment Purchase Agreement, the 2007 Installment Purchase Agreement (Improvement Projects), the 2007 Installment Purchase Agreement (Replacement Projects), and the 2005 Interest Rate Swap Agreement, but excluding contracts entered into for operation and maintenance of the Agency System.

Credit Facility Provider. The term “Credit Facility Provider” means Sumitomo Mitsui Banking Corporation, and its successors and assigns.

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

Debt Service. The term “Debt Service” means, for any Fiscal Year, the sum of:

- (1) the interest payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);
- (2) those portions of the principal amount of all outstanding serial Bonds maturing in such Fiscal Year;
- (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year; and
- (4) those portions of the Parity Installment Payments required to be made during such Fiscal Year (except to the extent the interest evidenced and represented thereby is capitalized);

provided that, as to any such Bonds or Parity Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall, for all purposes, be assumed to bear interest at a fixed rate equal to the higher of

- (i) the then current variable interest rate borne by such Bonds or Parity Installment Payments plus 1%, and
- (ii) the highest variable rate borne over the preceding 24 months by outstanding variable rate debt issued by the Agency or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

and provided further that if any series or issue of such Bonds or Parity Installment Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of

such Bonds or Parity Installment Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation;

and provided further that, as to any such Bonds or Parity Installment Payments or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Parity Installment Payments or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service.

Event of Default. The term “Event of Default” means an event of default described in the 2008B Installment Purchase Agreement.

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

Indenture. The term “Indenture” means the Indenture dated as of March 1, 2008, by and between the Authority and U.S. Bank National Association, relating to the 2008B Bonds, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Agency, each of whom is independent of the Agency and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the Agency, and who, or each of whom: (1) is in fact independent and not under domination of the Agency; (2) does not have any substantial interest, direct or indirect, with the Agency; and (3) is not connected with the Agency as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Installment Payment Date; Parity Installment Payment Date. The term “Installment Payment Date” means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day. The term “Parity Installment Payment Date” means each date on which Parity Installment Payments are scheduled to be paid by the Agency under and pursuant to any Contract.

Installment Payments; Parity Installment Payments. The term “Installment Payments” means the Installment Payments of interest and principal scheduled to be paid by the Agency under and pursuant hereto. The term “Parity Installment Payments” means the payments of interest and principal scheduled to be paid by the Agency under and pursuant to the Contracts.

Law. The term “Law” means the Municipal Water Agency Law of the State of California (being Division 20 of the Water Code of the State of California, as amended) and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California and in each case all laws amendatory thereof or supplemental thereto.

Manager. The Term “Manager” means the General Manager of the Agency, or any other person designated by the General Manager to act on behalf of the General Manager.

Master Resolution. The term “Master Resolution” means the Resolution of the Board of Directors of the Chino Basin Municipal Water District Providing for the Allocation of Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Sewer Revenues, adopted by the Board of Directors of Agency on March 30, 1994, as it is from time to time modified, amended or supplemented.

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

Net Revenues. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year and debt service with respect to the 1994 Bonds and the 1999 Bonds for such Fiscal Year.

1994 Bonds. The term “1994 Bonds” means those certain Chino Basin Regional Authority Revenue Bonds, Series 1994 (Chino Basin Municipal Water District Sewer System Project).

1994 Installment Purchase Agreement. The term “1994 Installment Purchase Agreement” means that certain 1994 Installment Purchase Agreement dated as of May 1, 1994, by and between the Agency and the Authority.

1999 Bonds. The term “1999 Bonds” means those certain Chino Basin Regional Authority Revenue Bonds, Series 1999 (Inland Empire Utilities Agency Sewer System Project).

1999 Installment Purchase Agreement. The term “1999 Installment Purchase Agreement” means that certain 1999 Installment Purchase Agreement dated as of November 1, 1999, by and between the Agency and the Authority.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Agency System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Agency System in good repair and working order, and including administrative costs of the Agency that are charged directly or apportioned to the Agency System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the Agency or charges (other than Debt Service and debt service with respect to the 1994 Bonds and the 1999 Bonds, if any) required to be paid by it to comply with the terms of the 2008B Installment Purchase Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Parity Obligation. The term “Parity Obligation” shall have the meaning given to such term by the Master Resolution.

Participating Underwriter. The term “Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure Certificate.

Person. The term “Person” means an individual, a corporation, a partnership, an association, a joint venture, a trust, a business trust, a limited liability company or any other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

Project; Parity Project. The term “Project” has the meaning ascribed thereto in first WHEREAS clause herein. The term “Parity Project” means any additions, betterments, extensions or improvements to the Agency System designated by the Board of Directors of the Agency as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Purchase Price. The term “Purchase Price” means the principal amount plus interest thereon owed by the Agency to the Authority under the terms provided in the 2008B Installment Purchase Agreement.

Revenue Fund. The term “Revenue Fund” means (i) all revenue accounts maintained by the Agency as of the date of the 2008B Installment Purchase Agreement other than the Water Fund and (ii) any revenue account created after the date of the 2008B Installment Purchase Agreement and designated by the Chief Financial Officer of the Agency as a part of the Revenue Fund.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Agency System, including, without limiting the generality of the foregoing,

(1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the Agency from the sale, furnishing and supplying of sewer services, composting services or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Agency System, plus

(2) the earnings on and income derived from the investment of the amounts described in clause (1) above and the general unrestricted funds of the Agency,

but excluding in all cases customer deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the Agency, and excluding any proceeds of taxes restricted by law to be used by the Agency to pay bonds hereafter issued.

Separate Facilities. The term “Separate Facilities” means any facilities of the Agency constructed or acquired on or after the date of the 2008B Installment Purchase Agreement from the proceeds of bonds, notes or other obligations of the Agency which do not have a parity claim on the Revenues.

Sewer Revenues. The term “Sewer Revenues” shall have the meaning given to such term in the Master Resolution.

Subordinate Obligation. The term “Subordinate Obligation” shall have the meaning given to such term in the Master Resolution.

Trustee. The term “Trustee” means U.S. Bank National Association, acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

2005 Bonds. The term “2005 Bonds” means those certain Chino Basin Regional Financing Authority Revenue Bonds (Inland Empire Utilities Agency), Series 2005A.

2005 Installment Purchase Agreement. The term “2005 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of May 1, 2005, by and between the Agency and the Authority.

2005 Interest Rate Swap Agreement. The term “2005 Interest Rate Swap Agreement” means the interest rate swap transactions entered into by and between the Agency and Citibank, N.A., New York, as evidenced by Confirmations dated April 26, 2005 and May 4, 2005, to the Schedule to the ISDA Master Agreement by and between the Agency and Citibank, N.A., New York, and any amendments and supplements thereto and all other interest rate swap agreements authorized and executed by the Agency which are on a parity with the Installment Payments and which are secured by a pledge and lien on the Revenues.

2007 Installment Purchase Agreement (Replacement Projects). The term “2007 Installment Purchase Agreement (Replacement Projects)” means that certain 2007 Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and the Authority.

2007 Installment Purchase Agreement (Improvement Projects). The term “2007 Installment Purchase Agreement (Improvement Projects)” means that certain 2007 Installment Purchase Agreement (Improvement Projects), dated as of November 1, 2007 by and between the Agency and the Authority.

2008A Bonds. The term “2008A Bonds” means those certain Chino Basin Regional Financing Authority Revenue Bonds (Inland Empire Utilities Agency), Series 2008A.

2008B Bonds. The term “2008B Bonds” means the \$55,675,000 Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B issued and at any time Outstanding under the Indenture.

Water System. The term “Water System” means the whole and each and every part of the water system of the Agency, including the portion thereof existing on the date of the 2008B Installment Purchase Agreement, and including all additions, betterments, extensions and improvements to such water system or any part thereof thereafter acquired or constructed.

Written Consent of the Authority or Agency, Written Order of the Authority or Agency, Written Request of the Authority or Agency, Written Requisition of the Authority or Agency. The terms “Written Consent of the Authority or Agency,” “Written Order of the Authority or Agency,” “Written Request of the Authority or Agency,” and “Written Requisition of the Authority or Agency” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Authority by its Authorized Representative or (ii) the Agency by the President of its Board of Directors or its General Manager or by the Secretary of its Board of Directors or by any two persons (whether or not officers of the Board of Directors of the Agency) who are specifically authorized by resolution of the Agency to sign or execute such a document on its behalf.

ACQUISITION OF THE PROJECT

Sale and Purchase of Project. In consideration for the Authority’s assistance in financing and refinancing the Project, the Agency agrees to sell, and hereby sells, to the Authority, and the Authority agrees to purchase and hereby purchases, from the Agency, Component A of the Project and Component B of the Project at the purchase price specified in the 2008B Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the 2008B Installment Purchase Agreement.

Purchase and Sale of the Project. In consideration for the Installment Payments as set forth in the 2008B Installment Purchase Agreement, the Authority agrees to sell, and sells, to the Agency, and the Agency agrees to purchase, and purchases, from the Authority, the Project at the purchase price specified in the 2008B Installment Purchase Agreement and otherwise in the manner and in accordance with the provisions of the 2008B Installment Purchase Agreement.

Title. All right, title and interest in each portion of Component A and Component B of the Project shall vest in the Agency immediately upon execution and delivery of the 2008B Installment Purchase Agreement

SECURITY

Pledge of Revenues. All Revenues and all amounts on deposit in the Revenue Fund are irrevocably pledged to the payment of the Installment Payments as provided in the 2008B Installment Purchase Agreement and the Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the 2008B Installment Purchase Agreement. This pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on Revenues and, subject to application of amounts on deposit therein as permitted in the 2008B Installment Purchase Agreement, the Revenue Fund and

other funds and accounts created under the 2008B Installment Purchase Agreement for the payment of the Installment Payments and all other Contracts and Bonds in accordance with the terms of the 2008B Installment Purchase Agreement and the Indenture; provided, however, that so long as any Parity Obligations remain outstanding under the Master Resolution, the Agency's payment obligation under the 2008B Installment Purchase Agreement shall comprise a Subordinate Obligation thereunder and said lien on Revenues is subject to the lien on Sewer Revenues in favor of Parity Obligations thereunder.

Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained in the 2008B Installment Purchase Agreement, the Agency agrees and covenants that all Revenues shall be received by the Agency in trust under the 2008B Installment Purchase Agreement and shall be deposited when and as received in a special fund designated as the "Revenue Fund," which fund includes the accounts described in the definition thereof and which fund the Agency agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Revenue Fund shall be used and applied by the Agency as provided in the 2008B Installment Purchase Agreement.

The Agency shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All remaining moneys in the Revenue Fund shall be used to make payments of debt service with respect to the 1994 Bonds and the 1999 Bonds, if any, and thereafter shall be set aside by the Agency at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in the 2008B Installment Purchase Agreement.

Installment Payments. Not later than each Installment Payment Date, the Agency shall, from the moneys in the Revenue Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The Agency shall also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

Reserve Funds. On or before each Installment Payment Date the Agency shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the 2008B Installment Purchase Agreement, that sum, if any, necessary to restore such reserve funds and/or accounts to an amount equal to the required balance.

Surplus. Moneys on deposit in the Revenue Fund on each Installment Payment Date not necessary to make any of the payments required above may be expended by the Agency at any time for any purpose permitted by law, subject to compliance with the 2008B Installment Purchase Agreement.

Additional Contracts and Bonds. The Agency may at any time execute any Contract or issue any Bonds, as the case may be, in accordance with the Indenture; provided:

The Net Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the Agency of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the Agency and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the Agency, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year; and

The Net Revenues for the most recent audited Fiscal Year preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the Agency of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges with respect to the Agency System approved and in effect as of the date of calculation, as evidenced by both a calculation prepared by the Agency and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the Agency, shall have produced a sum equal to at least one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year; and

The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate of the General Manager of the Agency on file with the Agency, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received with respect to the Agency System and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the Manager on file with the Agency, shall produce a sum equal to at least one hundred twenty-five percent (125%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects.

Notwithstanding any other provision of the 2008B Installment Purchase Agreement, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service will not be increased in any Fiscal Year in which Bonds or Contracts (outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such refunding Bonds or Contracts) not being refunded are outstanding.

Nothing in the 2008B Installment Purchase Agreement shall preclude the Agency from issuing any bonds or executing contracts under which the payments from Net Revenues are subordinate to any Bonds or Contracts of the Agency.

Investments. All moneys held by the Agency in the Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided in the 2008B Installment Purchase Agreement.

COVENANTS OF THE AGENCY

Compliance with Installment Purchase Agreement and Ancillary Agreements. The Agency will punctually pay the Installment Payments in strict conformity with the terms of the 2008B Installment Purchase Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the 2008B Installment Purchase Agreement required to be observed and performed by it, and will not terminate the 2008B Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the 2008B

Installment Purchase Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the 2008B Installment Purchase Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to the 2008B Installment Purchase Agreement that, subject to certain provisions of the 2008B Installment Purchase Agreement, each of the agreements, conditions, covenants and terms contained in the 2008B Installment Purchase Agreement is an essential and material term of the purchase of and payment for the Project by the Agency pursuant to, and in accordance with, and as authorized under the Law.

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

Against Encumbrances. The Agency will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as permitted by the 2008B Installment Purchase Agreement. The Agency may at any time, or from time to time, (i) issue Contracts and Bonds as permitted in the 2008B Installment Purchase Agreement, or (ii) issue or incur evidences of indebtedness or incur other obligations, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the 2008B Installment Purchase Agreement.

Against Sale or Other Disposition of Property. The Agency will not enter into any agreement or lease which impairs the operation of the Agency System or any part thereof necessary to secure adequate Net Revenues to meet the requirements of the 2008B Installment Purchase Agreement, or which would otherwise impair the rights of the Authority under the 2008B Installment Purchase Agreement or the operation of the Agency System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Agency System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the Agency to pay the Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing in the 2008B Installment Purchase Agreement shall restrict the ability of the Agency to sell any portion of the Agency System if such portion is immediately repurchased by the Agency and if such arrangement cannot by its terms result in the purchaser of such portion of the Agency System exercising any remedy which would deprive the Agency of or otherwise interfere with its right to own and operate such portion of the Agency System.

Against Competitive Facilities. To the extent that it can so legally obligate itself, the Agency covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the Agency any system competitive with the Agency System.

Tax Covenants. Notwithstanding any other provision of the 2008B Installment Purchase Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest with respect to the 2008B Bonds will not be adversely affected for federal income tax purposes, the Agency and the Authority covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

Private Activity. The Agency and the Authority will not take or omit to take any action or make any use of the proceeds of the 2008B Bonds or of any other moneys or property which would cause the 2008B Bonds to be “private activity bonds” within the meaning of Section 141 of the Code.

Arbitrage. The Agency and the Authority will make no use of the proceeds of the 2008B Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the 2008B Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code.

Federal Guarantee. The Agency and the Authority will make no use of the proceeds of the 2008B Bonds or take or omit to take any action that would cause the 2008B Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Information Reporting. The Agency and the Authority will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code.

Miscellaneous. The Agency and the Authority will take no action inconsistent with the expectations stated in any Tax Certificate executed with respect to the 2008B Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the 2008B Installment Purchase Agreement.

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

Payment of Claims. The Agency will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created under the 2008B Installment Purchase Agreement or on any funds in the hands of the Agency pledged to pay the Installment Payments or to the Owners prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

Compliance with Contracts. The Agency will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the Agency to secure adequate Net Revenues to meet the requirements of the 2008B Installment Purchase Agreement and the Agency will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Agency System, to the extent that the Agency is a party thereto.

Insurance.

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

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

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Agency System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Agency System, then the excess Net Proceeds shall be applied in part to the prepayment of Installment Payments as provided in the 2008B Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the Agency to retire the entire obligation evidenced by the 2008B Installment Purchase Agreement prior to the final due date of the Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the Agency may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Agency System, and/or not to construct other additions, betterments, extensions or improvements to the Agency System; and thereupon such Net Proceeds shall be applied to the prepayment of Installment Payments as provided in the 2008B Installment Purchase Agreement and to the retirement of such Bonds and Contracts.

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

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

All policies of insurance required to be maintained under the 2008B Installment Purchase Agreement shall provide that the Authority and the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements and Other Reports. The Agency will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Agency System, which records shall be available for inspection by the Authority, including agents and assignees of and lenders to the Authority and the Trustee at reasonable hours and under reasonable conditions.

Protection of Security and Rights of the Authority. The Agency will preserve and protect the security and the rights of the Authority and the assignee thereof to the Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

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

Amount of Rates and Charges. To the fullest extent permitted by law, the Agency shall fix, prescribe and collect rates and charges with respect to the Agency System which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year. The Agency may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the 2008B Installment Purchase Agreement.

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

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

(a) If (1) the Agency files with the Authority and the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the Agency by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Agency System proposed to be acquired and constructed by the Agency from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the Agency, on the basis of such certificate filed with the Authority and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the Agency to meet its obligations under the 2008B Installment Purchase Agreement will not be substantially impaired (which determination shall be final and conclusive), then the Agency shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the Agency for such purpose shall be deposited in the Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Agency in part to the prepayment of Installment Payments as provided in the 2008B Installment Purchase Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Further Assurances. The Agency will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the 2008B Installment Purchase Agreement and for the better assuring and confirming unto the Authority and the assignee thereof the rights and benefits provided to it in the 2008B Installment Purchase Agreement.

Enforcement of Contracts. The Agency will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or entered into after if such rescission or amendment would in any manner impair or adversely affect the ability of the Agency to secure adequate Net Revenues to meet the requirements of the 2008B Installment Purchase Agreement.

Master Resolution. The Agency covenants not to issue or incur any obligations comprising Parity Obligations pursuant to the Master Resolution or any obligations payable from Sewer Revenues prior to payments under the 2008B Installment Purchase Agreement.

Representations, Warranties and Covenants in Favor of Credit Facility Provider. The representations, warranties and covenants of the Agency under “Representations, Warranties and Covenants in Favor of Credit Facility Provider” will only inure to the benefit of the initial Credit Facility Provider under the Indenture and will be of no further force and effect on and after the date of the substitution, expiration or termination of the initial Credit Facility under the Indenture.

The Agency is not entitled to claim, and shall not assert any claim, with respect to itself or its revenues, assets or property (irrespective of the use or intended use thereof), of immunity on the grounds of sovereignty or similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for

specific performance or for recovery of property, attachment of its assets (whether before or after judgment, in aid of execution, or otherwise) and execution or enforcement of any judgment to which it or its revenues, assets or property might otherwise be entitled in any suit, action or proceeding relating to the 2008B Installment Purchase Agreement in the courts of any jurisdiction, nor may there be attributed to the Agency or its revenues, assets or property any such immunity (nor shall such attribution be claimed by the Agency).

The 2008B Installment Purchase Agreement creates, to secure the payment of the Installment Payments, a legally valid and binding first lien on and pledge of the Revenues and all amounts on deposit in the Revenue Fund. No filing, registering, recording or publication of the 2008B Installment Purchase Agreement or any other instrument is required to establish the pledge under the 2008B Installment Purchase Agreement or to perfect, protect or maintain the liens created by the 2008B Installment Purchase Agreement on the Revenues and all amounts on deposit in the Revenue Fund. There are no obligations of the Agency that are entitled to a prior lien on the Revenues relative to the lien on the Revenues conferred by the 2008B Installment Purchase Agreement other than the lien on Sewer Revenues in favor of Parity Obligations outstanding under the Master Resolution; no further Parity Obligations may be issued under the Master Resolution. Except for Contracts and Bonds, there are no obligations of the Agency that are entitled to a lien on and pledge of the Revenues on a parity with the lien of the Revenues afforded to the obligations of the Agency under the 2008B Installment Purchase Agreement. The Financing Agreement creates, to secure the payment of the Fixed Project Costs (as defined in the Financing Agreement), a legally valid and binding first lien on and pledge of the Pledged Revenues (as defined in the Financing Agreement). No filing, registering, recording or publication of the Financing Agreement or any other instrument is required to establish the pledge thereunder or to perfect, protect or maintain the liens created thereby on the Pledged Revenues. There are no obligations of the Agency that are entitled to a prior lien on the Pledged Revenues relative to the lien on the Pledged Revenues conferred by the Financing Agreement. Except for Contracts and Bonds, there are no obligations of the Agency that are entitled to a lien on the Pledged Revenues on a parity with the lien of the Pledged Revenues afforded to the payment of the Fixed Project Costs.

The information contained in the Official Statement relating to the Agency, the 2008B Installment Purchase Agreement and the Financing Agreement is correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

The balance sheet of the Agency and the related statement of revenues and expenses and changes in financial position set forth in the audited financial statements of the Agency for the most recently completed Fiscal Year (the "Agency Submitted Financial Statements"), together with the auditors' report with respect thereto, have heretofore been furnished to the Credit Facility Provider. The Agency Submitted Financial Statements are complete and correct and fairly present the financial condition, changes in financial position and results of operations of the Agency at such dates and for such periods, and were prepared in accordance with generally accepted accounting principles. Since the last day of the Fiscal Year set forth in the most recent Agency Submitted Financial Statements there has been no material adverse change in the business, assets or liabilities, financial condition, results of operations of the Agency which has not been set forth in the Agency Submitted Financial Statements or in such information, reports, papers and data or otherwise disclosed in writing to the Credit Facility Provider by the Agency nor any increase in its long term debt.

All information, reports and other papers and data with respect to the Agency furnished to the Credit Facility Provider or its counsel by the Agency were, taken in the aggregate and at the time the same were so furnished, complete and correct in all material respects. No fact is known to the Agency which materially and adversely affects or in the future may (so far as it can foresee) materially and adversely affect the business, assets or liabilities, financial condition, results of operations of the Agency, or any of its business prospects which has not been set forth in the Agency Submitted Financial Statements or in such information, reports, papers and data or otherwise disclosed in writing to the Credit Facility Provider by the Agency. When taken in the aggregate, no document furnished or statement made by the Agency in connection with the negotiation, preparation or execution of the 2008B Installment Purchase Agreement or the Financing Agreement contains

any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading.

No default or event of default under the 2008B Installment Purchase Agreement or under the Financing Agreement has occurred and is continuing.

The annual operating budget of the Agency and any supplements thereto for the current Fiscal Year, a true and complete copy of which has been delivered to the Credit Facility Provider, fairly presents the anticipated income and expenses of the Agency, the Revenues and the Pledged Revenues for such Fiscal Year.

The Agency shall furnish to the Credit Facility Provider copies of each of the following: (i) as soon as available, and in any event within 210 days after the close of each Fiscal Year of the Agency, the complete audited financial statements of the Agency including the balance sheet as of the end of such Fiscal Year and the related statements of revenues, expenses and cash flows and changes in fund balance for such Fiscal Year, setting forth in each case in comparative form the corresponding figures for the preceding Fiscal Year all in reasonable detail, certified and prepared by an independent certified public accountant in accordance with generally accepted accounting principles, consistently applied. Simultaneously with the delivery of each set of financial statements referred to in the preceding sentence, a certificate signed by an authorized representative of the Agency stating that (y) under his/her supervision the Agency has made a review of its activities during the preceding annual period for the purpose of determining whether or not the Agency has complied with all of the terms, provisions and conditions of the 2008B Installment Purchase Agreement and the Financing Agreement and (x) to the best of his/her knowledge the Agency is not in default in the performance or observance of any of the terms, covenants, provisions or conditions of the 2008B Installment Purchase Agreement or the Financing Agreement, or if the Agency shall be in default, such certificate shall specify each such default, the nature and status thereof and any remedial steps taken or proposed to correct each such default; (ii) promptly upon request by the Credit Facility Provider, copies of any financial statement or report furnished to any other holder of Bonds or Contracts and not otherwise required to be furnished to the Credit Facility Provider pursuant to any other clause of this paragraph; as near as practicable to the beginning of each Fiscal Year, an annual budget of the Agency for such upcoming Fiscal Year; (iii) as soon as practicable but in any event within 10 Business Days after the issuance thereof, copies of any prospectus, official statement, offering circular, placement memorandum, or similar or corresponding document, and any supplements thereto and updates and amendments thereof, that the Agency makes available in connection with the offering for sale of any securities issued by the Agency, and, on request, copies of such other financial reports that the Agency shall customarily and regularly provide to the public; (iv) such other information respecting the business, properties or the condition or operations, financial or otherwise, of the Agency or concerning the Revenues, the Revenue Fund, the Pledged Revenues, its member agencies or the Financing Agreement as the Credit Facility Provider may from time to time reasonably request.

The Agency shall provide to the Credit Facility Provider (i) immediate notice by telephone, promptly confirmed in writing, of any default or event of default under the 2008B Installment Purchase Agreement or under the Financing Agreement; (ii) written notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, against the Agency or any affiliate and which involve claims with a stated demand equal to or in excess of \$2,500,000 or which, if adversely determined, could have a material adverse effect on the business, assets or liabilities, financial condition, results of operations of the Agency, or any of its business prospects; and (iii) written notice of the occurrence of any event which could have a material adverse effect on the business, assets or liabilities, financial condition, results of operations of the Agency, or any of its business prospects promptly after the Agency acquires knowledge thereof.

The Agency shall, upon the request of the Credit Facility Provider, from time to time, execute and deliver and, if necessary, file, register and record such further financing statements, amendments, confirmation statements and other documents and instruments and take such further action as may be reasonably necessary to effectuate the provisions of the 2008B Installment Purchase Agreement and the Financing Agreement.

Except to the extent it is exempt therefrom, the Agency will pay or cause to be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the 2008B Installment Purchase Agreement, the Financing Agreement and such instruments of further assurance.

The Agency shall permit the duly authorized representatives of the Credit Facility Provider during normal business hours and upon reasonable notice to enter the premises of the Agency, or any parts thereof, to examine and copy the Agency's financial and corporate books, records and accounts, and to discuss the affairs, finances, business and accounts of the Agency with the Agency's officers and employees.

To the extent that the Agency has or may acquire under any applicable law any right to immunity from set off or legal proceedings, including but not limited to a writ of mandamus ordering a levy of taxes by the Agency, on the grounds of sovereignty or otherwise, the Agency hereby irrevocably waives such rights to immunity for itself and agrees not to invoke any defense of immunity in respect of its obligations arising under or related to the 2008B Installment Purchase Agreement or the Financing Agreement.

The Agency shall take all necessary action to maintain and preserve the lien on and security interest in the Revenues and all amounts on deposit in the Revenue Fund securing the payment of the Installment Payments and the lien on and security interest in the Pledged Revenues securing the payment of the Fixed Project Costs.

The Agency shall not take any action or omit to take any action that, if taken or omitted, would adversely affect the excludability of interest on the 2008B Bonds from the gross income of the holders thereof for purposes of Federal income taxation under the Code.

The Agency shall not, without the consent of the Credit Facility Provider, consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it or acquire all or substantially all of the property and assets of any other Person; provided, however, that nothing in the Installment Purchase Agreement shall prevent the annexation, consolidation, merger or reorganization of the Agency with another governmental entity or change in governmental form by a legislative body other than the Agency in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, as amended (commencing with California Government Code Section 56000, et seq.) or any similar statute, in which the surviving entity or entities assume in the aggregate all obligations of the Agency under the Installment Purchase Agreement.

The Credit Facility Provider shall be deemed a third party beneficiary of the 2008B Installment Purchase Agreement and the Financing Agreement for purposes of enforcing such agreements.

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say – (a) if default shall be made by the Agency in the due and punctual payment of any Installment Payment or any Contract or Bond when and as the same shall become due and payable; (b) if default shall be made by the Agency in the performance of any of the other agreements or covenants required in the 2008B Installment Purchase Agreement or in any Contract or Bond to be performed by it, and such default shall have continued for a period of sixty (60) days after the Agency shall have been given notice in writing of such default by the Authority; (c) if the Agency shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Agency seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any

other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Agency or of the whole or any substantial part of its property; or (d) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms; then and in each and every such case during the continuance of such Event of Default specified in clauses (c) and (d) above, the Authority, at the written request of the Credit Facility Provider, if any, shall, and for any other such Event of Default the Authority may, by notice in writing to the Agency and with the written consent of the Credit Facility Provider, if any, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained the 2008B Installment Purchase Agreement to the contrary notwithstanding. This however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the Agency shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Installment Payments and/or the unpaid payment of any other Contract or Bond referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such Contract or Bond if paid in accordance with their terms, all amounts owing to the Credit Facility Provider and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the Agency, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the 2008B Installment Purchase Agreement, all Revenues thereafter received shall be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Authority and Trustee, if any, including reasonable compensation to its accountants and counsel;

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

Third, to the payment of debt service with respect to the 1994 Bonds and the 1999 Bonds, if any, in accordance with the terms thereof;

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

Fifth, to the payment of any amount owing to the Credit Facility Provider.

Other Remedies of the Authority. The Authority shall have the right and shall, at the written direction of the Credit Facility Provider, if any:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Agency or any director, officer or employee thereof, and to compel the Agency or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained in the 2008B Installment Purchase Agreement;

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

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

Notwithstanding anything contained in the 2008B Installment Purchase Agreement, the Authority shall have no security interest in or mortgage on the Project, the Agency System or other assets of the Agency, and no default under the 2008B Installment Purchase Agreement shall result in the loss of the Project, the Agency System or other assets of the Agency.

Non-Waiver. Nothing in any other provision of the 2008B Installment Purchase Agreement shall affect or impair the obligation of the Agency, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the 2008B Installment Purchase Agreement.

A waiver of any default or breach of duty or contract by the Authority or Credit Facility Provider, if any, shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority or Credit Facility Provider, if any, to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority or the Credit Facility Provider, if any, by the Law or by the 2008B Installment Purchase Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority or the Credit Facility Provider, if any.

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

Remedies Not Exclusive. No remedy conferred in the 2008B Installment Purchase Agreement upon or reserved to the Authority or the Credit Facility Provider, if any, is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the 2008B Installment Purchase Agreement or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

If any remedial action is discontinued or abandoned, the Trustee and 2008B Bond Owners and the Credit Facility Provider, if any, shall be restored to their former positions.

DISCHARGE OF OBLIGATIONS

Discharge of Obligations. When (a) all or any portion of the Installment Payments shall have become due and payable in accordance with the 2008B Installment Purchase Agreement or a written notice of the Agency to prepay all or any portion of the Installment Payments shall have been filed with the Trustee; and (b) there shall have been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient Available Moneys and non-callable Permitted Investments purchased with Available Moneys, issued by the United States of America and described in clause (A) of the definition thereof, the principal of and interest on

which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and (c) provision shall have been made for paying all fees and expenses of the Trustee and any amount owing to the Credit Facility Provider, then and in that event, if an opinion of Special Counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to the 2008B Installment Purchase Agreement shall not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments, the right, title and interest of the Authority therein and the obligations of the Agency under the 2008B Installment Purchase Agreement shall, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the Agency to have such moneys and such Permitted Investments applied to the payment of such Installment Payments).

In such event, upon request of the Agency, the Trustee shall cause an accounting for such period or periods as may be requested by the Agency to be prepared and filed with the Agency and shall execute and deliver to the Agency all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the Agency, after payment of all amounts due the Trustee pursuant to the Indenture and any amounts due to the Credit Facility Provider, as an overpayment of Installment Payments, all such moneys or such Permitted Investments held by it pursuant to the 2008B Installment Purchase Agreement other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Installment Payments and shall be applied by the Trustee to the payment of the Installment Payments of the Agency.

MISCELLANEOUS

Liability of Agency Limited to Net Revenues. The obligation of the Agency to make the Installment Payments is a special obligation of the Agency payable solely from the Net Revenues, and does not constitute a debt of the Agency or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained in the 2008B Installment Purchase Agreement, the Agency shall not be required to advance any moneys derived from any source of income other than the Net Revenues and the other funds provided in the 2008B Installment Purchase Agreement for the payment of Installment Payments due under the 2008B Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained in the 2008B Installment Purchase Agreement except as expressly provided in the 2008B Installment Purchase Agreement. The Agency may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Agency for such purpose.

Benefits of Installment Purchase Agreement Limited to Parties. Except for the rights of the Credit Facility Provider, if any, as a third party beneficiary, nothing contained in the 2008B Installment Purchase Agreement, expressed or implied, is intended to give to any person other than the Agency or the Authority any right, remedy or claim under or pursuant hereto, and any agreement or covenant required in the 2008B Installment Purchase Agreement to be performed by or on behalf of the Agency or the Authority shall be for the sole and exclusive benefit of the other party.

Successor Is Deemed Included in all References to Predecessor. Whenever either the Agency or the Authority is named or referred to in the 2008B Installment Purchase Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Agency or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the Agency or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No director, officer or employee of the Agency shall be individually or personally liable for the payment of the Installment Payments, but nothing contained in the 2008B Installment Purchase Agreement shall relieve any director, officer or employee of the Agency from the performance of any official duty provided by any applicable provisions of law or by the 2008B Installment Purchase Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required to be performed by or on the part of the Agency or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the 2008B Installment Purchase Agreement. The Agency and the Authority declare that they would have executed the 2008B Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Assignment. The 2008B Installment Purchase Agreement and any rights under the 2008B Installment Purchase Agreement may be assigned by the Authority, with the written consent of the of the Credit Facility Provider, if any, as a whole or in part, without the necessity of obtaining the prior consent of the Agency.

Net Contract. The 2008B Installment Purchase Agreement shall be deemed and construed to be a net contract, and the Agency shall pay absolutely net during the term of the 2008B Installment Purchase Agreement the Installment Payments and all other payments required under the 2008B Installment Purchase Agreement, free of any deductions and without abatement, diminution or set-off whatsoever.

California Law. THE 2008B INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Effective Date. The 2008B Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Authority)

Execution in Counterparts. The 2008B Installment Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument

Indemnification of Authority. The Agency agrees to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties under the 2008B Installment Purchase Agreement and under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation under the 2008B Installment Purchase Agreement or under the Indenture by the Authority.

Amendments Permitted. The 2008B Installment Purchase Agreement and the rights and obligations of the Authority, the Agency, the Owners of the 2008B Bonds and of the Trustee may be modified or amended at any time by an amendment to the 2008B Installment Purchase Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the 2008B Bonds then Outstanding, exclusive of 2008B Bonds disqualified as provided in the Indenture, and the written consent of the Credit Facility Provider, if any, shall have been filed with the Trustee. No such modification or amendment shall (1) extend the stated maturities of the 2008B Bonds, or reduce the rate of interest represented thereby, or change the method of computing the rate of interest with respect thereto, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each 2008B Bond so affected, or (2) reduce the

aforsaid percentage of Owners of 2008B Bonds whose consent is required for the execution of any amendment or modification of the 2008B Installment Purchase Agreement without the consent of the Owners of all 2008B Bonds then Outstanding, or (3) modify any of the rights or obligations of the Trustee or the Authority without its respective written consent thereto.

The 2008B Installment Purchase Agreement and the rights and obligations of the Authority, the Agency and of the Owners of the 2008B Bonds may also be modified or amended with the consent of the Credit Facility Provider, if any, without the consent of the Owners of any 2008B Bonds but with the written consent of the Credit Facility Provider, if any, but only to the extent permitted by law and only for any one or more of the following purposes.

(a) to add to the covenants and agreements of the Authority or the Agency contained in the 2008B Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power reserved in or conferred upon the Authority or the Agency, and which shall not adversely affect the interests of the Owners of the 2008B Bonds;

(b) to cure, correct or supplement any ambiguous or defective provision contained in the 2008B Installment Purchase Agreement or in regard to questions arising under the 2008B Installment Purchase Agreement, as the Authority or the Agency may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the 2008B Bonds; and

(c) to make such other amendments or modifications as may be in the best interests of the Owners of the 2008B Bonds.

Unless otherwise provided, the consent of the Credit Facility Provider, if any, shall be required in lieu of Owner's consent, when required, for the following purposes: (i) execution and delivery of any supplemental 2008B Installment Purchase Agreement or any amendment, supplement or change to or modification of the 2008B Installment Purchase Agreement; (ii) removal of the Trustee, selection and appointment of any successor trustee; and (iii) initiation or approval or any action not described in (i) or (ii) above which requires Owner consent.

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

SUMMARY OF CERTAIN PROVISIONS OF THE FINANCING AGREEMENT

DEFINITIONS

The terms set forth below shall have the meanings ascribed to such terms as follows for all purposes of the Financing Agreement and the Official Statement unless the context clearly indicates some other meaning:

Bond Resolution. The term "Bond Resolutions" means the resolution or resolutions providing for the issuance of Issuer Bonds and the terms thereof, and any indenture or trust agreement related thereto.

Debt Service. The term "Debt Service" means, as of the date of calculation and with respect to Issuer Bonds, an amount equal to the sum of (i) interest payable during such Issuer Fiscal Year on Issuer Bonds, except to the extent that such interest is to be paid from capitalized interest, (ii) that portion of principal of Issuer Bonds payable during such Issuer Fiscal Year, (iii) amounts necessary to replenish any reserve fund created pursuant to a Bond Resolution, and (iv) all letters of credit, remarketing and other financing costs payable on a periodic basis. Such interest, principal and financing costs for Issuer Bonds shall be calculated on the assumption that no Issuer Bonds outstanding at the date of calculation will cease to be outstanding except by reason of the payment of principal on the due date thereof; provided further that, as to any such Issuer

Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such Issuer Bonds during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Issuer Fiscal Year that such Issuer Bonds have borne interest) or (b) the most recent effective interest rate on such Issuer Bonds prior to the date of calculation; and provided further that, as to any such Issuer Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Issuer Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Issuer Bonds for which such debt service reserve fund was established and in each preceding Issuer Fiscal Year until such amount is exhausted.

Fixed Project Costs. The term “Fixed Project Costs” means one-half of all capital costs of the Project, including but not limited to (i) Debt Service, (ii) reserves for repair and replacement and improvement to the Project and (iii) reserves for payment of Debt Service.

IEUA. The term “IEUA” means Inland Empire Utilities Agency, a municipal water district.

Indenture. The term “Indenture” means that certain Indenture of Trust, dated as of June 1, 2002, by and between the Trustee and the Issuer, as originally executed and as it is from time to time amended or supplemented in accordance with its terms.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by IEUA, or the Issuer, as the case may be, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Issuer. The term “Issuer” means the Chino Basin Regional Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Issuer Bonds. The term “Issuer Bonds” means bonds, notes or other evidences of indebtedness issued by or on behalf of the Issuer to finance or refinance the Project.

Issuer Fiscal Year. The term “Issuer Fiscal Year” means the twelve month period commencing on July 1 of each calendar year and ending on the following June 30 or such other twelve month period which may be designated by the Issuer as its Fiscal Year.

Joint Powers Agreement. The term “Joint Powers Agreement” means the Joint Exercise of Powers Agreement creating the Chino Basin Regional Financing Authority, as such agreement may be amended or supplemented from time to time.

Master Resolution. The term “Master Resolution” means the Resolution of the Board of Directors of the Chino Basin Municipal Water District Providing for the Allocation of Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Sewer Revenues, adopted by the Board of Directors of IEUA on March 30, 1994, as it is from time to time modified, amended or supplemented.

Peace Agreement. The term “Peace Agreement” means the Peace Agreement Chino Basin dated June 29, 2000 regarding the Chino Groundwater Basin.

Pledged Revenues. The term “Pledged Revenues” means ad valorem property taxes received by IEUA pursuant to Section 97 *et seq.* of the Revenue and Taxation Code of the State of California and supplemental capital outlay funds received by IEUA pursuant to the Regional Sewage Service Contract.

Project. The term “Project” means certain recharge facilities described in the Peace Agreement and Program Element 2 of Exhibit B thereto. The Issuer and IEUA acknowledge that portions of the Project are currently being designed and that the definition of the Project may be revised from time-to-time without amendment to the Financing Agreement.

Regional Sewage Service Contract. The term “Regional Sewage Service Contract” means the Chino Basin Regional Sewage Service Contract, as the same may be amended from time to time.

2002 Bonds. The term “2002 Bonds” means \$59,000,000 aggregate principal amount of Chino Basin Regional Financing Authority Variable Rate Demand Revenue Bonds, Series 2002A (Inland Empire Utilities Agency) executed and delivered pursuant to the Indenture.

Trustee. The term “Trustee” means the entity or entities designated by the Issuer pursuant to any Bond Resolution to administer any funds or accounts required by such Bond Resolution or otherwise.

FINANCING OF THE 2002 GROUNDWATER RECHARGE PROJECT

Charges to IEUA.

Establishment of Charges. The Issuer shall fix charges to IEUA under the Financing Agreement equal to the amounts anticipated to be needed by the Issuer to pay Fixed Project Costs.

Insufficiency of Funds. IEUA acknowledges that Fixed Project Costs will vary from time-to-time and within any Issuer Fiscal Year. If Fixed Project Costs collected by the Issuer in any Issuer Fiscal Year are insufficient to pay Fixed Costs of the Project in such Issuer Fiscal Year, the Issuer shall promptly notify IEUA of such insufficiency and IEUA shall pay to the Issuer an amount equal to such insufficiency. The obligation of IEUA to pay Fixed Project Costs shall commence upon execution and delivery of the Financing Agreement.

Source of Payments. All Pledged Revenues are by the Financing Agreement irrevocably pledged to the payment of Fixed Project Costs as provided in the Financing Agreement and the Pledged Revenues shall not be used for any other purpose while any of the Fixed Project Costs remain unpaid; provided that out of the Pledged Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Financing Agreement. Payments by IEUA to the Issuer under the Financing Agreement are obligations of IEUA payable from that portion of Sewer Revenues comprising Pledged Revenues. Subject to the Financing Agreement, the obligation of IEUA to use Pledged Revenues to make payments under the Financing Agreement from Pledged Revenues and the pledge by IEUA with the Financing Agreement is subordinate to the obligation of IEUA to make payment of all other Contracts and Bonds. IEUA shall make such payments from the Subordinate Obligation Payment Fund in accordance with the provisions of the Financing Agreement and the Master Resolution. IEUA shall not make payment on Contracts or Bonds from amounts in the Subordinate Obligation Payment Fund if other amounts are available therefor. Nothing in the Financing Agreement shall be construed as prohibiting IEUA from using any other funds and revenues for purposes of satisfying any provisions of the Financing Agreement.

Obligation Is Not Subject To Reduction. IEUA shall make payments of Fixed Project Costs under the Financing Agreement whether or not the Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Project in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Issuer under the Financing Agreement or any other agreement.

Allocation of Costs and Expenses.

The Issuer shall update the values and amounts of Fixed Project Costs on a quarterly basis, including year-to-date comparisons, in order that the costs and expenses to IEUA may accurately reflect increases or decreases from Issuer Fiscal Year to Issuer Fiscal Year in Fixed Project Costs. In addition, each such determination shall include an adjustment to be paid or received by IEUA for succeeding Issuer Fiscal Years which shall account for the differences, if any, between projections of Fixed Project Costs used by the Issuer in determining the amounts of said Fixed Project Costs for all preceding Issuer Fiscal Years and actual Fixed Project Costs incurred by the Issuer to IEUA during such Issuer Fiscal Years.

Interest earnings on all amounts paid by IEUA to the Issuer shall be credited to IEUA through the budgeting process.

Time and Method of Payment.

Fixed Project Costs. For the Issuer Fiscal Year ending June 30, 2003, IEUA shall pay to the Issuer Fixed Project Costs as provided in the initial budget described in the Financing Agreement. Thereafter, IEUA shall pay to the Issuer, on or before July 15 of each Issuer Fiscal Year, 100% of the Fixed Project Costs for such Issuer Fiscal Year.

Statement of Charges. The Issuer shall furnish IEUA with a written statement of the estimated Fixed Project Costs for the next succeeding Issuer Fiscal Year on or prior to June 1 of the prior Issuer Fiscal Year. Such written statements shall take into account applicable credits received by the Issuer and estimated investment earnings on moneys related to the Project held by the Issuer.

Contest of Accuracy of Charges. If IEUA questions or disputes the correctness of any billing statement by the Issuer, it shall pay the Issuer the amount claimed when due and shall, within thirty (30) days of the completion and delivery of the Issuer's annual audit, request an explanation from the Issuer. If the bill is determined to be incorrect, the Issuer will adjust the bill to IEUA in the next Issuer Fiscal Year, including an adjustment equal to the interest actually earned by the Issuer on its general reserves during such period. If the Issuer and IEUA fail to agree on the correctness of a bill within thirty (30) days after IEUA has requested an explanation, the parties shall promptly submit the dispute to arbitration under Section 1280 et seq. of the Code of Civil Procedure.

Annual Capital Budget and Billing Statement. The Issuer will prepare and approve a capital budget for the period from the date of the Financing Agreement through June 30, 2003 on or prior to execution and delivery of the Financing Agreement. Such initial capital budget shall include all Fixed Project Costs. Thereafter, the Issuer will prepare a preliminary annual capital budget for each applicable Issuer Fiscal Year for credits, costs and expenses relating to the Project. The Issuer shall submit a draft of such budget to IEUA on or prior to each April 1 for review and comment. Issuer staff shall use its best efforts to resolve any questions or concerns of IEUA during such review. The Board of Directors of the Issuer will adopt a final annual capital budget for the applicable Issuer Fiscal Year on or before June 1 of each Issuer Fiscal Year. The Issuer shall supply a copy of said final annual capital budget to IEUA on or before June 15 of each Issuer Fiscal Year. Any amendment to the capital budget shall be submitted to IEUA for review and comment at least 30 days prior to action thereon by the Issuer Board of Directors.

Obligation in the Event of Default.

Written Demand. Upon failure of IEUA to (i) make any payment in full when due under the Financing Agreement or (ii) to perform any other obligation under the Financing Agreement, the Issuer shall make written demand upon IEUA. If a failure described in clause (i) above is not remedied within thirty (30) days from the date of such demand or, if Issuer Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. If a failure described in clause (ii) cannot be remedied within thirty (30) days from the date of such demand but IEUA commences remedial action within such thirty (30) day

period, such failure shall not constitute a default under the Financing Agreement. Notice of any such demand shall be provided to IEUA by the Issuer. Upon failure of the Issuer to perform any obligation of the Issuer under the Financing Agreement, IEUA shall make written demand upon the Issuer, and if said failure is not remedied within thirty (30) days from the date of such demand or, if Issuer Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to IEUA.

In addition to any default resulting from breach by the Issuer or IEUA of any agreement, condition, covenant or term of the Financing Agreement, if the Issuer or IEUA shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Issuer or IEUA asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the Issuer or IEUA shall make a general or any assignment for the benefit of its creditors, then in each and every such case the Issuer or IEUA, as the case may be, shall be deemed to be in default under the Financing Agreement.

Termination of Agreement; Continuing Obligations. Upon the failure of IEUA to make any payment which failure constitutes a default under the Financing Agreement and causes the Issuer to be in default under any Bond Resolution or related agreement, the Issuer may (in addition to the remedies provided by the Financing Agreement) give notice of termination of the provisions of the Financing Agreement insofar as the same entitle IEUA to use the Project which notice shall be effective within 30 days thereof unless such termination shall be enjoined, stayed or otherwise delayed by judicial action. Irrespective of such termination, IEUA shall remain liable to the Issuer to pay the full amount of costs under the Financing Agreement.

Enforcement of Remedies. In addition to the remedies set forth in the Financing Agreement, upon the occurrence of an Event of Default as defined in the Financing Agreement, the Issuer or IEUA, as the case may be, shall be entitled to proceed to protect and enforce the rights vested in such party by the Financing Agreement by such appropriate judicial proceeding as such party shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Financing Agreement or to enforce any other legal or equitable right vested in such party by the Financing Agreement or by law. The provisions of the Financing Agreement and the duties of each party of the Financing Agreement, their respective boards, officers or employees shall be enforceable by the other party to the Financing Agreement by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction, with the losing party paying all costs and attorney fees.

Trustee is Third Party Beneficiary. Any Trustee for Issuer Bonds shall have the right, as a third party beneficiary, to initiate and maintain suit to enforce the Financing Agreement to the extent provided in any Bond Resolution.

COVENANTS OF IEUA

Compliance with Financing Agreement and Indenture. IEUA will punctually pay the Fixed Project Costs in strict conformity with the terms of the Financing Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Financing Agreement required to be observed and performed by it, and will not terminate the Financing Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project or the Sewer System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Issuer to observe or perform any agreement, condition, covenant or term contained in the Financing Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Financing Agreement or the

insolvency, or deemed insolvency, or bankruptcy or liquidation of the Issuer or any force majeure, including Acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Protection of Security and Rights of the Issuer and the Trustee. IEUA will preserve and protect the security of the Financing Agreement and the rights of the Issuer and the Trustee to the payments under the Financing Agreement and will warrant and defend such rights against all claims and demands of all persons.

Further Assurances. IEUA will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Financing Agreement and for the better assuring and confirming unto the Issuer of the rights and benefits provided to it in the Financing Agreement.

COVENANTS OF THE ISSUER

Accounting Records and Financial Statements. The Issuer will keep appropriate accounting records in which complete and correct entries shall be made of all Issuer transactions relating to the Project, which records shall be available for inspection, copying and audit by IEUA and its accountants, attorneys and agents at reasonable hours and under reasonable conditions.

The Issuer will prepare annually within two hundred ten (210) days after the close of each Issuer Fiscal Year (commencing with the Issuer Fiscal Year ending June 30, 2003) financial statements of the Issuer for the preceding Issuer Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereof. The Issuer will promptly furnish a copy of such report to IEUA and to the Trustee.

Compliance with Law. The Issuer shall comply with all local, state and federal laws applicable to the Project.

MISCELLANEOUS

Liability of IEUA Limited to Pledged Revenues. Notwithstanding anything contained in the Financing Agreement, IEUA shall not be required to advance any moneys derived from any source of income other than that portion of the Pledged Revenues in the Subordinate Obligation Payment Fund for the payment of the Financing Payments or for the performance of any agreements or covenants required to be performed by it contained in the Financing Agreement.

The obligation of IEUA to make the payments due under the Financing Agreement is a special obligation of IEUA payable solely from that portion of the Pledged Revenues, and does not constitute a debt of IEUA or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Benefits of Financing Agreement Limited to Parties. Nothing contained in the Financing Agreement, expressed or implied, is intended to give to any person other than the Issuer, IEUA or the Trustee any right, remedy or claim under or pursuant to the Financing Agreement, and any agreement or covenant required in the Financing Agreement to be performed by or on behalf of the Issuer or IEUA or the Trustee shall be for the sole and exclusive benefit of the other parties.

Successor Is Deemed Included in all References to Predecessor. Whenever either the Issuer or IEUA or the Trustee is named or referred to in the Financing Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Issuer or IEUA or the Trustee, and all agreements and covenants required by the Financing Agreement to be performed by or on behalf of the

Issuer or IEUA or the Trustee shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Waiver of Personal Liability. No member of the Board of Directors, officer or employee of IEUA shall be individually or personally liable for the payment of the Financing Payments, but nothing contained in the Financing Agreement shall relieve any member of the Board of Directors, officer or employee of IEUA from the performance of any official duty provided by any applicable provisions of law or by the Financing Agreement.

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

Assignment. The rights to receive payments from IEUA shall be assigned by the Issuer to the Trustee as provided in the Indenture, to which assignment IEUA by the Financing Agreement expressly acknowledges and consents.

CALIFORNIA LAW. THE 2002 FINANCING AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

SUMMARY OF CERTAIN PROVISIONS OF THE RECHARGE FACILITIES AGREEMENT

DEFINITIONS

The terms set forth below shall have the meanings ascribed to such terms as follows for all purposes of the Recharge Facilities Agreement and the Official Statement unless the context clearly indicates some other meaning:

Agreement shall mean the Recharge Facilities Financing Agreement, dated as of June 1, 2002, by and between the Authority and Watermaster as the same may be amended and supplemented from time-to-time in accordance with the terms of the Recharge Facilities Agreement.

Authority means the Chino Basin Regional Financing Authority.

Authority Bonds means bonds, notes or other evidences of indebtedness issued by or on behalf of the Authority to finance or refinance the Project.

Authority Fiscal Year means the twelve month period commencing on July 1 of each calendar year and ending on the following June 30 or such other twelve month period which may be designated by the Authority as its Fiscal Year.

Bond Resolution means the resolution or resolutions providing for the issuance of Authority Bonds and the terms thereof, and any indenture or trust agreement related thereto.

Debt Service means, as of the date of calculation and with respect to Authority Bonds, an amount equal to the sum of (i) interest payable during such Authority Fiscal Year on Authority Bonds, except to the

extent that such interest is to be paid from capitalized interest, (ii) that portion of principal of Authority Bonds payable during such Authority Fiscal Year, (iii) amounts necessary to replenish any reserve fund created pursuant to a Bond Resolution, and (iv) all letters of credit, remarketing and other financing costs payable on a periodic basis. Such interest, principal and financing costs for Authority Bonds shall be calculated on the assumption that no Authority Bonds outstanding at the date of calculation will cease to be outstanding except by reason of the payment of principal on the due date thereof; provided further that, as to any such Authority Bonds bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such Authority Bonds during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Authority Fiscal Year that such Authority Bonds have borne interest) or (b) the most recent effective interest rate on such Authority Bonds prior to the date of calculation; and provided further that, as to any such Authority Bonds or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Authority Bonds or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Authority Bonds for which such debt service reserve fund was established and in each preceding Authority Fiscal Year until such amount is exhausted.

Fixed Project Costs means that portion of the capital costs of the Project not funded by Proposition 13 grant funding, also known as the Local Share of such capital costs, including (i) Debt Service on the bonds issued by the Authority to fund the Local Share, (ii) reserves for repair and replacement and improvement to the Project and (iii) reserves for payment of Debt Service on the bonds issued by the Authority to fund the Local Share.

IEUA shall mean Inland Empire Utilities Agency, a municipal water district duly organized and existing under and by virtue of the laws of the State of California.

Independent Certified Public Accountant means any firm of certified public accountants appointed by Watermaster, or the Authority, as the case may be, and each of whom is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Joint Powers Agreement means the Joint Exercise of Powers Agreement creating the Chino Basin Regional Financing Authority, as such agreement may be amended or supplemented from time to time.

Judgment means: Judgment No. RCV 51010 (previously No. 164327) of the Superior Court of the State of California for the County of San Bernardino, dated January 27, 1978, in the action *Chino Basin Municipal Water District v. City of Chino, et al.*, and any subsequent amendments thereto.

Local Share means that portion of the capital costs of the Project not paid for by Proposition 13 grant funding, and to be financed by the Authority through the issuance of bonds.

OBMP Assessment shall have the meaning ascribed thereto in the Peace Agreement.

Peace Agreement shall mean the Peace Agreement by and among Watermaster and certain other entities, dated June 29, 2000.

Project means certain recharge facilities improvements identified in the OBMP Recharge Master Plan Phase II Report. The Authority and Watermaster acknowledge that portions of the Project are currently being designed and that the definition of the Project may be revised from time-to-time without amendment to the Agreement.

Trustee means the entity or entities designated by the Authority pursuant to any Bond Resolution to administer any funds or accounts required by such Bond Resolution or otherwise.

Watermaster shall mean the Chino Basin Watermaster created pursuant to the terms of the Judgment.

Recharge Facilities. Pursuant to the terms of the Agreement, the Authority shall provide to Watermaster, and Watermaster shall utilize, the Project for recharge purposes in accordance with the Judgment, the Peace Agreement and Program Element 2 of Exhibit B thereto. Subject to Watermaster's payment obligations under the Recharge Facilities Agreement, the Authority agrees to use its best efforts to finance the Project pursuant to the Agreement. Watermaster shall be responsible for the operation of the Project, including the payment of all operation and maintenance costs with respect to the Project, and the Authority shall have no responsibility to pay any operation and maintenance costs with respect to the Project.

No Authority Responsibility for Recharge Water. Neither the Authority nor any of its officers or agents shall be liable for the control, carriage, handling, use, disposal, or distribution of recharge water; nor for claim of damage of any nature whatsoever, including but not limited to property damage, personal injury or death, arising out of or connected with the control, carriage, handling, use, disposal or distribution of such recharge water and including attorney's fees and other costs of defense in connection therewith. Watermaster shall indemnify and hold harmless the Authority and its officers, agents, and employees from any such damages or claims of damages.

Rates and Charges.

Establishment of Rates and Charges. The Authority shall fix charges to Watermaster under the Agreement equal to the amounts anticipated to be needed by the Authority to pay one-half of the Fixed Project Costs.

Insufficiency of Funds. Watermaster acknowledges that the Fixed Project Costs will vary from time-to-time and within any Authority Fiscal Year. If funds collected by the Authority in any Authority Fiscal Year are insufficient to pay Fixed Project Costs of the Project in such Authority Fiscal Year, the Authority shall promptly notify Watermaster of such insufficiency and Watermaster shall pay to the Authority an amount equal to Watermaster's portion of such insufficiency. The obligation of Watermaster to pay one-half of the Fixed Project Costs shall commence upon execution and delivery of the Agreement and continue to exist and be honored by Watermaster whether or not the Project is implemented (which provision may be characterized as an obligation to pay Watermaster's portion of the costs on a take-or-pay basis whether or not the Project is completed or is operable).

Source of Payments. The obligation of Watermaster to make payments under the Agreement is a general obligation of Watermaster. Watermaster shall make payments under the Agreement solely as an operation fee (as determined in accordance with generally accepted accounting principles). Watermaster shall make such payments on a parity with other operation and maintenance expenses of Watermaster and prior to any payments other than operation and maintenance expenses of Watermaster. Nothing in the Recharge Facilities Agreement shall be construed as prohibiting Watermaster from using any other funds and revenues for purposes of satisfying any provisions of the Agreement.

Obligation Is Not Subject To Reduction. Watermaster shall make payments under the Agreement whether or not the Project is completed, operable, operated or retired and notwithstanding the suspension, interruption, interference, reduction or curtailment of operation of the Project in whole or in part for any reason whatsoever. Such payments are not subject to any reduction, whether offset or otherwise, and are not conditioned upon performance by the Authority under the Agreement or any other agreement.

Allocation of Costs and Expenses.

Adjustments. The Authority shall update the values and amounts of Fixed Project Costs on a quarterly basis, including year-to-date comparisons, in order that the charges to Watermaster may accurately reflect increases or decreases from Authority Fiscal Year to Authority Fiscal Year in Fixed Project Costs. In addition,

each such determination shall include an adjustment to be paid or received by Watermaster for succeeding Authority Fiscal Years which shall account for the differences, if any, between projections of Fixed Project Costs used by the Authority in determining the amounts of said Fixed Project Costs for all preceding Authority Fiscal Years and actual Fixed Project Costs incurred by the Authority to Watermaster during such Authority Fiscal Years.

Interest Earnings. Interest earnings on all amounts paid by Watermaster to the Authority shall be credited to Watermaster through the budgeting process.

Time and Method of Payment.

Fixed Project Costs. For the Authority Fiscal Year ending June 30, 2003, Watermaster shall pay to the Authority within 15 days of receiving an invoice an amount equal to one-half of the Fixed Project Costs as provided in the initial budget described in the Recharge Facilities Agreement. Thereafter, Watermaster shall pay to the Authority, on or before July 15 of each Authority Fiscal Year, an amount equal to one-half of the Fixed Project Costs for such Authority Fiscal Year.

Statement of Charges. The Authority shall furnish Watermaster with a written statement of the estimated Fixed Project Costs for the next succeeding Authority Fiscal Year on or prior to June 1 of the prior Authority Fiscal Year. Such written statements shall take into account applicable credits received by the Authority and estimated investment earnings on moneys related to the Project held by the Authority.

Contest of Accuracy of Charges. If Watermaster questions or disputes the correctness of any billing statement by the Authority, it shall pay the Authority the amount claimed when due and shall, within thirty (30) days of the completion and delivery of the Authority's annual audit, request an explanation from the Authority. If the bill is determined to be incorrect, the Authority will adjust the bill to Watermaster in the next Authority Fiscal Year, including an adjustment equal to the interest actually earned by the Authority on its general reserves during such period. If the Authority and Watermaster fail to agree on the correctness of a bill within thirty (30) days after Watermaster has requested an explanation, the parties shall promptly submit the dispute to arbitration under Section 1280 et seq. of the Code of Civil Procedure.

Annual Capital Budget and Billing Statement. The Authority will promptly prepare and approve a capital budget for the period from July 1, 2002 through June 30, 2003 after execution and delivery of the Agreement. Thereafter, the Authority will prepare a preliminary annual capital budget for each applicable Authority Fiscal Year for credits, costs and expenses relating to the Project. The Authority shall submit a draft of such budget to Watermaster on or prior to each April 1 for review and comment. Authority staff shall use its best efforts to resolve any questions or concerns of Watermaster during such review. The Board of Directors of the Authority will adopt a final annual capital budget for the applicable Authority Fiscal Year on or before June 1 of each Authority Fiscal Year. The Authority shall supply a copy of said final annual capital budget to Watermaster on or before June 15 of each Authority Fiscal Year. Any amendment to the final annual capital budget shall be submitted to Watermaster for review and comment at least 30 days prior to action thereon by the Authority Board of Directors.

Obligation in the Event of Default.

Written Demand. Upon failure of Watermaster to (i) make any payment in full when due under the Agreement or (ii) to perform any other obligation under the Recharge Facilities Agreement, the Authority shall make written demand upon Watermaster. If a failure described in clause (i) above is not remedied within thirty (30) days from the date of such demand or, if Authority Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, such failure shall constitute a default at the expiration of such period. If a failure described in clause (ii) cannot be remedied within thirty (30) days from the date of such demand but Watermaster commences remedial action within such thirty (30) day period, then such failure shall not constitute a default under the Recharge Facilities Agreement. Notice of

any such demand shall be provided to Watermaster by the Authority. Upon failure of the Authority to perform any obligation of the Authority under the Recharge Facilities Agreement, Watermaster shall make written demand upon the Authority, and if said failure is not remedied within thirty (30) days from the date of such demand or, if Authority Bonds are outstanding, for such additional time as is reasonably required, in the sole discretion of the Trustee, to correct the same, then such failure shall constitute a default at the expiration of such period. Notice of such demand shall be provided to Watermaster.

In addition to any default resulting from breach by the Authority or Watermaster of any agreement, condition, covenant or term of the Recharge Facilities Agreement, if the Authority or Watermaster shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Authority or Watermaster asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the Authority or Watermaster shall make a general or any assignment for the benefit of its creditors, then in each and every such case the Authority or Watermaster, as the case may be, shall be deemed to be in default under the Recharge Facilities Agreement.

Termination of Agreement; Continuing Obligations. Upon the failure of Watermaster to make any payment which failure constitutes a default under the Agreement and causes the Authority to be in default under any Bond Resolution, the Authority may (in addition to the remedy provided by the Recharge Facilities Agreement) give notice of termination of the provisions of the Agreement insofar as the same entitle Watermaster to use the Project which notice shall be effective within 30 days thereof unless such termination shall be enjoined, stayed or otherwise delayed by judicial action. Irrespective of such termination, Watermaster shall remain liable to the Authority to pay the full amount of costs allocated to Watermaster under the Recharge Facilities Agreement.

Enforcement of Remedies. In addition to the remedies set forth in the Recharge Facilities Agreement, upon the occurrence of a default as described in the Recharge Facilities Agreement, the Authority or Watermaster, as the case may be, shall be entitled to proceed to protect and enforce the rights vested in such party by the Agreement by such appropriate judicial proceeding as such party shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Recharge Facilities Agreement or to enforce any other legal or equitable right vested in such party by the Agreement or by law. The provisions of the Agreement and the duties of each party of the Recharge Facilities Agreement, their respective boards, officers or employees shall be enforceable by the other party to the Recharge Facilities Agreement by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction, with the losing party paying all costs and attorney fees.

Trustee is Third Party Beneficiary. Any Trustee for Authority Bonds shall have the right, as a third party beneficiary, to initiate and maintain suit to enforce the Agreement to the extent provided in any Bond Resolution.

Covenants of Watermaster.

Amount of OBMP Assessment. Watermaster will fix, prescribe and collect an OBMP Assessment for payments due under the Agreement equal to at least 1.25 times Fixed Project Costs.

Budgets. On or before the first day of each Watermaster Fiscal Year, Watermaster will adopt and file with the Authority a budget approved by the governing body of Watermaster, including therein in the estimated payment obligations under the Agreement payable to the Authority. Any budget may be amended at any time during any Watermaster Fiscal Year and such amended budget shall be filed by Watermaster with the Authority.

Accounting Records and Financial Statements. Watermaster will keep appropriate accounting records with respect to the OBMP Assessments, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

Watermaster will prepare and file with the Authority annually within two hundred ten (210) days after the close of each Watermaster Fiscal Year (commencing with Watermaster Fiscal Year ending June 30, 2003) financial statements of Watermaster for the preceding Watermaster Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereon. Watermaster will promptly furnish a copy of such report to the Authority and to the Trustee.

Protection of Security and Rights of the Authority. Watermaster will preserve and protect the rights of the Authority and the Trustee to the obligations of Watermaster under the Recharge Facilities Agreement and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. Watermaster will pay and discharge all taxes, assessments and other governmental charges which may after the date of the Recharge Facilities Agreement be lawfully imposed upon the OBMP Assessments when the same shall become due. Watermaster will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the OBMP Assessments, but Watermaster shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Further Assurances. Watermaster will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to effect the financing and refinancing of the Project and to allow the Authority to comply with reporting obligations, to assure the Authority of Watermaster's intention to perform under the Recharge Facilities Agreement and for the better assuring and confirming unto the Authority and the Trustee of the rights and benefits provided to them in the Recharge Facilities Agreement.

Maintenance of Tax-Exempt Status of Authority Bonds. Notwithstanding any other provision of the Agreement, Watermaster shall not take any action or omit to take any action, directly or indirectly, in any manner, which would result in any of the Authority Bonds being treated as an obligation not described in Section 103(a) of the Internal Revenue Code of 1986, as amended, by reason of classification of such Authority Bond as a "private activity bond" within the meaning of Section 141 of said Code or for any other reason.

Covenants of the Authority.

Accounting Records and Financial Statements. The Authority will keep appropriate accounting records in which complete and correct entries shall be made of all Authority transactions relating to the Project, which records shall be available for inspection, copying and audit by Watermaster and its accountants, attorneys and agents at reasonable hours and under reasonable conditions.

The Authority will prepare annually within two hundred ten (210) days after the close of each Authority Fiscal Year (commencing with the Authority Fiscal Year ending June 30, 2003) financial statements of the Authority for the preceding Authority Fiscal Year prepared in accordance with generally accepted accounting principles, together with a report of an Independent Certified Public Accountant thereof. The Authority will promptly furnish a copy of such report to Watermaster and to the Trustee.

Compliance with Law. The Authority shall comply with all local, state and federal laws applicable to the Project.

Use of Funds for Project. The Authority shall not allow the portion of the proceeds of Authority Bonds allocated to the Project to be used for any purpose other than to pay for costs associated with financing

or refinancing the Project. Surplus proceeds of the portion of the Authority Bonds allocated to the Project not needed to pay costs associated with the Project shall be applied to redeem Authority Bonds.

Term.

The term of the Agreement shall continue until the later of December 31, 2032 or the final maturity of Authority Bonds. The parties to the Recharge Facilities Agreement agree to negotiate in good faith to amend the Agreement on or prior to such date to extend the term of the Recharge Facilities Agreement and to include terms and conditions as are mutually agreeable to the parties.

Assignment. The Authority may pledge and assign to any Trustee for Authority Bonds, all or any portion of the payments received under the Agreement from Watermaster and the Authority's other rights and interests under the Agreement. Such pledge and assignment by the Authority shall be made effective for such time as the Authority shall determine and provide that the Trustee shall have the power to enforce the Agreement in the event of a default by the Authority under a Bond Resolution. Watermaster may assign its rights or obligations under the Agreement only with the written consent of the Authority.

Amendments. Except as otherwise provided in the Agreement, on and after the date Authority Bonds are issued and so long as any Authority Bonds are outstanding in accordance with the applicable Bond Resolution, the Agreement shall not be amended, modified or otherwise changed or rescinded by agreement of the parties without the consent of each Trustee for Authority Bonds whose consent is required under the applicable Bond Resolution. The Agreement may only be otherwise amended, modified, changed or rescinded in writing by each of the parties to the Recharge Facilities Agreement.

The Authority agrees not to grant to the owners of Authority Bonds as individuals any rights relating to the amendment, modification or change of the Agreement.

Notwithstanding the foregoing, the provisions of the Agreement summarized in the first paragraph under the heading "Amendments" may be amended without the consent of each Trustee for Authority Bonds for any of the following purposes: (1) to add to the agreements, conditions, covenants and terms contained in the Recharge Facilities Agreement required to be observed or performed by the Authority or Watermaster other agreements, conditions, covenants and terms after the date of the Recharge Facilities Agreement to be observed or performed by the Authority or Watermaster, or to surrender any right reserved in the Recharge Facilities Agreement to or conferred in the Recharge Facilities Agreement on the Authority or Watermaster, and which in either case shall not adversely affect the interests of the owners of any Authority Bonds; (2) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Recharge Facilities Agreement or in regard to questions arising under the Recharge Facilities Agreement which the Authority or Watermaster may deem desirable or necessary and not inconsistent with the Recharge Facilities Agreement, and which shall not materially adversely affect the interests of the owners of any Authority Bonds; (3) to make any modifications or changes necessary or appropriate in the opinion of a firm of nationally recognized standing in the field of law relating to municipal bonds to preserve or protect the exclusion from gross income of interest on the Authority Bonds for federal income tax purposes; (4) to make any modifications or changes to the Agreement in order to enable the execution and delivery of Authority Bonds on a parity with any Authority Bonds previously issued and to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Authority Bonds; (5) to make any other modification or change to the provisions of the Agreement which does not materially adversely affect the interests of the owners of any Authority Bonds; (6) to make changes to the definition of "Project."

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

DEFINITIONS

The terms set forth below shall have the meanings ascribed to such terms as follows for all purposes of the Indenture and the Official Statement unless the context clearly indicates some other meaning:

Agency. The term “Agency” shall mean the Inland Empire Utilities Agency, a municipal water district duly organized and existing under and by virtue of the laws of the State of California.

Alternate Credit Facility. The term “Alternate Credit Facility” shall mean a Credit Facility issued to replace a Credit Facility as provided in the Indenture.

Authorized Denominations. The term “Authorized Denominations” shall mean, with respect to the Bonds, (a) which are subject to a Long-Term Interest Rate Period, \$5,000 or any integral multiple thereof, and (b) which are subject to a Daily Interest Rate Period, a Weekly Interest Rate Period or a Short-Term Interest Rate Period, \$100,000 or any integral multiple of \$5,000 in excess of \$100,000.

Available Money. The term “Available Money” means (i) proceeds of drawings on the Credit Facility, including investment earning thereon, (ii) proceeds of the remarketing of the Bonds deposited in the Bond Purchase Fund in accordance with the Indenture, including the investment earning thereon, (iii) the proceeds of any contracts, bonds or notes issued or incurred by or on behalf of the Agency to refund the Bonds, and (iv) moneys, including investment earnings thereon, for which an opinion of counsel experienced in bankruptcy matters has been delivered to the Trustee to the effect that the use of such amounts would not be voidable as preferential payments under federal bankruptcy laws.

Bank Bonds. The term “Bank Bonds” shall mean Bonds purchased by a Credit Facility Provider or its assignee pursuant to a Credit Facility, if any.

Bank Rate. The term “Bank Rate” shall have the meaning set forth in the Credit Facility, if any; provided that the Bank Rate shall in no event exceed the Maximum Bank Rate.

Base Rate. The term “Base Rate” shall have the meaning set forth in the Credit Facility, if any.

Basic Bond Rate. The term “Basic Bond Rate” shall mean the rate of interest applicable to Bonds that are not Bank Bonds.

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

Bond Interest Term. The term “Bond Interest Term” means each period established in accordance with the Indenture during which the interest rate with respect to a Bond shall be a Bond Interest Term Rate.

Bond Interest Term Rate. The term “Bond Interest Term Rate” shall mean, with respect to each Bond, a non-variable interest rate with respect such Bond established periodically in accordance with the Indenture.

Bond Purchase Fund. The term “Bond Purchase Fund” shall mean the fund with that name established with the Tender Agent pursuant to the Indenture.

Bonds. The term “Bonds” means the Chino Basin Regional Financing Authority Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B in the aggregate principal amount of \$55,675,000.

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

Book-Entry System. The term “Book-Entry System” shall mean the system maintained by the Securities Depository and described in the Indenture.

Business Day. The term “Business Day” shall mean, for purposes of the Bonds, any day other than (i) a Saturday or Sunday or (ii) a day on which banks located (A) in the city in which the Corporate Trust Office of the Trustee is located, (B) in the city in which drawings under the applicable Credit Facility, if any, are to be honored (initially, New York, New York) is located, (C) in the city in which the Corporate Trust Office of the Tender Agent at which the Bonds may be tendered for purchase by the owners thereof is located or (D) in the city in which the principal office of the Remarketing Agent is located, are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

Certificate or Request. The term “Certificate” or “Request” means (i) with respect to the Agency, an instrument in writing signed on behalf of the Agency by the President of the Board of Directors of the Agency, or by any other officer of the Agency duly authorized by the Board of Directors of the Agency to sign documents on its behalf with respect to the matters referred to therein; and (ii) with respect to the Issuer, by the President of the Commission of the Issuer, or by any other officer of the Issuer duly authorized by the Commission of the Issuer to sign documents on its behalf with respect to the matters referred to therein.

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

Conversion, Convert or Converted. The term “Conversion,” “Convert” or “Converted” shall mean or refer to a conversion of the Bonds from one Interest Rate Period to another Interest Rate Period as provided in the Indenture.

Conversion Date. The term “Conversion Date” shall mean the effective date of a Conversion of the Bonds.

Credit Facility. The term “Credit Facility” shall mean any irrevocable, direct-pay letter of credit issued in favor of the Trustee by the Credit Facility Provider and all amendments, extensions, renewals or substitutions thereof pursuant to its terms, and upon the effectiveness of any Alternate Credit Facility, such Alternate Credit Facility, and the reimbursement agreement pursuant to which the initial letter of credit or Alternate Credit Facility is issued. When used in the Indenture at a time when there is more than one Credit Facility securing the Bonds, the term “Credit Facility” shall mean, as the context dictates, either all such Credit Facilities collectively, or only each Credit Facility with respect to particular Bonds. The initial Credit Facility shall be the Letter of Credit, dated April 15, 2008, issued by Dexia Credit Local, acting through its New York Branch, pursuant to the Letter of Credit Reimbursement Agreement.

Credit Facility Provider. The term “Credit Facility Provider” shall mean the issuer of the Credit Facility, and upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility. The initial Credit Facility Provider shall be Dexia Credit Local, acting through its New York Branch. When used herein at a time when there is more than one Credit Facility securing the Bonds, the term “Credit Facility Provider” shall mean, as the context dictates, either all such Credit Facility Providers collectively, or only each Credit Facility Provider acting with respect to particular Bonds and a particular Credit Facility.

Credit Facility Purchase Account. The term “Credit Facility Purchase Account” shall mean the account with that name established within the Bond Purchase Fund pursuant to the Indenture.

Daily Interest Rate. The term “Daily Interest Rate” shall mean a variable interest rate with respect to the Bonds established in accordance with the Indenture.

Daily Interest Rate Period. The term “Daily Interest Rate Period” shall mean each period during which a Daily Interest Rate is in effect for the Bonds.

Date of Original Issuance. The term “Date of Original Issuance” means the date on which the Bonds were initially executed and delivered.

Default Rate. The term “Default Rate” shall have the meaning set forth in the Credit Facility, if any.

Defeasance Securities. The term “Defeasance Securities” has the meaning as set forth in the Master Resolution.

Delivery Costs. The term “Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the Agency and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, Credit Facility fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original execution and delivery of the Bonds.

Delivery Costs Fund. The term “Delivery Costs Fund” means the account by that name established pursuant to the Indenture.

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

Differential Interest Amount. The term “Differential Interest Amount” shall mean the amount of interest owing to the Credit Facility Provider, if any, under the Credit Facility, if any, because of the Credit Facility Provider’s purchase of a Bank Bond which exceeds the amount of accrued interest payable by the purchaser of such Bank Bond upon its remarketing by the Remarketing Agent.

Draw Request. The term “Draw Request” shall mean a request by the Tender Agent under a Credit Facility, if any, or an Alternate Credit Facility for the payment of the Purchase Price of Bonds in accordance with the terms of the Indenture.

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

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

Eligible Account. The term “Eligible Account” means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has an S&P short-term debt rating of at least “A-2” (or, if no short-term debt rating, a long-term debt rating of “BBB+”); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

Escrow Agent. The term “Escrow Agent” shall mean U.S. Bank National Association, as escrow agent pursuant to the terms of the Escrow Agreement or its successors thereunder.

Escrow Agreement. The term “Escrow Agreement” shall mean the Escrow Agreement dated as of March 1, 2008, by and between the Authority and the Escrow Agent, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Event of Default. The term “Event of Default” means an Event of Default as defined in Section 8.1 of the Installment Purchase Agreement, or a default as described in Section 2.03 of the Financing Agreement or Section 7 of the Recharge Agreement.

Excess Investment Earnings Fund. The term “Excess Investment Earnings Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

Favorable Opinion of Bond Counsel. The term “Favorable Opinion of Bond Counsel” shall mean an opinion of Bond Counsel addressed to the Agency, the Trustee, the Remarketing Agent (if any), the Credit Facility Provider (if any) to the effect that an action proposed to be taken is not prohibited by the laws of the State or the Indenture and will not adversely affect the exclusion from gross income for federal income tax purposes of interest with respect to the Bonds.

Federal Funds Rate. The term “Federal Funds Rate” shall have the meaning set forth in the Credit Facility, if any.

Financing Agreement. The term “Financing Agreement” means that certain 2002 Financing Agreement dated as of June 1, 2002 by and between the Agency and the Issuer.

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

Fixed Rate Bonds. The term “Fixed Rate Bonds” means Bonds representing interest at a Long-Term Interest Rate for a Long-Term Interest Rate Period extending to the Maturity Date.

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

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

Indenture. The term “Indenture” means the Indenture of Trust executed and entered into as of March 1, 2008 by and between the Trustee and the Issuer, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance with the Indenture.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the Issuer may specify in a certificate to the Trustee as the Trustee may select.

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

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

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of March 1, 2008, by and between the Agency and the Issuer, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

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

Interest Accrual Date. The term “Interest Accrual Date” shall mean with respect to the Bonds:

- (a) for any Weekly Interest Rate Period, the first day thereof, and thereafter, the first Wednesday of each month during that Weekly Interest Rate Period;
- (b) for any Daily Interest Rate Period, the first day thereof, and thereafter, the first day of each month;
- (c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long-Term Interest Rate Period, other than the last such Interest Payment Date; and
- (d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

Interest Payment Date. The term “Interest Payment Date” with respect to the Bonds shall mean:

- (a) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if such first Wednesday shall not be a Business Day, the next succeeding Business Day;
- (b) for any Daily Interest Rate Period, the fifth Business Day of each calendar month;
- (c) for any Long-Term Interest Rate Period, each June 1 and December 1;
- (d) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term;
- (e) for each Interest Rate Period, the day next succeeding the last day thereof; and
- (f) for Bank Bonds, the days on which interest is due pursuant to the Credit Facility, if any, or any agreement providing therefor.

Interest Rate Period. The term “Interest Rate Period” shall mean each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period.

Issuer. The term “Issuer” means the Chino Basin Regional Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Letter of Credit Reimbursement Agreement. The term “Letter of Credit Reimbursement Agreement” means the Letter of Credit Reimbursement Agreement, dated as of December __, 2015, by and among the Agency, the Issuer and Sumitomo Mitsui Banking Corporation, acting through its New York Branch.

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

Long-Term Interest Rate. The term “Long-Term Interest Rate” shall mean a term, non-variable interest rate established in accordance with the Indenture.

Long-Term Interest Rate Period. The term “Long-Term Interest Rate Period” shall mean each period during which a Long-Term Interest Rate is in effect.

Mandatory Standby Tender. The term “Mandatory Standby Tender” shall mean the mandatory tender of Bonds pursuant to the Indenture upon receipt by the Trustee of written notice from the Credit Facility Provider that an event with respect to the Credit Facility has occurred which requires that all Outstanding Bonds secured by such Credit Facility be tendered for purchase.

Master Resolution. The term “Master Resolution” means the Resolution of the Board of Directors of the Chino Basin Municipal Water District Providing for the Allocation of Sewer System Revenues and Establishing Covenants to Secure the Payment of Obligations Payable from Sewer Revenues, adopted by the Board of Directors of the Agency on March 30, 1994, as it is from time to time modified, amended or supplemented.

Maturity Date. The term “Maturity Date” shall mean June 1, 2032.

Maximum Bank Rate. The term “Maximum Bank Rate” means the lesser of (a) the maximum rate provided in the Credit Facility and (b) the Maximum Rate.

Maximum Rate. The term “Maximum Rate” shall mean the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the Bonds; provided, however, to the extent permitted by law, Bank Bonds shall not be subject to any Maximum Rate.

Moody’s. The term “Moody’s” shall mean Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “Moody’s” will be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Issuer by written notice to the Trustee.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

Obligation Payment Fund. The term “Obligation Payment Fund” means the fund by that name established pursuant to Section 2.04 of the Master Resolution.

Operational Arrangements of DTC. The term “Operational Arrangements of DTC” shall mean the put procedures of DTC as set forth in Exhibit C to the Indenture.

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

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

Participant. The term “Participant” shall mean, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

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

Permitted Investments. The term “Permitted Investments” means any of the following, if and to the extent permitted by law and by any policy guidelines promulgated by the Issuer.

(1) direct 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;

(2) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Farmers Home Administration
- Federal Financing Bank
- Federal Housing Administration Debentures
- General Services Administration
- Government National Mortgage Association (GNMA)
- U.S. Maritime Administration
- U.S. Department of Housing & Urban Development;

(3) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies, including:

- Federal Home Loan Bank System
- Federal Home Loan Mortgage Corporation (FHLMC)
- Federal National Mortgage Association (FNMA)
- Student Loan Marketing Association
- Resolution Funding Corp.
- Farm Credit System

(4) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2;

(5) certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral;

(6) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF;

(7) investment agreements, including GIC’s, forward purchase agreements and reserve fund put agreements, approved by the Credit Facility Provider, if any;

(8) commercial paper rated, at the time of purchase, “A-1” or better by S&P and “Prime-1” by Moody’s;

(9) bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies;

(10) federal funds or bankers acceptances with a maximum term of one year or deposit accounts of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A2” or better by Moody’s and “A-1” or “A” or better by S&P; and

(11) repurchase agreements for 30 days or less must follow the following criteria. Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

(a) repos must be between the municipal entity and a dealer bank or securities firm

(i) primary dealers on the Federal Reserve reporting dealer list which are rated “A” or better by S&P and Moody’s, or

(ii) banks rated “A” or above by S&P and Moody’s

(b) the written repo contract must include the following:

(i) securities which are acceptable for transfer are (1) direct U.S. governments or (2) federal agencies backed by the full faith and credit of the U.S. government, FNMA and FHLMC;

(ii) the term of the repo may be up to 30 days

(iii) the collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities)

(iv) valuation of collateral

(x) the securities must be valued weekly, marked to market at current market price plus accrued interest.

(y) the value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

(c) legal opinion which must be delivered to the municipal entity:

(i) repo meets guidelines under state law for legal investment of public funds; and

(12) the Local Agency Investment Fund referred to in Section 16429.1 of the California Government Code.

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

“Value”, which shall be determined as of May 1 and November 1 of each year, means that the value of any investments shall be calculated as follows:

- (a) as to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;
- (b) as to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;
- (c) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and
- (d) as to any investment not specified above: the value thereof established by prior agreement between the Issuer, the Agency and the Trustee.

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

Principal Corporate Trust Office. The term “Principal Corporate Trust Office” means the principal corporate trust office of the Trustee in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the Agency, the Issuer, the Credit Facility Provider, if any, and the Owners.

Project. The term “Project” shall mean, collectively, (i) the Project, as defined in the Installment Purchase Agreement, and (ii) the Project, as defined in the Recharge Agreement.

Project Agreements. The term “Project Agreements” shall mean the Installment Purchase Agreement, the Financing Agreement and the Recharge Agreement.

Purchase Date. The term “Purchase Date” shall mean the date on which Bonds are required to be purchased pursuant to the Indenture.

Purchase Price. The term “Purchase Price” shall mean the purchase price to be paid to the Owners of Bonds purchased pursuant to the Indenture, which shall be equal to the principal amount thereof tendered for purchase, plus accrued interest from the immediately preceding Interest Accrual Date to the Purchase Date (if the Purchase Date is not an Interest Payment Date), plus, in the case of a Conversion from the Long-Term Interest Rate on an optional redemption date, any applicable premium.

Rating Agency. The term “Rating Agency” means S&P and Moody’s and any other nationally recognized rating agency then rating the Bonds.

Rating Confirmation. The term “Rating Confirmation” means written confirmation from each Rating Agency that the proposed action or event will not in and of itself result in a reduction or withdrawal in such Rating Agency’s current rating on the Bonds.

Rebate Regulations. The term “Rebate Regulations” means the Proposed and Temporary Treasury Regulations promulgated under Section 148(f) of the Code.

Recharge Agreement. The term “Recharge Agreement” means that certain Recharge Facilities Financing Agreement dated as of May 1, 2002 by and between the Issuer and Watermaster.

Record Date. The term “Record Date” shall mean, with respect to Bonds, (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (ii) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (iii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the fifteenth (15th) day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date shall occur less than fifteen (15) days after the first day of a Long-Term Interest Rate Period, that first day.

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

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

Remarketing Account. The term “Remarketing Account” shall mean the account with that name established within the Bond Purchase Fund pursuant to the Indenture.

Remarketing Agent. The term “Remarketing Agent” shall mean each Person qualified under the Indenture to act as Remarketing Agent for Bonds and appointed by the Issuer from time to time. The current Remarketing Agent for the Bonds is [U.S. Bancorp.]

Remarketing Agreement. The term “Remarketing Agreement” shall mean the Remarketing Agreement between the Issuer and a Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of a Remarketing Agent under the Indenture, as amended from time to time.

Reserve Fund. The term “Reserve Fund” shall mean the fund by that name established in the Indenture.

Reserve Requirement. The term “Reserve Requirement” shall mean \$2,130,836.

Revenues. The term “Revenues” means amounts received by the Issuer pursuant to or with respect to the Project Agreements and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

Securities Depository. The term “Securities Depository” shall mean DTC or, if applicable, any successor securities depository appointed pursuant to the Indenture.

Short-Term Interest Rate Period. The term “Short-Term Interest Rate Period” shall mean each period, consisting of Bond Interest Terms, during which Bonds bear interest at one or more Bond Interest Term Rates.

SIFMA. The term “SIFMA” shall mean the Securities Industry and Financial Markets Association (formerly known as the Bond Market Association and the Public Securities Association), its successors and assigns.

SIFMA Index. The term “SIFMA Index” shall mean on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal

Market Data and published or made available by SIFMA or any Person acting in cooperation with or under the sponsorship of SIFMA, and effective from such date.

S&P. The term “S&P” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency (other than Moody’s) designated by the Issuer by written notice to the Trustee.

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

Statement of the Issuer or the Agency. The term “Statement of the Issuer or the Agency” means a statement signed by or on behalf of (i) the Issuer by its President or Executive Director or (ii) the Agency by the President or the General Manager who are specifically authorized by resolution of the Agency to sign or execute such a document on its behalf. If and to the extent required by the provisions of the Indenture, each Statement of the Issuer or the Agency shall include the statements provided for in the Indenture.

2002 Bonds. The term “2002 Bonds” shall mean the Chino Basin Regional Financing Authority Revenue Bonds (Inland Empire Utilities Agency), Series 2002A in the aggregate principal amount of \$59,000,000.

Tax Certificate. The Term “Tax Certificate” means the Tax Certificate dated April 15, 2008, concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by and delivered to the Agency on the date of execution and delivery of the Bonds, including any and all exhibits attached thereto.

Tender Agent. The term “Tender Agent” shall mean each Person qualified under the Indenture to act as Tender Agent with respect to the Bonds and so appointed by the Agency and so acting from time to time, and its successors. The initial Tender Agent shall be U.S. Bank National Association. While the Credit Facility is in effect, the Tender Agent shall at all times be the Trustee.

Trustee. The term “Trustee” means U.S. Bank National Association, a national banking association having a principal corporate trust office in Los Angeles, California, or such other office as the Trustee may from time to time designate in writing to the Agency, the Issuer, the Credit Facility Provider, if any, and the Owners, or its successor as Trustee under the Indenture.

Undelivered Bond. The term “Undelivered Bond” shall mean any Bond which constitutes an Undelivered Bond under the provisions of the Indenture.

Weekly Interest Rate. The term “Weekly Interest Rate” shall mean a variable interest rate for the Bonds established in accordance with the Indenture.

Weekly Interest Rate Period. The term “Weekly Interest Rate Period” shall mean each period during which a Weekly Interest Rate is in effect for the Bonds.

Written Consent of the Issuer or the Agency, Written Order of the Issuer or the Agency. Written Request of the Issuer or the Agency, Written Requisition of the Issuer or the Agency. The terms “Written Consent of the Issuer or the Agency,” “Written Order of the Issuer or the Agency,” “Written Request of the Issuer or the Agency,” and “Written Requisition of the Issuer or the Agency” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Issuer by its President or a Vice President or (ii) the Agency by the President or General Manager or its Finance Director or by the Secretary or by any two persons (whether or not members of the Board of Directors) who are specifically authorized by resolution of the Agency to sign or execute such a document on its behalf.

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

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

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

Bond Registration Books. The Trustee will keep or cause to be kept, at the Principal Corporate Trust Office of the Trustee sufficient books for the registration and transfer of the Bonds, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Issuer, the Agency or the Credit Facility Provider, if any, and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided above.

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

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

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

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

Book-Entry System.

(a) Election of Book-Entry System. Prior to the authentication and delivery of the Bonds, the Agency may provide that such Bonds shall be initially executed and delivered as book-entry Bonds. If the Agency shall elect to deliver any Bonds in book-entry form, then the Agency shall cause the delivery of a separate single fully registered certificate (which may be typewritten) for each maturity date of each series of such Bonds in an authorized denomination corresponding to that total principal amount of the Bonds of such series designated to mature on such date. Upon initial authentication and delivery, the ownership of each such Bond shall be registered in the Bond registration books in the name of the Nominee, as nominee of the Depository and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as set forth in the Indenture.

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

So long as the Bonds are book entry only, payment for tendered Bonds shall be effected according to the Operational Arrangements of DTC.

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

not inconsistent with the Indenture, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

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

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

(e) Transfer of Bonds to Substitute Depository.

(i) The Bonds shall be initially authenticated and delivered as provided in the Indenture. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (b) of subsection (i) of this subsection ("Substitute Depository"); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any Substitute Depository, upon (i) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (ii) a determination by the Issuer that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (C) to any person as provided below, upon (i) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (ii) a determination by the Issuer that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

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

(iii) In the case of a partial redemption or an advance refunding of any Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute

Depository or its successor) shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations.

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

Credit Facility. A Credit Facility, in an amount equal to the sum of outstanding principal and interest calculated at the Maximum Rate for the number of days as may be approved by the Rating Agencies, will be maintained by the Issuer for the Bonds bearing interest at the Daily Interest Rate, the Bond Interest Term Rates, the Weekly Interest Rate and, if and to the extent that the Issuer elects, the Long-Term Interest Rate.

(a) Draw Requests to Pay Interest. If a Credit Facility for the Bonds is in effect, the Trustee is directed, on or before each Interest Payment Date, to make a drawing under such Credit Facility, in accordance with the terms of the Credit Facility, no later than the time provided in such Credit Facility for presentations of drafts in order to receive payment in immediately available funds by 1:00 p.m., New York City time, on such Interest Payment Date, equal to the interest on Bonds then payable from such Credit Facility due on such Interest Payment Date (other than such interest representing a portion of the purchase price of any Bonds required to be purchased on such date and other than any interest due on Bank Bonds) and to use such drawing to pay such interest on the Bonds on such Interest Payment Date. The proceeds of such drawing will be deposited in the Interest Account in a separate subaccount separate and apart from any moneys not received pursuant to a draw on a Credit Facility and held uninvested pending application to the payment of interest on such Bonds. In determining the amount of any such interest, the Trustee will not take into consideration any interest on any Bond for any period when such Bond is a Bank Bond, and no drawings under such Credit Facility will be made, or be used, to pay interest on any Bond for any period when such Bond is a Bank Bond or any Bond owned by or on behalf of the Issuer or the Agency. If in the event the Credit Facility Provider fails to honor a draw request to pay interest on the Bonds as provided in the Indenture, the Trustee will immediately transfer Revenues on deposit in the Bond Payment Fund to the Interest Account in the amount of such draw request in accordance therewith.

(b) Draw Requests to Pay Principal. If a Credit Facility for the Bonds is in effect, on or before each date on which a payment of principal or Redemption Price (if covered by such Credit Facility) is due either at maturity or as a result of any mandatory or optional redemption of such Bonds or any acceleration of the maturity of such Bonds or otherwise (in each case, other than an amount representing the principal portion of the purchase price of any such Bonds required to be purchased on such date and other than any principal due on Bank Bonds), the Trustee is directed to make a drawing under such Credit Facility, in accordance with the terms of the Credit Facility, no later than the time provided in such Credit Facility for presentations of drafts in order to receive payment in immediately available funds by 1:00 p.m., New York City time, on the date such principal or Redemption Price (if covered by such Credit Facility) is payable, equal to the amount of such principal or Redemption Price payment and to use such drawing to make such payment. The proceeds of such drawing will be deposited in the Principal Account, in a separate subaccount separate and apart from any moneys not received pursuant to a draw on a Credit Facility and held uninvested pending application to the payment of the principal of and Redemption Price (if covered by such Credit Facility) on such Bonds. In determining the amount of such principal and Redemption Price then due, the Trustee will not take into consideration any principal or Redemption Price required on Bank Bonds, and no drawings under such Credit Facility will be made or be used to pay any principal of or Redemption Price on Bank Bonds or

any Bonds owned by or on behalf of the Issuer or the Agency. If in the event the Credit Facility Provider fails to honor a draw request to pay the principal of Bonds as provided in the Indenture, the Trustee will immediately transfer Revenues on deposit in the Bond Payment Fund to the Principal Account in the amount of such draw request in accordance therewith.

(c) Draw Requests to Pay Purchase Price. If there is not a sufficient amount of money available to pay the Purchase Price pursuant to the Indenture on a Purchase Date on which Bonds are required to be purchased pursuant thereto, the Trustee will make a Draw Request or Requests under the Credit Facility for such Bonds in accordance with its terms to receive immediately available funds on the Purchase Date sufficient to pay the balance of the Purchase Price. The Trustee will deposit the proceeds of such Draw Requests in the Credit Facility Purchase Account pursuant to the Indenture pending application of that money to the payment of the Purchase Price. In determining the amount of the Purchase Price then due, the Trustee and the Tender Agent will not take into consideration any Bank Bonds or Bonds owned by or held on behalf of or for the benefit of or for the account of the Issuer or the Agency. No Draw Requests will be made under a Credit Facility to pay the Purchase Price of Bank Bonds or Bonds known to the Trustee to be owned by or on behalf of the Issuer or the Agency. Bank Bonds may not be tendered for purchase at the option of the Credit Facility Provider. Any Draw Request made with respect to a mandatory tender due to the substitution of a Credit Facility pursuant to the Indenture will be made on such original Credit Facility and not on any Alternate Credit Facility.

(d) Surrender of Credit Facility. If an Alternate Credit Facility is delivered to the Tender Agent pursuant to the Indenture with the documents required by the Indenture, then the Tender Agent will accept the Alternate Credit Facility and surrender the Credit Facility previously held for cancellation, provided that no Credit Facility will be surrendered until after the date on which Bonds required to be purchased pursuant to the Indenture have been purchased in accordance therewith. Upon the defeasance of Bonds pursuant to this Indenture and at such time as the Bonds are no longer subject to tender for purchase, the Tender Agent will surrender the Credit Facility to the Credit Facility Provider for cancellation in accordance with the terms of the Credit Facility. The Tender Agent will comply with the procedures set forth in the Credit Facility relating to the termination thereof and will deliver any certificates reducing the stated amount of the Credit Facility in accordance with the provisions thereof.

(e) Notice by Trustee. In connection with a Mandatory Standby Tender resulting in a mandatory purchase of Bonds as provided in the Indenture, the Trustee will give the notice of mandatory tender for purchase of such Bonds as provided therein.

(f) Notices from the Issuer and the Trustee.

(i) Notices from the Issuer. The Issuer will give notice to the Trustee, the Agency, the Remarketing Agent, the Tender Agent and the Credit Facility Provider promptly upon the occurrence of any of the following events.

- (A) the extension of the expiration date thereof;
- (B) the execution of an Alternate Credit Facility; and
- (C) the appointment of a successor to any of the Credit Facility Provider, the Remarketing Agent, the Trustee or the Tender Agent.

(ii) Notices from Trustee to Owners of Bonds. The Trustee will, promptly upon receipt of notice from: (a) the Issuer of the occurrence of any of the events listed in subparagraph (i) above, give notice to the Owners of Outstanding Bonds of the occurrence of that event and (b) the Credit Facility Provider of notice of a Mandatory Standby Tender, give notice to the Agency, the Tender Agent, the Remarketing Agent and the Owners of Outstanding Bonds of the occurrence of the Mandatory Standby Tender with the information set forth in the Indenture.

Remarketing of Bonds; Notice of Interest Rates.

(a) Remarketing. Upon a mandatory tender (other than a Mandatory Standby Tender or a mandatory tender upon expiration of the Credit Facility when no Alternate Credit Facility is in effect) or notice of tender for purchase of Bonds, the Remarketing Agent will offer for sale and use its best efforts to sell such Bonds at up to the Maximum Rate on the same date designated for purchase thereof in accordance with the Indenture and, if not remarketed on such date, thereafter until sold, at a price equal to the price specified therein if such Bonds are Bank Bonds and a price equal to the par amount thereof plus accrued interest, if any, if such Bonds are not Bank Bonds. Bonds subject to a Mandatory Standby Tender or a mandatory tender upon termination or expiration of the Credit Facility when no Alternate Credit Facility is in effect will not be remarketed unless (i) such Bonds are in a Long-Term Interest Rate Period to their Maturity Date, (ii) an Alternate Credit Facility is delivered to the Tender Agent pursuant to the Indenture and is in full force and effect, or (iii) the Trustee has received written notice from the Credit Facility Provider that all events of default under the Credit Facility have been cured and that the Credit Facility has been reinstated. No Bonds will be sold by the Remarketing Agent to the Agency or the Issuer.

(b) Notice of Rates and Terms. The Remarketing Agent will determine the rate of interest for Bonds during each Interest Rate Period and each Bond Interest Term relating thereto and the Bond Interest Terms for Bonds during each Short-Term Interest Rate Period relating thereto as provided in the Indenture and will furnish to the Trustee each rate of interest and Bond Interest Term so determined by telephone or telecopy, promptly confirmed in writing. Notice of each Long-Term Interest Rate, Bond Interest Term Rate and Bond Interest Term so determined will be made on the date of determination; notice of each Daily Interest Rate will be made each Business Day; and notice of each Weekly Interest Rate will be made no later than Wednesday of each week. In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

(c) Notice of Purchase and Remarketing. As soon as practicable, but in any event by no later than (i) 11:15 a.m., New York City time with respect to Bonds in a Weekly Interest Rate Period or a Daily Interest Rate Period, or (ii) 12:30 p.m. New York City time with respect to all other Bonds, on the Purchase Date in the case of Bonds to be purchased pursuant to the Indenture and by no later than 4:00 p.m., New York City time on the last Business Day prior to the Purchase Date in the case of Bonds to be purchased pursuant to the Indenture, the Remarketing Agent will inform the Tender Agent and Trustee by telephone, promptly confirmed in writing, or by written notice, of the principal amount of Bonds tendered for purchase sold by the Remarketing Agent pursuant to the Indenture and the name, address and taxpayer identification number of each such purchaser, the principal amount of Bonds to be purchased and the denominations in which such Bonds are to be delivered.

Promptly upon receipt of such notice from the Remarketing Agent, but in any event by no later than 11:30 a.m. New York City time on the Purchase Date, following receipt of notice from the Remarketing Agent by 11:15 a.m. New York City time with respect to the amount of Bonds to be purchased for which funds have been transferred to the Remarketing Agent, the Trustee will (i) notify the Agency, the Trustee and the Credit Facility Provider by telephone, promptly confirmed in writing, as to the aggregate purchase price of Bonds to be purchased and as to the amount of the difference between (i) the total purchase price of those Bonds with respect to which a notice was received pursuant to the Indenture and those Bonds to be purchased pursuant thereto, and (ii) the Purchase Price of those Bonds to be purchased pursuant to the Indenture that have been remarketed by the Remarketing Agent pursuant thereto and (ii) submit a Draw Request under the Credit

Facility in accordance with the Indenture, whether the notice from the Remarketing Agent described above has been received or not, in an amount equal to the Purchase Price of Bonds to be purchased less the remarketing proceeds actually received by the Tender Agent or the Trustee from the Remarketing Agent. A copy of such drawing will be mailed by the Trustee to the Agency and the Tender Agent.

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

There is established under the Indenture with the Trustee the following funds and accounts for the Bonds: the Bond Payment Fund, the Reserve Fund and the Delivery Costs Fund. Within the Bond Payment Fund there is established under the Indenture an Interest Account, a Principal Account and a Redemption Account.

Delivery Costs shall be paid from amounts on deposit in the Delivery Costs Fund. The Trustee shall make such payments in the amounts, at the times, in the manner, and on the other terms and conditions set forth in the Indenture. No such payment shall be made until the Trustee shall have received a requisition Certificate from the Agency or the Issuer. Upon the earlier of the written direction from the Issuer to the effect that all Delivery Costs have been paid or the six month anniversary of the initial issuance of the Bonds, the Trustee shall transfer any remaining money in the Delivery Costs Fund to the Bond Payment Fund and the Delivery Costs Fund shall thereafter be closed.

Selection of Bonds To Be Redeemed. If any Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Indenture, in which case the Trustee shall, without charge to the Owner, authenticate and issue a replacement Bond or Bonds for the unredeemed portion thereof. In the case of a partial redemption of Bonds, the Trustee shall select the Bonds to be redeemed by lot at such times as directed by the Agency in writing at least thirty (30) days prior to the redemption date and if such selection is more than sixty (60) days before a redemption date, shall appropriately identify the Bonds so called for redemption by stamping them at the time any Bonds so selected for redemption is presented to the Trustee for stamping or for transfer or exchange, or by such other method of identification as is deemed adequate by the Trustee, and any Bond or Bonds issued in exchange for, or to replace, any Bond so called for prior redemption shall likewise be stamped or otherwise identified. The Trustee shall not select the Bonds for mandatory redemption pursuant to the Indenture more than sixty (60) days prior to the redemption date.

Notwithstanding anything in the Indenture to the contrary, any Bank Bonds shall be selected for redemption pursuant to the Indenture prior to the selection of any other Bonds.

Notice of Redemption. The Issuer shall notify the Trustee at least forty-five (45) days prior to the redemption date for Bonds pursuant to the Indenture. Notice of redemption shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, (i) to the respective Owners of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail, and (iii) to the Information Services by first-class mail with a copy to the Credit Facility Provider, if any. Notice of redemption shall be given in the form and in accordance with the terms of the Indenture. Any notice given by the Trustee with respect to an optional redemption of Bonds shall state that such redemption is conditioned on Available Moneys being used and available therefor.

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

Effect of Redemption of Bonds. If notice of redemption having been duly given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the

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

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

INSTALLMENT PURCHASE PAYMENTS

Assignment of Revenues. The Issuer, for good and valuable consideration, unconditionally grants, transfers and assigns to the Trustee without recourse all its rights to receive the Revenues and enforce the Project Documents upon an event of default under the Indenture for the benefit of the Owners of the Bonds, for the purpose of securing: (a) the payment of all sums due and owing to the Owners of the Bonds under the terms of the Indenture; (b) the observance, performance and discharge of each agreement, condition, covenant and term of the Agency contained in the Installment Purchase Agreement and the Financing Agreement and of Watermaster contained in the Recharge Agreement; and (c) the payment of all amounts owed to the Credit Facility Provider under the Credit Facility Agreement (including Bank Bonds), and the Trustee accepts such assignment on behalf of the Owners of the Bonds and the Credit Facility Provider, if any.

All Installment Payments shall be paid directly by the Agency to the Trustee, and all Installment Payments received by the Trustee shall be held in trust by the Trustee under the terms hereof for the benefit of the Agency until deposited in the funds provided in the Indenture, whereupon such money shall be held in trust in such funds by the Trustee for the benefit of the Owners and the Credit Facility Provider, if any.

Deposit of Revenues. The Trustee shall deposit all Revenues paid to it into the Bond Payment Fund and shall transfer such funds to the Interest Account, Principal Account, Redemption Account and the Reserve Fund in the manner and at the times provided in the Indenture. The Bond Payment Fund (and all accounts contained therein) shall be maintained so long as any Bonds are Outstanding or any amounts remain owing to the Credit Facility Provider, if any. All moneys in the Bond Payment Fund (and the accounts contained therein) shall be disbursed only for the purposes and uses authorized; provided, that any money in such fund or accounts not required to pay the principal and interest and redemption premiums, if any, on the Bonds shall on the Business Day immediately following each Interest Payment Date, be transferred to the Issuer to be used for any lawful purpose of the Issuer. The Bond Payment Fund, and all accounts thereof, shall be an Eligible Account held in trust for the benefit of the Owners. In the event that the Bond Payment Fund, or any accounts thereof, ceases to be an Eligible Account, the Trustee shall promptly (and in any case, within 30 calendar days) move such Bond Payment Fund or account thereof to cause it to be an Eligible Account.

(a) Interest Account. On or prior to each Interest Payment Date, the Trustee shall transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds on their respective Interest Payment Dates or to reimburse the Credit Facility Provider, if any, for drawings on the Credit Facility to pay such amounts. Moneys received from drawings on the Credit Facility to pay interest on the Bonds shall be deposited in a separate subaccount of the Interest Account and shall never be commingled with moneys from any other source. Moneys in the Interest Account shall be used to pay interest on the Bonds in the following order: (i) first, amounts drawn by the Trustee under the Credit Facility and deposited into a separate subaccount in the Interest Account; (ii) second, other funds on deposit in the Interest Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

If at any time some but not all of the Bonds are Bank Bonds the Trustee shall pay directly to the Bank on each Interest Payment Date the remainder of (i) the interest then due on Bank Bonds computed at the Bank Rate minus (ii) the interest that would then be due on the Bank Bonds if such interest were computed at the Basic Bond Rate.

(b) Principal Account. On or prior to each maturity date, the Trustee shall transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds on their respective maturities or on mandatory redemption prior thereto pursuant to the Indenture or to reimburse the Credit Facility Provider, if any, for drawings on the Credit Facility to pay such amounts. Moneys received from drawings on the Credit Facility to pay principal on the Bonds shall be deposited in a separate subaccount and shall never be commingled with moneys received from any other source. Moneys in the Principal Account shall be used to pay principal of the Bonds in the following order: (i) first, amounts drawn by the Trustee under the Credit Facility and deposited into a separate subaccount in the Principal Account; (ii) second, other funds on deposit in the Principal Account, other than amounts received by the Trustee in respect of drawings under a Credit Facility.

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

Excess Investment Earnings Fund.

(a) Establishment of Excess Investment Earnings Fund. With respect to the execution and delivery of the Bonds, the Trustee shall establish a separate special fund for such issue, to be designated as the Excess Investment Earnings Fund, and the Issuer shall comply with the requirements of the Indenture. All money at any time deposited in the Excess Investment Earnings Fund shall be held by the Trustee in trust, for payment to the United States Treasury. All amounts on deposit in the Excess Investment Earnings Fund shall be governed by the Tax Certificate.

(i) Transfer to and from the Excess Investment Earnings Fund. With respect to each such Excess Investment Earnings Fund, the Issuer or the Agency shall direct the Trustee in writing to deposit in the applicable Excess Investment Earnings Fund from any legally available funds according to the written instructions from the Issuer. The Trustee shall withdraw funds from the Excess Investment Earnings Fund and remit such withdrawn amounts to the Agency, unless directed otherwise by the Agency, upon written direction for the Issuer or the Agency.

(ii) Payment to the Treasury. With respect to each such Excess Investment Earnings Fund, the Issuer shall direct the Trustee to pay to the United States Treasury, out of amounts in the applicable Excess Investment Earnings Fund according to the Issuer's written instructions.

The Trustee shall conclusively be entitled to rely upon all directions made and furnished by the Issuer under the Indenture and shall be under no duty to take any action in the absence of such direction. The Trustee shall not incur any liability whatsoever in reliance upon and as instructed by such direction.

(b) Disposition of Unexpended Funds. Any funds remaining in an Excess Investment Earnings Fund, after the repayment of the applicable Bonds and the payments described in the Indenture may be transferred to the Bond Payment Fund upon the written instruction of the Issuer.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture shall survive the defeasance of the obligation borne by the Bonds.

COVENANTS

Compliance with Indenture and Agreements. The Issuer will not execute and the Trustee will not authenticate or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture; and the Issuer will not suffer or permit any default by it to occur under the Indenture, but will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be observed and performed by it.

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

Tax Covenants. In order to maintain the exclusion from gross income of the interest on the Bonds for federal income tax purposes, the Issuer covenants to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code and the Issuer agree to comply with the covenants contained in, and the instructions given pursuant to the Tax Certificate which is incorporated in the Indenture, as a source of guidance for compliance with such provisions.

Notwithstanding any other provisions of the Indenture to the contrary, upon the Issuer's failure to observe, or refusal to comply with, the foregoing covenant, no Person other than the Owners of the Bonds shall be entitled to exercise any right or remedy provided to the Owners under the Indenture on the basis of the Issuer's failure to observe, or refusal to comply with, such covenant.

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

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

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

DEFAULT AND LIMITATIONS OF LIABILITY

Events of Default. The following events shall be Events of Default under the Indenture:

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

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

(c) Default by the Issuer in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer by the Trustee or by the Owners of not less than 25 percent in aggregate principal amount of Bonds Outstanding; provided, however, that if in the reasonable opinion of the Issuer the default stated in the notice can be corrected, but not within such sixty (60) day period and corrective action is instituted by the Issuer within such sixty (60) day period and diligently pursued in good faith until the default is corrected such failure shall not become an Event of Default.

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

(e) The Credit Facility Provider shall have notified the Trustee that an Event of Default (as defined in the Letter of Credit Reimbursement Agreement) has occurred and is continuing under the Letter of Credit Reimbursement Agreement, which notification includes written direction to the Trustee to accelerate the Bonds as permitted under the Indenture.

(f) The Credit Facility Provider shall have notified the Trustee that the Credit Facility has not been reinstated to pay interest on the Bonds for any Interest Rate Period for which the Credit Facility is required which notification includes written direction to the Trustee to accelerate the Bonds as permitted under the Indenture.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, shall, with the written consent of the Credit Facility Provider, if any, upon notice in writing to the Issuer, and in the event of an occurrence of an Event of Default under the Indenture shall declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or

in the Bonds contained to the contrary notwithstanding. Interest on the Bonds shall cease to accrue upon declaration of acceleration.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Issuer shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case the Trustee shall, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon. The Trustee shall not waive, rescind or annul any Event of Default unless the Credit Facility Provider shall have confirmed in writing to the Trustee that the Credit Facility remains in full force and effect or the Trustee shall have received notice from the Credit Facility Provider that the Credit Facility has been reinstated for any Interest Rate Period for which the Credit Facility is required, and, for any Event of Default described in paragraph (e) or paragraph (f) above, the Trustee shall not waive, rescind or annul any Event of Default unless the Trustee shall have received notice from the Credit Facility Provider that the Credit Facility Provider's notice of an Event of Default (as defined in the Letter of Credit Reimbursement Agreement) has been rescinded.

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

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture, provided, however, that payments shall in no case be paid from amounts drawn from the Credit Facility from any remarketing proceeds or any other funds held for the payment of principal, interest or the Purchase Price of the Bonds;

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

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

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

(c) To the payment of any amounts remaining owing the Credit Facility Provider, if any, under the Credit Facility.

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

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

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

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or any other applicable law with respect to such Bonds, unless (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding; and (f) such suit, action or proceeding is instituted subject to the Indenture.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or other applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Issuer. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Issuer, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

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

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee, the Credit Facility Provider or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

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

Remedial Proceedings. The provisions of the Indenture concerning default and limitations of liability are subject to the right of the Credit Facility Provider, if any to direct all remedial proceedings.

THE TRUSTEE

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

Removal and Resignation of the Trustee. The Issuer may at any time, as long as an Event of Default, or an event which with notice or passage of time or both would become an Event of Default, has not occurred

and is continuing, after any breach by the Trustee under the Indenture, remove the Trustee initially a party thereto and any successor thereto, with the consent of the Credit Facility Provider, by giving written notice of such removal to the Trustee, and by giving notice by mail in accordance with the Indenture of such removal to all Owners of Bonds, and the Trustee initially a party thereto and any successor thereto may at any time resign by giving written notice of such resignation to the Issuer and the Credit Facility Provider, if any, and by giving notice by mail in accordance with the Indenture of such resignation to all Owners of Bonds. Upon giving any such notice of removal or upon receiving any such notice of resignation, the Issuer shall promptly appoint a successor Trustee by an instrument in writing; provided, that in the event the Issuer does not appoint a successor Trustee within sixty (60) days following the giving of any such notice of removal or the receipt of any such notice of resignation, the removed or resigning Trustee may petition any appropriate court having jurisdiction to appoint a successor Trustee. No removal, resignation or termination of the Trustee shall take effect until a successor trustee shall be appointed. Any successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in the United States of America, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital, (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000), unless the Issuer and the Agency consent to a lesser amount therefor, and shall be subject to supervision or examination by state or national authorities and acceptable to the Credit Facility Provider, if any. 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 the Indenture, the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of the appointment by the successor Trustee and approval by the Credit Facility Provider, if any, and the transfer of the Credit Facility, if any, to such successor Trustee.

Compensation and Indemnification of the Trustee. The Issuer shall from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee reasonable compensation for its services and reimburse the Trustee for all its reasonable advances and expenditures under the Indenture, including, but not limited to, advances to and the reasonable fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the observance and performance of its rights and obligations under the Indenture; provided, except as otherwise provided in the Indenture, that the Trustee shall not have any lien for such compensation or reimbursement against any money held by it in any of the funds established under the Indenture, although the Trustee may take whatever legal actions are available to it directly against the Issuer to recover such compensation or reimbursement. To the extent permitted by law, the Issuer does assume liability for, and agree to defend, indemnify, protect, save and keep harmless, the Trustee and its directors, officers and employees and its successors and assigns from and against any and all liabilities, obligations, losses, damages (including consequential damages incurred by others), taxes and impositions, penalties, fines, claims, actions, suits, costs and expenses and disbursements (including legal fees and expenses) of whatsoever kind and nature imposed in, asserted against or incurred or suffered by the Trustee or its directors, officers or employees or its successors and assigns in any way relating to or arising out of (i) the condition, management, maintenance or use of or from any work done in connection with the Sewer System by the Agency including, the use, storage, preserve, disposal or release of any Hazardous Substances in or about the Sewer System, (ii) any act of negligence of the Agency or of any of its agents, contractors, directors, employees, invitees, licensees or officers in connection with the Sewer System, (iii) the authorization of the payment to any costs or expenses of the acquisition and construction of the Project, or (iv) the exercise of any rights or obligations of the Trustee under the Indenture; provided, that no indemnification will be made for willful misconduct or negligence under the Indenture by the Trustee.

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

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

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

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

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as it were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Issuer or the Agency, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Issuer or the Agency as freely as if it were not the Trustee under the Indenture. The Trustee shall not be answerable for the exercise of any of its rights under the Indenture or for the performance of any of its obligations thereunder or for anything whatsoever in connection with the funds established under the Indenture, except only for its own willful misconduct or negligence.

No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided, however no indemnity shall be required in connection with the acceleration of the principal of and accrued interest on the Outstanding Bonds in connection with any draw on the Credit Facility.

The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture. The

Trustee shall, during the existence of any Event of Default which has not been cured, exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

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

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

Acknowledgement of Trustee. The Trustee acknowledges that Owners of the Bonds will waive all rights and privileges such Owners may enjoy under the Master Resolution other than the right to be paid from the Subordinate Obligation Fund existing thereunder so long as any 1994 Bonds are Outstanding

AMENDMENT OF OR SUPPLEMENT TO THE INDENTURE

Amendment or Supplement by Consent of Owners. The Indenture and the rights and obligations of the Issuer, the Agency, the Owners and the Trustee under the Indenture may be amended or supplemented at any time by an amendment thereof or supplement thereto with the written consent of the Credit Facility Provider, if any, which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment or supplement shall (1) reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Issuer to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Bond so affected, or (2) modify any of the rights or obligations of the Trustee without its prior written consent thereto.

The Indenture and the rights and obligations of the Issuer and the Agency and the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment thereof or supplement thereto which shall become binding upon execution without the written consents of any Owners, but only with the written consent of the Credit Facility Provider, if any, and to the extent permitted by law and after receipt of an approving Opinion of Bond Counsel and only if, in the opinion of the Trustee (which opinion may be based upon an Opinion of Bond Counsel or a Certificate of the Agency), such amendment or supplement is not materially adverse to the interests of the Owners, including, but not limited to, amendments or supplements:

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

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

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the

Indenture which the Issuer or the Agency may deem desirable or necessary, and which shall not adversely affect the interests of the Owners;

(d) to provide for the acceleration of the Bonds and the Installment Payments represented thereby as contemplated by Section 3.02 of the Master Resolution; and

(e) to make any modifications or changes necessary or appropriate in the Opinion of Bond Counsel to preserve or protect the exclusion from gross income for federal income tax purposes of interest on the Bonds.

The Issuer shall give written notice of any amendment to the Indenture and the rights and obligations of the Issuer and the Agency and the Owners and the Trustee under the Indenture to Moody's and S&P not less than fifteen (15) days prior to the execution thereof.

Disqualified Bonds. Bonds known to the Trustee to be held for the account of the Issuer or the Agency (but excluding Bonds held in any pension or retirement fund of the Issuer or the Agency) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided in the Indenture, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for therein shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in the Indenture.

Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action taken as provided above, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case, upon demand of the Owner of any Outstanding Bond and presentation of the Bond for such purpose at the corporate trust office of the Trustee in Los Angeles, California, a suitable notation as to such action shall be made on such Bond. If the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Bonds shall be exchanged without cost to each Owner for Bonds then Outstanding at the corporate trust office of the Trustee in New York, New York, upon surrender of such Outstanding Bonds. All Bonds surrendered to the Trustee pursuant to the provisions of the Indenture shall be canceled by the Trustee and shall not be redelivered.

Amendment or Supplement by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment or supplement as to the particular Bonds owned by him or her; provided, that due notation thereof is made on such Bonds.

DEFEASANCE

Discharge of Bonds and Indenture.

(a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest and principal and redemption premiums, if any, evidenced and represented thereby at the times and in the manner provided in the Indenture and therein, and all amounts remaining owing to the Credit Facility Provider, if any, under the Credit Facility then all agreements and covenants of the Issuer and the Agency to such Owners under the Indenture shall thereupon cease, terminate and become void and shall be completely discharged and satisfied.

(b) Any Outstanding Bonds shall on their maturities or their mandatory redemption dates prior thereto be deemed to have been paid if there shall be on deposit with the Trustee money held in trust for the benefit of the Owners of such Bonds which is sufficient to pay the interest and principal and redemption

premiums, if any, on such Bonds payable on and prior to their maturities or their mandatory redemption dates thereto.

(c) Any Outstanding Bonds shall prior to their maturities or their mandatory redemption dates prior thereto be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) above if (1) in case any of such Bonds are to be redeemed on any date prior to their maturities, the Issuer shall have given to the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the Indenture to the Owners of such Bonds of the redemption of such Bonds on such Redemption Dates, (2) there shall have been deposited with the Trustee either Available Money in an amount which shall be sufficient, or Defeasance Securities purchased with Available Money, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee at the same time, shall be sufficient (as evidenced by a report of an Independent Certified Public Accountant regarding such sufficiency), to pay when due the interest on such Bonds at the Maximum Rate if the Bonds are not in a Long Term Interest Period ending on the Maturity Date on and prior to the earlier of (i) their maturities, (ii) the next optional or mandatory redemption date, or (iii) the next optional or mandatory tender date thereof, as the case may be, and the principal and redemption premiums, if any, on such Bonds, and, in each case, the Trustee shall have received a Rating Confirmation with respect to such defeasance (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Issuer shall have given the Trustee in form satisfactory to it irrevocable instructions to give notice by mail in accordance with the Indenture to the Owners of such Bonds that the deposit required by (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Indenture and stating their maturities or their Redemption Dates prior thereto upon which money is to be available for the payment of the interest and principal and redemption premiums, if any, on such Bonds, and (4) an Opinion of Bond Counsel is filed with the Trustee to the effect that the action taken pursuant to the Indenture will not cause the interest on the Bonds to be includable in gross income for federal income tax purposes.

(d) The Trustee shall, if so directed by the Issuer pursuant to a Request of the Issuer (i) prior to the maturity date of Bonds deemed to have been paid in accordance with the Indenture which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in (c) above with respect to any Bonds deemed to have been paid which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee with respect to such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the interest on those Bonds on and prior to their maturities or their Redemption Dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on such Bonds, with respect to which such moneys and Defeasance Securities are being held by the Trustee on or prior to the mandatory redemption dates or maturity date thereof; as the case may be. If, at any time (i) prior to the maturity date of Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or (ii) prior to the mailing of the notice of redemption referred to in (c) with respect to any Bonds deemed to have been paid which are to be redeemed on any date prior to their maturity, the Issuer shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or mandatory redemption dates, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the Issuer to the Trustee in the form of a Request of the Issuer as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid. The directions given by the Issuer to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to pay Bonds deemed paid upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and canceled to be applied against the obligation of the Trustee to redeem Bonds deemed paid on any date or dates prior to their maturity.

In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in the Indenture the total amount of moneys and Defeasance Securities remaining on deposit with the Trustee under the Indenture is in excess of the total amount which would have been required to be deposited with the Trustee on such date with respect to the remaining Bonds in order to satisfy (c)(2) above, the Trustee shall, if requested by the Issuer pursuant to a Written Request of the Issuer, pay the amount of such excess to the Issuer free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture; provided, however, before any such excess is transferred to the Issuer, the Issuer and the Trustee shall have received a report of an Independent Certified Public Accountant to the effect that the amount of moneys and the principal of and interest when due on the Defeasance Securities remaining on deposit with the Trustee after such amount is transferred to the Agency shall be sufficient to pay when due the interest on such Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, of such Bonds.

Except as otherwise provided in the Indenture, neither Defeasance Securities nor moneys deposited with the Trustee nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Indenture, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the interest on the Bonds on and prior to their maturities or their mandatory redemption dates prior thereto, as the case may be, and the principal and redemption premiums, if any, on the Bonds and interest earned from such reinvestment shall be paid over to the Issuer, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Indenture.

(e) After the payment of all interest and principal and redemption premiums, if any, of all Outstanding Bonds as provided in the Indenture, and the payment of all fees and expenses of the Trustee, the Credit Facility Provider and the Trustee, upon receipt of a Written Request of the Issuer, shall cause an accounting for such period or periods as may be requested by the Issuer to be prepared and filed with the Issuer and the Agency and shall authenticate and deliver to the Issuer and the Agency all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the Agency all money or investments held by it pursuant hereto which are not required for the payment of the interest and principal and redemption premiums, if any, evidenced and represented by such Bonds, which money and investments shall be used by the Issuer for any lawful purpose.

Unclaimed Money. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal or redemption premium, if any, on any Bonds which remains unclaimed for two (2) years after the date when the payments on such Bonds have become payable, if such money was held by the Trustee on such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal and redemption premiums, if any, on such Bonds have become payable, shall be repaid by the Trustee to the Issuer as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Issuer for the payment of the interest and principal and redemption premiums, if any, on such Bonds; provided, that before being required to make any such payment to the Issuer, the Trustee shall, at the expense of the Issuer, give notice by mail in accordance with the Indenture to Owners of Bonds with respect to which moneys remain unclaimed that such money remains unclaimed and that after a date named in such notice, which date shall not be less than sixty (60) days after the date of giving such notice, the balance of such money then unclaimed will be returned to the Issuer.

MISCELLANEOUS

Benefits of the Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended to confer upon, or to give or grant to, any person or entity other than the Issuer, the Agency, the Trustee, the Owners, the Credit Facility Provider any claim, remedy or right under or pursuant thereto, and any agreement, condition, covenant or term contained in the Indenture required to be observed or performed by or on behalf of the Issuer or the Agency shall be for the sole, exclusive benefit of the Trustee, the Owners and the Credit Facility Provider.

Successor Deemed Included in All References to Predecessor. Whenever either the Issuer, the Agency or the Trustee or any officer, director or employee thereof is named or referred to in the Indenture, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Issuer, the Agency or the Trustee or such officer, director or employee, and all agreements, conditions, covenants and terms contained in the Indenture required to be observed or performed by or on behalf of the Issuer, the Agency or the Trustee or any officer, director or employee thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he or she purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him or her the execution thereof; or by an affidavit of a witness to such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

Any declaration, acceptance, request or other instrument in writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the Issuer or the Agency or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. No officer, director or employee of the Agency, the Issuer or the Trustee shall be individually or personally liable for the payment of the interest or principal or redemption premiums, if any, on the Bonds, but nothing contained in the Indenture shall relieve any officer, director or employee of the Issuer, the Agency or the Trustee from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or by the Indenture.

Acquisition of Bonds by the Agency or the Issuer. All Bonds acquired by the Agency or the Issuer, whether by purchase or gift or otherwise, (but excluding Bonds held in any pension or retirement fund of the Issuer or the Agency) shall be surrendered to the Trustee for cancellation, and the Trustee shall credit the amount of such Bonds against the maturities of such Bonds.

Content of Certificates. Every certificate with respect to compliance with any agreement, condition, covenant or term contained in the Indenture shall include (a) a statement that the person or persons executing such certificate have read such agreement, condition, covenant or term and the definitions in the Indenture relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any certificate may be based, insofar as it relates to legal matters, upon an Opinion of Bond Counsel unless the person or persons executing such certificate know that the Opinion of Bond Counsel with respect to the matters upon which his, her or their certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Bond Counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the Agency, upon a representation by an officer or officers of the Agency unless the counsel executing such Opinion of Bond Counsel knows that the representation with respect to the matters upon which his or her opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Notice by Mail. Any notice required to be given under the Indenture by mail to any Owners of Bonds shall be given by mailing a copy of such notice, first class postage redeemed, to the Owners of such Bonds at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of the Indenture not less than fifteen (15) days nor more than thirty (30) days following the action or prior to the event concerning which notice thereof is required to be given; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and neither failure to receive any such notice nor any immaterial defect contained therein shall affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Funds. Any fund required to be established and maintained in the Indenture by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. In addition to the funds and accounts required to be established under the Indenture, the Trustee may establish such other funds and accounts as it deems necessary or appropriate to perform its obligations.

Deposits and Investments.

(a) Any money held by the Trustee in any of the funds provided in the Indenture shall be deposited, pursuant to clause (4) of the definition of Permitted Investments, in time or demand deposits in any state or nationally chartered bank or trust company, including the Trustee, or a state or nationally chartered savings and loan association; provided, that any such money may be invested as directed by the Issuer pursuant to a Request of the Issuer in Permitted Investments which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Indenture.

(b) The Trustee may act as principal or agent in the acquisition or disposition of any such deposit or investment and may, for the purpose of any such deposit or investment, commingle any of the money held by them under the Indenture, and the Trustee shall not be liable or responsible for any loss suffered in connection with any such deposit or investment made by them under the terms of and in accordance with the Indenture. The Trustee may present for redemption or sell any such deposit or investment whenever it shall be necessary in order to provide money to meet any payment of the money so deposited or invested, and the Trustee shall not be liable or responsible for any losses resulting from any such deposit or investment presented for redemption or sold. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee. The Trustee is authorized, in making or disposing of any investment, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account. The Issuer acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity granting the Issuer the right to receive brokerage confirmations of security transactions as they occur, the Issuer specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Issuer periodic cash transactions statements which include detail for all investment transactions made by the Trustee under the Indenture.

(c) Subject to any other provision of the Indenture, any interest or profits on such deposits and investments received by the Trustee shall be retained in the fund or account to which they relate and on or before November 1 and May 1 of each year shall be transferred first, if the Issuer so directs, to the Excess Investment Earnings Fund, and second, shall be transferred to the Interest Account of the Bond Payment Fund.

(d) Trustee shall deposit earnings on the Bond Payment Fund to the Interest Account, Principal Account or Redemption Account of the Bond Payment Fund, to the extent money is needed therein to make the interest or principal payment or redemption premiums, if any, as the case may be, on such Interest Payment Date, maturity date, or Redemption Date.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms contained in the Indenture required to be observed or performed by or on the part of the Issuer or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them hereunder and under all provisions of applicable law. The Trustee and the Issuer declare that they would have executed and entered into the Indenture and each and every other article, section, paragraph, subdivision, sentence, clause and phrase thereof and would have authorized the execution and delivery of the Bonds pursuant thereto irrespective of the fact that any one or more of the articles, sections, paragraphs, subdivisions, sentences, clauses or phrases thereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

California Law. The Indenture shall be construed and governed in accordance with the laws of the State of California.

Notice to Rating Agencies. The Trustee shall give prompt notice to each Rating Agency of each of the following: 1. Expiration or early termination of the Credit Facility; 2. Extension of the term of the Credit Facility; 3. Delivery of an Alternate Credit Facility; 4. Redemption of all Outstanding Bonds; 5. Acceleration of payment of principal of or interest on the Bonds pursuant to the Indenture; 6. Conversion of the Bonds to a new Interest Rate Period; 7. An amendment of the Indenture or the Credit Facility; 8. Any replacement of the Tender Agent or Remarketing Agent; and 9. Any defeasance of Bonds pursuant to the Indenture.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, rendered its final approving opinion dated April 15, 2008 (the "2008 Opinion") in connection with the initial execution and delivery of the Certificates. Bond Counsel has made no attempt to update or reaffirm the 2008 Opinion in connection with this Supplement to Official Statement.

[Closing date]

Chino Basin Regional Financing Authority
c/o Inland Empire Utilities Agency
P.O. Box 9020
Chino Hills, California 91709

Re: \$_____ Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds, (Inland Empire Utilities Agency), Series 2008B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Chino Basin Regional Financing Authority (the "Authority"), a public entity of the State of California, of \$_____ aggregate principal amount of Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds, (Inland Empire Utilities Agency), Series 2008B (the "Bonds") under and pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as amended (the "Act"), and under and pursuant to an Indenture of Trust (the "Indenture"), dated as of March 1, 2008, by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

Our services as Bond Counsel were limited to a review of the legal proceedings required for the authorization and issuance of the Bonds. We have reviewed originals or copies identified to our satisfaction as being true copies of (i) the Indenture; and (ii) certain other records of the Authority. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of Authority officers furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after the examination described above and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth above, we are of the opinion that:

1. The Authority has lawful authority under the Act to enter into the Indenture and the Authority has duly authorized, executed and delivered the Indenture and, assuming due authorization, execution and delivery by the respective other parties thereto, the Indenture is a legal, valid and binding obligation of the Authority enforceable in accordance with its terms. The Indenture creates a valid pledge of the Revenues (as defined in the Indenture), subject to the provisions thereof permitting the application thereof for the purposes and on the terms and conditions set forth therein.

2. The Authority has lawful authority to issue the Bonds and the Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act and the Indenture. The Bonds constitute legal, valid and binding special

obligations of the Authority enforceable in accordance with their terms. The Bonds are special obligations of the Authority payable solely from Revenues and amounts on deposit in certain funds and accounts held under the Indenture. The Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority) or any member of the Authority; and neither the faith and credit nor the taxing powers of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Bonds.

3. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

4. Interest on the Bonds is exempt from State of California personal income tax.

The opinions expressed herein as to the exclusion from gross income for federal income tax purposes of interest on the Bonds is subject to the condition that the Authority and the Inland Empire Utilities Agency (the "Agency") comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that such interest will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Authority and the Agency each have covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

APPENDIX E

INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Agency believes to be reliable, but the Agency takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, premium, if any, accreted value, if any, and interest with respect to on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be executed and delivered for each annual maturity of the Certificates, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, distributions, and dividend payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Agency or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Certificate Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificate by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the Agency or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical Certificates are required to be printed and delivered.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE PREPAYMENT OF THE CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

REMARKETING AGREEMENT

This REMARKETING AGREEMENT, dated as of December __, 2015 (the “Remarketing Agreement”), is made by and among Chino Basin Regional Financing Authority (the “Authority”), U.S. Bancorp Investments, Inc. (“USBII”) and U.S. Bank Municipal Securities Group, a division of U.S. Bank National Association (“MSG” and, together with USBII, the “Remarketing Agent”). Capitalized terms used herein and not defined herein shall have the same meanings, as applicable, as those set forth in the Indenture of Trust, dated as of March 1, 2008 (as amended and supplemented to the date hereof, the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), relating to the \$_____ aggregate principal amount of the Authority’s Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B (the “Bonds”).

WHEREAS, the Authority desires to appoint a successor remarketing agent to act as the exclusive Remarketing Agent under the Indenture for purposes of: (i) remarketing Bonds tendered, or deemed tendered, for purchase; and (ii) determining the interest rate on the Bonds pursuant to the Indenture, and the Remarketing Agent is willing to serve as such Remarketing Agent;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and other good and valuable consideration, the receipt of which is hereby acknowledged by the parties, the parties hereby agree as follows:

1. Representations and Warranties.

(a) The Authority represents and warrants that:

(i) The Authority is a joint powers agency organized and existing in accordance with the Government Code of the State of California, as amended (the “Act”) and is authorized and empowered by the Act: (1) to use the funds derived from the issuance of the Bonds in accordance with the terms of the Indenture; (2) to enter into the Indenture and the 2008B Installment Purchase Agreement; (3) to enter into the Reimbursement Agreement dated as of December __, 2015 (the “LCRA”), by and among the Authority, the Inland Empire Utilities Agency (the “Agency”) and Sumitomo Mitsui Banking Corporation (the “Credit Provider”); (4) to enter into and take all actions required or permitted to be taken by it and to perform and observe the covenants and agreements on its part contained in this Remarketing Agreement; and (5) to carry out and consummate all other transactions contemplated by the aforesaid documents.

(ii) The Authority has duly authorized all appropriate action, and complied with all provisions of law with respect to, the execution and delivery of the Indenture, the 2008B Installment Purchase Agreement, the LCRA and the Bonds, and the entering into of this Remarketing Agreement.

(iii) The Bonds have been duly and validly authorized, issued, authenticated and delivered and constitute valid and binding obligations of the Authority enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors’ rights and subject, as to enforceability, to the general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law) and are entitled to the benefits of the Indenture.

(iv) The LCRA in effect with respect to the Bonds as of the date of this Remarketing Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by each other party thereto, constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject, as to enforceability, to the general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(v) This Remarketing Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Remarketing Agent, constitutes the valid and binding obligation of the Authority enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject, as to enforceability, to the general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

(vi) The descriptions of the Bonds, the security for the Bonds as set forth in the Supplement to the Official Statement of the Authority relating to the Bonds, dated December __, 2015 (the "Official Statement"), and the information pertaining to the Authority in the Official Statement, are true and correct and do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(vii) The Authority has full legal right, power and authority: (1) to enter into the LCRA and this Remarketing Agreement; and (2) to carry out and consummate the transactions contemplated by this Remarketing Agreement, the LCRA, the Indenture, the 2008B Installment Purchase Agreement and the Official Statement.

(viii) The Indenture is in full force and effect and has not been amended, modified or rescinded, except as described in the Official Statement; the Authority has duly authorized and approved the execution and delivery of and the performance by the Authority of its obligations contained in, the Bonds, the LCRA and this Remarketing Agreement; the Authority has duly authorized and approved the performance by the Authority of its obligations contained in the Indenture and the 2008B Installment Purchase Agreement, and the consummation by it of all other transactions contemplated by the Official Statement, the LCRA and this Remarketing Agreement have been performed or consummated by the Authority; and the Authority has complied, and shall be on the date hereof in compliance in all respects, with the terms of the Act and with the obligations in connection with the Bonds on its part contained in the Indenture, the Bonds, the LCRA and this Remarketing Agreement.

(ix) The execution and delivery of this Remarketing Agreement and the LCRA and compliance with the provisions thereof do not and shall not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, court decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is subject, or by which it is bound, nor shall any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever or under the terms of any such law, regulation or instrument, except, in all such cases, as provided by the Indenture.

(x) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, to the best knowledge of the officer of the Authority executing this Remarketing Agreement, threatened: (1) in any way questioning the existence of the Authority or the titles of the officers of the Authority to their respective offices; (2) affecting or seeking to prohibit, restrain or enjoin the collection of revenues pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Act, the Bonds, the Indenture, the 2008B Installment Purchase Agreement, the LCRA or this Remarketing Agreement, or the tax-exempt status of interest on the Bonds, or the collection of said revenues, or the pledge thereof, or contesting the powers of the Authority or any authority for the issuance of the Bonds, this Remarketing Agreement and the LCRA; (3) which may result in any material adverse change relating to the Bonds, other than routine litigation of the type which normally accompanies the operation of water and sewer facilities; or (4) contesting the completeness or accuracy of the Official Statement or any supplement or amendment thereto or asserting that the Official Statement contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(xi) All authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Authority of its obligations in connection with the Indenture, the 2008B Installment Purchase Agreement, the Bonds, the LCRA or this Remarketing Agreement have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the remarketing of the Bonds; and, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission, having jurisdiction in the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the Authority of its respective obligations under this Remarketing Agreement and the LCRA have been duly obtained or where required for future performance are expected to be obtained.

(b) USBII hereby represents and warrants that: (1) it is a registered broker-dealer and a member in good standing of the Financial Industry Regulatory Authority; (2) it has the requisite power to execute, deliver and perform this Remarketing Agreement; (3) it has duly authorized the execution, delivery and performance of this Remarketing Agreement; (4) when executed and delivered by the other parties hereto, this Remarketing Agreement will constitute the legal, valid and binding obligation of USBII enforceable in accordance with its terms, except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights and remedies generally or by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

(c) MSG hereby represents and warrants that: (1) it is organized and regulated by, and in good standing with, the Office of the Comptroller of the Currency; (2) it has the requisite power to execute, deliver and perform this Remarketing Agreement; (3) it has duly authorized the execution, delivery and performance of this Remarketing Agreement; (4) when executed and delivered by the other parties hereto, this Remarketing Agreement will constitute the legal, valid and binding obligation of MSG enforceable in accordance with its terms, except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights and

remedies generally or by general principles of equity (regardless of whether considered in a proceeding in equity or at law).

2. Certain Agreements of the Authority.

(a) The Authority, recognizing that the Remarketing Agent will be remarketing Bonds from time to time on an ongoing basis pursuant to the terms hereof, agrees with the Remarketing Agent that:

(i) The Authority shall pay the costs of preparation of the Official Statement, including all appendices thereto, and furnish the Remarketing Agent with as many copies as the Remarketing Agent may reasonably request of the Official Statement and such other information associated with the Authority and the Bonds as the Remarketing Agent shall reasonably request from time to time. The Authority consents to the Remarketing Agent's use and distribution of the Official Statement and any amendments or supplements thereto in connection with the remarketing of the Bonds.

(ii) The Authority shall cooperate with the Remarketing Agent in the preparation of a new Official Statement or other offering material for the Bonds in the event that the Remarketing Agent reasonably determines that the preparation and distribution of such Official Statement or offering material is desirable in connection with remarketing the Bonds.

(iii) If, at any time during the term of this Remarketing Agreement, any event occurs which: (1) is known to the General Manager or Chief Financial Officer/Assistant General Manager; and (2) in the opinion of the General Manager or Chief Financial Officer/Assistant General Manager of the Authority, in consultation with the Remarketing Agent, would materially adversely impact the Authority's ability to make payments under the Indenture when due, the Authority will promptly notify the Remarketing Agent in writing and explain the circumstances with respect to such event. The Authority agrees to prepare an amendment or supplement to the Official Statement, at its own expense, if in the judgment of the Authority or the Remarketing Agent such amendment or supplement is necessary to ensure that the Official Statement as amended or supplemented, does not contain any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading, as of the date of the Official Statement or the amendment thereof, as the case may be.

(iv) In connection with the remarketing of the Bonds as a result of, or in anticipation of: (1) an expiration, termination or replacement of any Credit Facility; or (2) any Conversion to an interest rate other than the Weekly Interest Rate, the Authority shall prepare or cause to be prepared any disclosure documents (including continuing disclosure undertakings required by the Indenture or the rules and regulations of the Securities and Exchange Commission). All costs incurred in connection with the preparation of such disclosure documents shall be borne by the Authority.

(v) The Authority shall promptly make available to the Remarketing Agent each of its annual financial statements presented in conformity with generally accepted accounting principles applicable to governmental utilities and audited in accordance with generally accepted auditing standards. If the financial statements are not prepared in conformity with such generally accepted accounting principles, the Authority will qualify relevant differences between the basis upon which they are prepared and those of such generally accepted accounting principles and the effects of such differences. In addition, the Authority shall promptly make available after each quarter upon their

preparation, unaudited financial statements of the Authority for such quarter. In addition, the Authority agrees to provide the Remarketing Agent with each preliminary and final official statement of the Authority relating to obligations of the Authority issued or executed and delivered, as applicable, subsequent to the date of this Remarketing Agreement.

(vi) The Authority shall promptly notify the Remarketing Agent by telephone (which shall be promptly confirmed in writing) or electronic mail of: (1) any material adverse change in the general affairs (financial or otherwise), management or operation of the Authority, including without limitation any such material adverse change relating to the security for the Bonds; (2) any event of default or default under the Indenture or LCRA; (3) any event known to the Authority relating to or affecting the Bonds, the Credit Provider, the Indenture, the 2008B Installment Purchase Agreement or this Remarketing Agreement which might affect the correctness or completeness of any statement of a material fact contained in the Official Statement, as amended, determined as of the date of the Official Statement or the amendment thereof, as the case may be; (4) any litigation involving the Authority which could cause a material adverse change as contemplated in part (1) above; (5) any reduction or any announcement or notice by any rating agency then rating the Bonds that it is considering a possible reduction in the ratings of the Bonds; (6) any announcement by any rating agency then rating the Bonds that the Bonds are being placed on “Credit Watch,” or that some comparable action is being taken by any of such rating agencies; (7) any information known by the Authority relating to a significant change in the ability of the Credit Provider or any other issuer of credit enhancement or liquidity with respect to the Bonds to satisfy its obligations; or (8) any formal request for an opinion of counsel as to the tax-exempt status of the Bonds.

(vii) The Authority shall deliver to the Remarketing Agent such additional information concerning the business and financial condition of the Authority as the Remarketing Agent may from time to time reasonably request.

(viii) The Authority will pay the reasonable out of pocket expenses of the Remarketing Agent incurred in connection with the preparation and distribution of information to the public as contemplated by this Section 2(a).

(ix) To assist the Remarketing Agent in complying with its obligations under Municipal Securities Rulemaking Board Rule G-34(c), as it may be amended from time to time (“Rule G-34(c)”), the Authority shall provide the following to the Remarketing Agent: (1) on the effective date of this Remarketing Agreement, a copy of each executed and currently effective: (I) letter of credit agreement, reimbursement agreement, or any other document establishing an obligation to provide credit and/or liquidity support with respect to the Bonds; (II) trust agreement, indenture, resolution, and any supplemental or series indenture(s) or resolution(s) or any other authorizing document under which the Bonds were executed and delivered; (III) amendments, extensions, renewals, replacements or terminations thereof; and (IV) any other document required to comply with Rule G-34(c) (each, a “Rule G-34 Document”) as requested by the Remarketing Agent; and, in each case where required to be delivered, such delivery shall be by electronic means in a word-searchable portable document format file (or in such other form as the Remarketing Agent shall notify the Authority in writing) labeled with the following information: (A) CUSIP number; (B) name of obligor; (C) name of transaction; (D) name of document; and (E) whether the document is an execution version or a redacted version; (2) no later than ten (10) Business Days prior to the proposed date of any amendment, extension or renewal, replacement or termination of any of the then-current Rule G-34 Documents, written notice that such document is proposed to be amended, extended, renewed, replaced or terminated, as the case may be, and the expected date of execution and delivery of such amendment,

extension, renewal, replacement or termination, as the case may be; (3) within one (1) Business Day after the execution and delivery of any amendment, extension, renewal, replacement or termination, as the case may be, of any of the then current Rule G-34 Documents, a copy thereof; and (4) no later than three (3) Business Days after receiving a request from the Remarketing Agent for any Rule G-34 Document, a copy thereof.

(x) In each instance in which Rule G-34 Documents are delivered to the Remarketing Agent pursuant to this Remarketing Agreement, the Authority shall provide: (1) a clean final execution copy of each relevant document; and (2) in any such document where any redactions are made: (I) a redacted final execution copy of document; and (II) a file containing a list showing all redactions that have been made to such document, if any.

(xi) If the Authority determines that any information in the Rule G-34 Documents is confidential or proprietary, the Authority shall discuss such information and the potential redaction thereof with the Remarketing Agent and its counsel to ensure compliance with Rule G-34(c).

(xii) In the event that the Authority does not provide the Remarketing Agent with a copy of a Rule G-34 Document, the Remarketing Agent may file a notice with the SHORT System that such document will not be provided at such times as specified by the Municipal Securities Rulemaking Board and in the SHORT System Users Manual.

(xiii) The Authority will hold harmless the Remarketing Agent with respect to: any confidential or proprietary information that is: (1) identified and/or redacted by the Remarketing Agent in the Rule G-34 Documents; and (2) made public when the Remarketing Agent files the Rule G-34 Documents with the SHORT System.

(xiv) If there are any additional regulatory requirements, amendments or modifications to the securities laws with which the Remarketing Agent must comply, the Authority shall take all steps reasonably requested by the Remarketing Agent or its counsel necessary to comply with such additional requirements.

(xv) The Authority shall reimburse the Remarketing Agent for any costs incurred in connection with compliance with Rule G-34(c) including, but not limited to, fees charged by the Trustee or other parties supplying missing documents.

(b) The Authority agrees to cooperate with the Remarketing Agent: (1) in the qualification of the eligibility of the Bonds for investment under the laws of such jurisdictions as the Remarketing Agent shall designate; and (2) to ensure that any such qualification continues in effect so long as required for the resale of the Bonds by the Remarketing Agent, provided that the Authority shall not be required to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject. It is understood and agreed that the Authority shall not be responsible for compliance with or the consequences of failure to comply with applicable "Blue Sky" laws; provided, however, that the inability of the Remarketing Agent to remarket the Bonds because of the failure of the Authority to cooperate with the Remarketing Agent with respect to "Blue Sky" qualification matters shall not be a default hereunder by the Remarketing Agent.

(c) The Authority agrees to cooperate with the Remarketing Agent in order to comply with any disclosure requirement with respect to remarketing of the Bonds necessitated by any

Federal, state or regulatory agency rule, regulation or law, including, without limitation, Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended.

3. Remarketing.

(a) The Authority appoints the Remarketing Agent as a successor Remarketing Agent under the Indenture and as its exclusive agent to perform the duties under the Indenture for the remarketing of Bonds tendered or deemed tendered for purchase and, in reliance on the representations contained herein and subject to the terms hereof, the Remarketing Agent accepts such appointment and agrees to use its best efforts to solicit offers to purchase, at par, the Bonds which have been: (i) required to be tendered by the holders thereof pursuant to the Indenture; or (ii) tendered at the option of the holders thereof pursuant to the Indenture.

It is understood and agreed that the Remarketing Agent's responsibilities hereunder and under the Indenture include: (1) exercising its best efforts in remarketing the Bonds; (2) effecting and processing such purchases; (3) billing and receiving payment of Bond purchases; (4) transferring the proceeds from the secondary sale of the Bonds to the Tender Agent; (5) determining the interest rate applicable to the Bonds; and (6) performing such other related functions as provided in the Indenture of the Remarketing Agent or reasonably requested by the Authority and agreed to by the Remarketing Agent.

(b) The Remarketing Agent shall not be required to solicit any purchase of Bonds or perform any other action required to be performed under this Remarketing Agreement if: (i) it believes it has not received information from the Authority necessary to allow the Remarketing Agent to comply with the rules of the Municipal Securities Rulemaking Board or the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934 relating to disclosure or other similar requirements; (ii) there occurs any material noncompliance by the Authority of any obligation on its part to be performed; or (iii) (1) a Credit Facility is required pursuant to the Indenture and there is no Credit Facility in effect; and (2) there shall have occurred and been continuing an Event of Default of which an authorized officer in the principal office of the Remarketing Agent or an authorized officer in the principal corporate trust office of the Trustee has actual knowledge, unless remarketing of the Bonds is consented to in writing by the Authority, the Trustee, the Remarketing Agent, and the Credit Provider.

(c) For so long as such situation continues to exist, the Remarketing Agent shall have the right to suspend its efforts to solicit offers to purchase the Bonds in the event of: (i) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, if in the reasonable opinion of the Remarketing Agent, it is impracticable to proceed with the remarketing of the Bonds; (ii) a general moratorium on commercial banking activities in the State of New York declared by either Federal or State of New York authorities, or a material disruption in commercial banking or securities settlement or clearance services, if in the reasonable opinion of the Remarketing Agent, it is impracticable to proceed with the remarketing of the Bonds; (iii) the engagement by the United States in or escalation of hostilities or the declaration of a national emergency or war occurs, if in the reasonable opinion of the Remarketing Agent, it is impracticable to proceed with the remarketing of the Bonds; (iv) legislation being favorably reported by a committee of the House of Representatives or the Senate of the Congress of the United States or being introduced by committee, by amendment or otherwise, in, or being enacted by, the House of Representatives or the Senate, or being recommended by committee to the Congress of the United States for signature by the President of the United States, or a decision by a court established under Article III of the

Constitution of the United States or the United States Tax Court being rendered or a ruling, regulation or order of the Treasury Department of the United States or the Internal Revenue Service being made or proposed having the purpose or effect of imposing Federal income taxation, or any other event occurring which results in interest on the Bonds being includable in gross income for Federal tax purposes, which, as to all of the above, in the Remarketing Agent's judgment makes it impracticable or inadvisable to proceed with solicitation of offers to purchase the Bonds; (v) legislation being introduced by committee, by amendment or otherwise, in, or being enacted by, the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States being rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the United States Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter being made or proposed, to the effect that the offering or sale of obligations of the general character of the Bonds, as contemplated hereby, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or with the purpose or effect of otherwise prohibiting the offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby; (vi) except as provided in clauses (iv) and (v) hereof, any legislation, resolution, ordinance, rule or regulation introduced in, or being enacted by any Federal governmental body, department or agency of the United States or the State of New York or the State of California, or a decision by any court of competent jurisdiction within the United States or the State of New York or the State of California being rendered which, in the Remarketing Agent's reasonable opinion, materially adversely affects the marketability of the Bonds; (vii) any governmental authority imposing, as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increasing materially those now in force, which in the Remarketing Agent's judgment makes it impracticable or inadvisable to proceed with the remarketing of the Bonds; (viii) a material adverse change in the affairs of the Credit Provider or the Authority shall have occurred, which, in the Remarketing Agent's reasonable opinion, materially adversely affects the marketability of the Bonds; (ix) the occurrence of any of the events contemplated by Section 2(a)(iii) of this Remarketing Agreement which in the reasonable judgment of the Remarketing Agent make it impracticable to remarket the Bonds; or (x) a reduction, suspension or withdrawal for credit reasons in the rating on the Bonds, whether the Remarketing Agent learns thereof from the Authority or otherwise.

(d) The obligations of the Remarketing Agent hereunder and under the Indenture, with respect to the date on which the Bonds are to be remarketed pursuant to this Remarketing Agreement, are also subject to the further condition that on and prior to such date, the Indenture, the LCRA, and this Remarketing Agreement shall be in full force and effect and shall not have been amended, modified or supplemented in any way which would materially and adversely affect the duties of the Remarketing Agent, except as may have been agreed to in writing by the Remarketing Agent, and there shall be in full force and effect such additional resolutions, agreements, certificates (including such certificates as may be required by regulations for the Internal Revenue Service in order to establish or preserve the tax-exempt character of interest on the Bonds) and opinions as shall be reasonably satisfactory in form and substance to Special Counsel, the Trustee, the Authority and counsel for the Remarketing Agent.

(e) As compensation for the Remarketing Agent's services hereunder with respect to the Bonds bearing interest at a Weekly Interest Rate, the Authority shall pay the Remarketing Agent the fees per annum listed in Schedule A attached hereto in respect of the aggregate principal amount of the Bonds outstanding at the time of payment, calculated on the basis of a 365 or 366 day year and the actual days elapsed in any period. As compensation for the Remarketing Agent's services

hereunder with respect to the Bonds bearing interest at any other rate permitted by the Indenture, the Authority shall pay the Remarketing Agent a fee as shall be agreed upon by the parties hereto. The fee will be billed quarterly in arrears on or about January 1, April 1, July 1 and October 1 and paid by the Authority as soon as practicable upon receipt of the invoice. The Authority also agrees to pay the reasonable out-of-pocket expenses of the Remarketing Agent (including, without limitation, the reasonable fees and disbursements of its counsel) incurred in connection with the performance of its obligations hereunder.

(f) Except as otherwise provided in this Remarketing Agreement, the Remarketing Agent is hereby expressly authorized and directed to honor its obligations under and in compliance with the terms of this Remarketing Agreement and the Indenture without regard to, and without any duty on its part to inquire into: (i) the existence of any disputes or controversies between the Trustee, the Authority or any other person; (ii) the respective rights, duties or liabilities of any of them; or (iii) whether any facts or occurrences represented in any of the documents presented under this Remarketing Agreement are true and correct. Furthermore, the Authority fully understands and agrees that the Remarketing Agent's sole obligations to the Authority shall be limited to honoring its obligations under and in compliance with the terms of this Remarketing Agreement.

(g) In the event that the Bonds are optionally tendered, the following provisions shall apply:

(i) The Remarketing Agent shall offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof properly optionally tendered at the Purchase Price. The Remarketing Agent shall cause the Purchase Price for the Bonds which the Remarketing Agent notifies the Trustee have been remarketed pursuant to subsection (ii)(2) below to be paid to the Trustee in immediately available funds at or before 1:00 p.m., New York City time, on the Purchase Date. Notwithstanding the foregoing, the Remarketing Agent shall not offer for sale any Bond as to which a notice of Conversion to Fixed Rate Bonds has been given by the Trustee unless the Remarketing Agent has provided the Person to whom the offer is made with a copy of the Conversion notice or advised the Person to whom the offer is made of the Conversion and the effect of the Conversion on the rights of Bondholders to tender their Bonds as described in the Conversion notice from the Trustee to the Bondholders.

(ii) The following notices shall be given with respect to the remarketing of tendered Bonds and the amount of Bonds to be purchased pursuant to the Credit Facility: (1) The Remarketing Agent shall notify the Trustee of the amount of tendered Bonds which were remarketed not later than [3:00 p.m.] New York City time, on the Business Day immediately preceding the Purchase Date; (2) if any such notice indicates that any tendered Bonds were not remarketed or if no such notice is received by the required time, the Trustee shall notify the Credit Provider, not later than [4:00 p.m.], New York City time, on the Business Day immediately preceding the Purchase Date, of the amount of tendered Bonds which were not remarketed or for which no notice of remarketing was received; and (3) not later than [11:30 a.m.], New York City time, on the Purchase Date, the Trustee shall notify the Credit Provider and the Authority if it has not received remarketing proceeds for any portion of the tendered Bonds and such notice shall constitute a demand for payment of an amount equal to the Purchase Price for such portion of the tendered Bonds by the Credit Provider pursuant to the Credit Facility. Any notice or demand given to the Credit Provider must also comply with the requirements of the Credit Facility.

(iii) In the event that any Bonds are purchased pursuant to the Liquidity Facility pursuant to Section 2.17(c) of the Indenture, the Remarketing Agent shall continue to offer for sale and use its best efforts to sell such Bonds at a purchase price equal to the principal amount thereof. Bonds purchased pursuant to the Credit Facility shall not be delivered upon remarketing by the Remarketing Agent or any other sale unless the Credit Facility is automatically reinstated for the principal amount thereof and interest corresponding thereto in accordance with its terms or the Remarketing Agent has been advised by the Credit Provider that it has elected to reinstate the Credit Facility for the required amount and the Credit Provider notifies the Trustee of such reinstatement and directs the Trustee to deliver the Bonds to the purchaser.

4. Additional Duties of the Remarketing Agent.

(a) The Remarketing Agent also agrees to determine interest rates and to give notice of such interest rates to the extent and in the manner specified in the Indenture.

(b) The Remarketing Agent agrees to keep such books and records as shall be consistent with prudent industry practice and to make copies of such books and records available for inspection by the Trustee, the Tender Agent and the Authority at all reasonable times.

5. The Remarketing Agent.

(a) The Remarketing Agent shall not, in fulfilling its obligations hereunder, be required to act as an underwriter for the Bonds and is in no way obligated, directly or indirectly, to advance its own funds to purchase Bonds tendered or deemed tendered for purchase in accordance with the Indenture. The Remarketing Agent shall be acting as the Remarketing Agent pursuant to the Indenture in the resale of the Bonds, and the Remarketing Agent's responsibility is limited to the use of its best efforts to solicit offers to purchase the Bonds.

(b) The Remarketing Agent, in its individual capacity, either as principal or agent, may at its option buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any holder of Bonds may be entitled to take, with like effect as if it did not act in any capacity hereunder. Such purchases or sales are not required to be at par. The Remarketing Agent, in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Authority and may act as depositary, trustee or agent for any committee or body of Bondholders or other obligations of the Authority as freely as if it did not act in any capacity hereunder. The Remarketing Agent may sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others.

6. Intention of Parties. It is the express intention of the parties hereto that no purchase, sale or transfer of any Bonds, as herein provided, or the setting of interest rates in respect thereof, shall constitute or be construed to be the extinguishment of any Bond or the indebtedness represented thereby or the reissuance of any Bond or the refunding of any indebtedness represented thereby.

7. Amendments.

(a) The Authority agrees not to amend the Indenture insofar as it relates to this Remarketing Agreement or the rights and duties of the Remarketing Agent without the prior written consent of the Remarketing Agent. The Remarketing Agent shall receive prior written notice of any

amendment, modification or supplement to the Official Statement or the Indenture relating to the Bonds.

(b) This Remarketing Agreement may not be amended except by a writing signed by each of the parties hereto.

8. Term. Unless previously terminated, this Remarketing Agreement shall remain in full force and effect until payment in full of the Bonds. The Authority may remove the Remarketing Agent at any time by giving at least fifteen (15) Business Days prior written notice to the Remarketing Agent and the Credit Provider, except if the Remarketing Agent has suspended its efforts to solicit offers to purchase the Bonds pursuant to Section 3(c) hereof, in which case the Authority shall have the right to terminate the Remarketing Agent immediately upon delivery of written notice to the Remarketing Agent and the Credit Provider. The Remarketing Agent may terminate this Remarketing Agreement at any time by giving at least sixty (60) days prior written notice to the Authority, the Credit Provider and the Trustee (provided that such termination may occur upon at least fifteen (15) Business Days prior written notice to the Authority, the Credit Provider and the Trustee if agreed to by the Credit Provider); provided, however, that so long as the Authority is using its best efforts to qualify a successor to the Remarketing Agent, the Remarketing Agent shall be obligated to continue its duties as such until the earlier of the sixtieth (60th) calendar day following the giving of such notice of termination and the date on which a successor is so qualified. In the event of the resignation or removal of the Remarketing Agent: (i) the Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity to its successor, or if there is no successor, to the Trustee; and (ii) the successor remarketing agent shall be required by the Authority to purchase all Bonds owned by the Remarketing Agent at the time of such renewal or resignation at a purchase price equal to the outstanding principal amount thereof plus all accrued but unpaid interest to the effective date of the removal or resignation. The representations, warranties and agreements of the Authority set forth herein prior to the termination or expiration of this Remarketing Agreement shall remain in full force and effect regardless of any investigation (or any statement as to the results thereof) made by or on behalf of the Remarketing Agent and shall survive the termination or expiration of this Remarketing Agreement. The Authority shall promptly pay to the Remarketing Agent the compensation (and expenses of the Remarketing Agent), in accordance with Section 3(e) hereof, accrued through the effective date of such termination.

9. Remarketing Agent's Liabilities. The Remarketing Agent shall incur no liability to the Authority, or any other party for its actions as Remarketing Agent pursuant to the terms hereof and of the Indenture except as set forth herein. In setting the interest rates on the Bonds and undertaking its other duties hereunder, the Remarketing Agent shall not be liable for any error made in good faith. The obligation of the Remarketing Agent to remarket Bonds hereunder shall be on a best efforts basis. The Remarketing Agent will not be liable to the Authority for the failure of any person to whom the Remarketing Agent has sold a Bond to pay for such Bond or to deliver any document in respect of the sale. It is understood and agreed that the Remarketing Agent shall not be obligated to advance its own funds to purchase, or to effect the purchase of, any Bonds.

10. Assignment. This Remarketing Agreement shall inure to the benefit of and be binding upon the Remarketing Agent and the Authority and their respective successors and assigns. The terms "successors" and "assigns" shall not include any purchaser of any of the Bonds merely because of such purchase.

11. Notices. Unless otherwise provided herein, all notices, certificates, requests or other communications hereunder or under the Indenture shall be deemed given when delivered in writing by hand or sent by facsimile transmission, electronic mail or registered mail, postage prepaid, addressed as follows:

If to the Authority: Chino Basin Regional Financing Authority
6075 Kimball Avenue
Chino, CA 91708
Attention: Chief Financial Officer/Assistant General
Manager
Email: cvalencia@ieua.org

If to the Trustee: U.S. Bank National Association
633 West 5th Street, 24th Floor
Los Angeles, California 90071
Attention: Corporate Trust Services

If to the Remarketing Agent: U.S. Bank
461 Fifth Avenue, 10th Floor
New York, New York 10017
Attention: Mr. Thomas Gallo
Tel: (877) 403-6519
Fax: (877) 663-1027
Email: thomas.gallo@usbank.com

If to the Credit Provider: Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue, 6th Floor
New York, New York 10172
Attention: Trade Credit Services Department
Tel: (212) 224-4310
Fax: (212) 224-4566

Each of the above parties may, by written notice given hereunder to the others, designate any further or different addresses to which, or means by which, subsequent notices, certificates, requests or other communications shall be sent.

12. No Advisory or Fiduciary Role. The Authority acknowledges and agrees that: (a) the transaction contemplated by this Remarketing Agreement is an arm's length, commercial transaction between the Authority and the Remarketing Agent in which the Remarketing Agent is acting solely as a principal and is not acting as a municipal advisor, financial advisor or fiduciary to the Authority; (b) the Remarketing Agent has not assumed any advisory or fiduciary responsibility to the Authority with respect to the transactions contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Remarketing Agent has provided other services or is currently providing other services to the Authority on other matters); (c) the only obligations that the Remarketing Agent has to the Authority with respect to the transactions contemplated hereby expressly are set forth in this Remarketing Agreement; and (d) the Authority has consulted its own legal, accounting, tax, financial and other advisors, as applicable, to the extent it has deemed appropriate.

13. Governing Law. This Remarketing Agreement shall be governed by and construed in accordance with the laws of the State of California without giving effect to the principles of conflict of laws thereof.

14. Counterparts. This Remarketing Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

15. Section Headings. Section headings have been inserted in this Remarketing Agreement as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Remarketing Agreement and will not be used in the interpretation of any provision hereof.

16. Severability. If any provisions of this Remarketing Agreement shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because they conflict with any provisions of any constitution, statute, rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provisions in question invalid, inoperative or unenforceable in any other case or circumstances, or of rendering any other provisions inoperative or unenforceable to any extent whatsoever.

17. Entire Agreement. This Remarketing Agreement constitutes the entire agreement between the parties hereto with respect to the matters covered hereby, and supersedes all prior agreements and understandings between the parties.

18. No Waiver. Failure of any party to this Remarketing Agreement to exercise any right or remedy hereunder in the event of a breach hereof by any other party shall not constitute a waiver of any such right or remedy with respect to any subsequent breach.

[This space intentionally left blank; signature page immediately follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Remarketing Agreement to be duly executed as of the day and year first written above.

CHINO BASIN REGIONAL FINANCING
AUTHORITY

By: _____
President

U.S. BANCORP INVESTMENTS, INC.,
as Remarketing Agent

By: _____
Name: _____
Its: _____

U.S. BANK MUNICIPAL SECURITIES GROUP,
A DIVISION OF U.S. BANK NATIONAL ASSOCIATION,
as Remarketing Agent

By: _____
Name: _____
Its: _____

SCHEDULE A

COMPENSATION SCHEDULE FOR REMARKETING AGENT SERVICES

<i>Rate Period</i>	<i>Basis Points (per annum)</i>
Weekly Rate Period	5

FEE AGREEMENT

January [__], 2016

\$55,675,000

original aggregate principal amount of
Chino Basin Regional Financing Authority
Variable Rate Demand Revenue Refunding Bonds
(Inland Empire Utilities Agency), Series 2008B

Reference is hereby made to that certain Reimbursement Agreement, dated as of January 1, 2016 (as it may be amended and supplemented from time to time, the “Reimbursement Agreement”), among the Chino Basin Regional Financing Authority (the “Issuer”), the Inland Empire Utilities Agency (the “Agency”) and Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the “Bank”). Terms used herein without definition shall have the meanings assigned in the Reimbursement Agreement.

The purpose of this Fee Agreement, dated January [__], 2016 (this “Fee Agreement”), among the Issuer, the Agency and the Bank, is to confirm the agreement among the Bank, the Issuer and the Agency with respect to fees and other amounts payable to the Bank and to set forth certain other information with respect to the Letter of Credit and the Reimbursement Agreement. This is the Fee Agreement referenced in the Reimbursement Agreement, and the terms hereof are incorporated by reference into the Reimbursement Agreement as if fully set forth therein. The Issuer, the Agency and the Bank hereby agree that the Date of Issuance shall be the date hereof.

In consideration for and in order to induce the Bank to issue the Letter of Credit pursuant to the terms of the Reimbursement Agreement, the parties hereto agree as follows:

(a) Facility Fee. The Issuer agrees to pay to the Bank on April 1, 2016 for the period commencing on January [__], 2016 and ending on March 31, 2016, and on the first Business Day of each April, July, October and January to occur thereafter, and on the Termination Date (each, a “Quarterly Payment Date”), a non-refundable facility fee (the “Facility Fee”), which shall be fully earned when due and nonrefundable when paid, based on the Rating (as defined below) corresponding to the Level set forth in the pricing matrix below, computed in arrears (on the basis of a 360 day year for the actual number of days elapsed per quarter) on the average daily Available Amount of the Letter of Credit (without regard to temporary reductions thereof) at the rates per annum specified below (the “Facility Fee Rate”) from time to time in effect during each related period:

Level	S&P Rating	Moody's Rating	Fitch Rating	Facility Fee Rate
Level 1	AA+ or above	Aa1 or above	AA+ or above	0.40%
Level 2	AA	Aa2	AA	0.55%
Level 3	AA-	Aa3	AA-	0.75%
Level 4	A+	A1	A+	0.90%
Level 5	A	A2	A	1.25%
Level 6	A-	A3	A-	1.65%

The following paragraph applies to each of the pricing matrices above. The term “Rating” as used above shall mean the long term unenhanced credit ratings assigned by any Rating Agency to any Debt of the Agency secured by the Agency Revenues; provided, however, that if the long term unenhanced credit ratings assigned by any Rating Agency to any Debt of the Agency secured by the Agency Revenues appear in more than one rating level, the term “Rating” as used above shall mean the lowest of the long term unenhanced credit ratings assigned by any Rating Agency to any Debt of the Agency secured by the Agency Revenues. The Issuer acknowledges, and the Bank agrees, that as of the Date of Issuance the Facility Fee Rate is that specified above for Level 1. Any change in the Facility Fee Rate resulting from a change in a Rating shall be and become effective as of and on the date of the announcement of the change in such Rating. References to ratings above are references to rating categories as now determined by the Rating Agencies, and, in the event of adoption of any new or changed rating system by any such Rating Agency, including, without limitation, any recalibration or realignment of the long term unenhanced credit ratings assigned by any Rating Agency to any Debt of the Agency secured by the Agency Revenues in connection with the adoption of a “global” rating scale, each of the ratings from the Rating Agency in question referred to above shall be deemed to refer to the rating category under the new rating system which most closely approximates the applicable rating category as currently in effect. In the event that either (i) any long term unenhanced credit ratings assigned by any Rating Agency to any Debt of the Agency secured by the Agency Revenues is suspended, withdrawn or otherwise unavailable from any Rating Agency, or reduced below “A3” (or its equivalent) by Moody’s, “A-” (or its equivalent) by S&P or “A-” (or its equivalent) by Fitch, or (ii) upon the occurrence and during the continuance of an Event of Default, then the Facility Fee Rate otherwise in effect shall be immediately and without notice equal 3.00% per annum (the “Fee Increase”). The Facility Fees shall be payable in arrears as provided in the first sentence of this Paragraph (a), together with interest on the Facility Fees from the date payment is due until payment in full at the Default Rate, payable on demand and calculated as provided in such sentence.

(b) Drawing Fee. Upon each drawing under the Letter of Credit, the Issuer agrees to pay to the Bank a Letter of Credit drawing fee of \$300, payable without any requirement of notice or demand by the Bank on the day on which such drawing is paid by the Bank; provided, however, that the Issuer shall not be required to pay more than \$3,000 in draw fees during any twelve-month period.

(c) Transfer Fee; Amendment Fee. Upon each transfer of the Letter of Credit, the Issuer agrees to pay to the Bank the sum of \$5,000 plus the reasonable fees and expenses of counsel to the Bank associated with such transfer, payable on the date of such transfer. Upon any amendment of the Letter of Credit, the Reimbursement Agreement or this Fee Agreement, or any

amendment of any other Related Document requiring action on the part of the Bank, the Issuer agrees to pay to the Bank the sum of \$5,000 plus the reasonable fees and expenses of counsel to the Bank associated with such amendment, payable on the date of such amendment.

(d) Termination Fee. If the Letter of Credit terminates by its terms or is replaced, or the Available Amount of the Letter of Credit is permanently reduced below the Original Stated Amount (other than as a result of any mandatory redemption of the Bonds pursuant to Section 4.01(b) of the Indenture), prior to the first anniversary of the Date of Issuance, the Issuer shall pay to the Bank, upon such termination, replacement or reduction, a termination fee equal to the Facility Fee (based on an Available Amount equal to the Original Stated Amount) for the full first year of the Letter of Credit at the Facility Fee Rate in effect as of the date of such termination, replacement or reduction, less the aggregate amount of Facility Fee theretofore paid, and shall also pay to the Bank, upon such termination, replacement or reduction, all other fees, expenses and other obligations payable hereunder, including, without limitation, all principal and accrued interest owing on any Bank Bonds; provided, however, that the Issuer shall not be required to pay any termination fee to the Bank (i) if such termination, replacement or reduction is a result of two or more of the short-term credit ratings of the Bank being downgraded by Fitch to “F-2” or below, by Moody’s to “P2” or below or by S&P to “A-2” or below, respectively, or (ii) if such termination, replacement or reduction is a result of additional amounts becoming due pursuant to Section 2.06 of the Reimbursement Agreement. All payments from the Issuer to the Bank referred to in this paragraph (e) shall be made with immediately available funds.

(e) Costs, Expenses and Taxes. The Issuer agrees to pay on demand all costs and expenses in connection with the preparation, execution, delivery and administration of the Reimbursement Agreement, the Related Documents and any other documents which may be delivered in connection with the Reimbursement Agreement and the Related Documents, including, without limitation, the fees and out of pocket expenses of domestic and foreign counsel for the Bank with respect thereto and with respect to advising the Bank as to its rights and responsibilities under the Reimbursement Agreement and the Related Documents and all costs and expenses, if any, in connection with the enforcement of the Reimbursement Agreement, the Related Documents and such other documents which may be delivered in connection with the Reimbursement Agreement. In addition, the Issuer shall pay any and all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of the Reimbursement Agreement, the Related Documents and such other documents and agrees to save the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

(f) Account for Payments. “Reimbursement Account” shall mean the following account of the Bank (or at such other place as the Bank may specify by written notice to the Issuer, the Agency and the Trustee):

Citibank, N.A. New York
ABA Number: 021-000-089
F/O: Sumitomo Mitsui Banking Corp., New York Branch
Account Number: 360-23-837
Attention: Trade Credit Services Department
Re: Inland Empire Utilities Agency Series 2008B
Contact: (212) 224-4310

(g) Notices. All notices and other communications to the Bank provided for under the Reimbursement Agreement shall be in writing and sent to the following addresses (or to such other address(es) of which the Bank shall notify the other parties listed in Section 10.01 of the Reimbursement Agreement):

if to the Bank with respect to draws under the Letter of Credit, to:	Sumitomo Mitsui Banking Corporation, New York Branch 277 Park Avenue, 6th Floor New York, New York 10172 Attention: Trade Credit Services Department Telephone: (212) 224-4310 Facsimile: (212) 224-4566
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if to the Bank with respect to administrative matters, to:	Sumitomo Mitsui Banking Corporation, New York Branch 277 Park Avenue, 4th Floor New York, New York 10172 Attention: General Manager - Public and Infrastructure Finance Group Telephone: (212) 224-4859 Facsimile: (212) 224-5227
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With a copy to:

Sumitomo Mitsui Banking Corporation,
New York Branch
277 Park Avenue, 6th Floor
New York, New York 10172
Attention: Trade Credit Services Department
Telephone: (212) 224-4310
Facsimile: (212) 224-4566

No amendment or waiver of any provision of this Fee Agreement nor consent to any departure by the Issuer or the Agency from any such provision shall in any event be effective unless the same shall be in writing and signed by the Bank. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. In the event any agreement contained in this Fee Agreement should be breached by the Issuer or the Agency and thereafter waived by the Bank, such waiver shall be limited to the particular breach so waived for the specific period set out in such waiver and such waiver shall not constitute a waiver of such breach for any other period and shall not waive any other or similar breach hereunder. No failure on the part of the Bank to exercise, and no delay in exercising, any right under this Fee Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any right under this Fee Agreement preclude any other further exercise of such right or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. Any provision of this Fee Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or nonauthorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction. THIS FEE AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE FEDERAL LAW WITHOUT REGARD TO CHOICE OF LAW RULES; PROVIDED, HOWEVER, THE OBLIGATIONS OF THE ISSUER AND THE AGENCY HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE AND APPLICABLE FEDERAL LAW WITHOUT REGARD TO CHOICE OF LAW RULES. This Fee Agreement may be signed in any number of counterpart copies, but all such copies shall constitute one and the same instrument. This Fee Agreement and the other Related Documents completely set forth the agreements among the Bank, the Issuer and the Agency and fully supersede all prior agreements, both written and oral, among the Bank, the Issuer and the Agency relating to the issuance of the Letter of Credit and all matters set forth herein and in the Related Documents. This Fee Agreement and the Reimbursement Agreement shall be construed as one agreement among the Issuer, the Agency and the Bank and shall be governed by the provisions of the Reimbursement Agreement.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Fee Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

CHINO BASIN REGIONAL FINANCING
AUTHORITY

By: _____
Name: _____
Title: _____

INLAND EMPIRE UTILITIES AGENCY

By: _____
Name: _____
Title: _____

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By: _____
Name: _____
Title: _____

REIMBURSEMENT AGREEMENT

Among

CHINO BASIN REGIONAL FINANCING AUTHORITY,

INLAND EMPIRE UTILITIES AGENCY

and

SUMITOMO MITSUI BANKING CORPORATION,
acting through its New York Branch

Relating to

Chino Basin Regional Financing Authority
Variable Rate Demand Revenue Refunding Bonds
(Inland Empire Utilities Agency),
Series 2008B

Dated as of January 1, 2016

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REIMBURSEMENT AGREEMENT

THIS REIMBURSEMENT AGREEMENT is dated as of January 1, 2016 (as amended, supplemented or otherwise modified from time to time, this “Reimbursement Agreement” or “Agreement”), by and among CHINO BASIN REGIONAL FINANCING AUTHORITY (the “Issuer”), INLAND EMPIRE UTILITIES AGENCY (the “Agency”) and SUMITOMO MITSUI BANKING CORPORATION, acting through its New York Branch (the “Bank”). All capitalized terms used herein and not otherwise defined shall have the meaning assigned in Section 1.01 hereof or as otherwise provided in Section 1.02 hereof.

WITNESSETH:

WHEREAS, the Issuer has issued the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B (the “Bonds”) in the original aggregate principal amount of \$55,675,000, of which \$[44,060,000] is currently outstanding, pursuant to the terms of the Indenture;

WHEREAS, the Issuer and the Agency previously requested Union Bank, N.A. (the “Prior Bank”) to issue its Irrevocable Transferable Letter of Credit No. S322655 (the “Prior Letter of Credit”) to the Trustee for the account of the Issuer and the Agency, pursuant to the terms of that certain Reimbursement Agreement, dated as of November 1, 2012, by and among the Issuer, the Agency and the Prior Bank;

WHEREAS, the Issuer and the Agency desire to replace the Prior Letter of Credit and have requested the Bank to issue the Letter of Credit to support certain payments to be made with respect to the Bonds in the amount of \$[44,769,789], of which \$[44,060,000] will be available to pay the principal of the Bonds either at maturity or upon redemption or acceleration thereof or to pay the portion of the purchase price of Bonds representing the principal amount thereof, and of which \$[709,789] (49 days of interest on the principal amount of Bonds calculated at the rate of twelve percent (12.00%) and computed on the basis of a year of 365 days) will be available to pay interest on the Bonds as interest becomes due or to pay the portion of the purchase price of the Bonds representing the accrued interest thereon; and

WHEREAS, the Bank has agreed to issue the Letter of Credit subject to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, including the covenants, terms and conditions hereinafter contained, and to induce the Bank to issue the Letter of Credit, the Bank, the Issuer and the Agency agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. In addition to terms defined at other places in this Reimbursement Agreement, the following defined terms are used throughout this Reimbursement Agreement with the following meanings:

“Acceleration Drawing” means a drawing under the Letter of Credit resulting from the presentation of a certificate by the Trustee to the Bank in the form of Annex F to the Letter of Credit.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code.

“Affiliate” means any other Person controlling or controlled by or under common control with the Issuer or the Agency, as applicable. For purposes of this definition, “control,” when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract or otherwise.

“Agency” has the meaning set forth in the introductory paragraph hereof, and includes its permitted successors and assigns.

“Agency Debt Service” has the meaning assigned to the term “Debt Service” in the Installment Purchase Agreement.

“Agency Financing Agreement Revenues” has the meaning assigned to the term “Pledged Revenues” in the Financing Agreement.

“Agency Fixed Project Costs” has the meaning assigned to the term “Fixed Project Costs” in the Financing Agreement.

“Agency Net Revenues” has the meaning assigned to the term “Net Revenues” in the Installment Purchase Agreement.

“Agency Revenue Fund” has the meaning assigned to the term “Revenue Fund” in the Installment Purchase Agreement.

“Agency Revenues” has the meaning assigned to the term “Revenues” in the Installment Purchase Agreement.

“Agency Senior Debt” shall mean any payment obligation of the Agency which is secured by a pledge of and lien on any of the Agency Revenues and amounts on deposit in the Agency Revenue Fund on a basis senior to the pledge of and lien securing the Installment Payments and the Obligations and the payment and performance of the Agency’s obligations under the Installment Purchase Agreement.

“Agency Submitted Financial Statements” has the meaning set forth in Section 4.02(i) hereof.

“Agency System” has the meaning set forth in the Installment Purchase Agreement.

“Alternate Credit Facility” means any replacement Credit Facility meeting the requirements of an Alternate Credit Facility set forth in Section 2.18 of the Indenture.

“Amendment No. 1 to Indenture of Trust” means Amendment No. 1 to Indenture of Trust, dated as of October 1, 2010, by and between the Issuer and the Trustee.

“Amendment No. 1 to Installment Purchase Agreement” means Amendment No. 1 to Installment Purchase Agreement, dated as of October 1, 2010, by and between the Agency and the Issuer.

“Amendment No. 2 to Indenture of Trust” means Amendment No. 2 to Indenture of Trust, dated as of November 1, 2012, by and between the Issuer and the Trustee.

“Amendment No. 2 to Installment Purchase Agreement” means Amendment No. 2 to Installment Purchase Agreement, dated as of November 1, 2012, by and between the Agency and the Issuer.

“Amortization End Date” means the earliest to occur of (i) the fifth (5th) anniversary of the date the related Liquidity Advance was made, (ii) the tenth (10th) anniversary of the Date of Issuance, and (iii) the date the related Liquidity Advance is required to be paid in full as provided in clauses (i), (ii), (iii), (iv) and (v) of Section 2.03(a) hereof.

“Amortization Payment Date” means, with respect to each Liquidity Advance, (a) the first Business Day of calendar month immediately following the one hundred eightieth (180th) day immediately succeeding the date the Liquidity Advance was made and the first Business Day of each third (3rd) calendar month occurring thereafter prior to the related Amortization End Date, and (b) the related Amortization End Date.

“Anti-Terrorism Laws” has the meaning set forth in Section 4.01(x) hereof.

“Authorized Denominations” has the meaning set forth in the Indenture.

“Authorized Representative” means with respect to the Issuer, the President or a Vice President of the Issuer and with respect to the Agency, the Chief Executive Officer/General Manager of the Agency.

“Available Amount” has the meaning set forth in the Letter of Credit.

“Bank” has the meaning set forth in the introductory paragraph hereof, and includes its permitted successors and assigns.

“Bank Bondholder” means the Bank (but only in its capacity as Owner of Bank Bonds pursuant to this Reimbursement Agreement) and any other Person to whom the Bank has sold Bank Bonds pursuant to Section 2.03(d) hereof.

“Bank Bond CUSIP” means CUSIP number [_____], which is a separate CUSIP number (distinct from the CUSIP number [_____]) assigned to the Bonds) obtained and reserved from Standard and Poor’s CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. for the Bank Bonds, evidence of which has been provided to the Bank pursuant to Section 3.01(q) hereof.

“Bank Bonds” means Bonds which have been purchased with the proceeds of a Liquidity Drawing under the Letter of Credit, so long as the Bank, its nominee, or a custodian for its benefits, is the Owner of such Bonds.

“Bank Rate” means the rate of interest per annum with respect to a Liquidity Advance (i) for any day commencing on the date such Liquidity Advance is made up to and including the sixtieth (60th) day next succeeding the date such Liquidity Advance was made, equal to the Base Rate from time to time in effect, (ii) for any day commencing on the sixty -first (61st) day next succeeding the date such Liquidity Advance was made up to and including the ninetieth (90th) day next succeeding the date such Liquidity Advance was made, equal to the sum of the Base Rate from time to time in effect plus one percent (1.00%) and (iii) for any day commencing on the ninety-first (91st) day next succeeding the date such Liquidity Advance was made and thereafter, equal to the sum of the Base Rate from time to time in effect plus two percent (2.00%); provided, however, that immediately and automatically upon the occurrence of an Event of Default (and without any notice given with respect thereto) and during the continuance of such Event of Default, “Bank Rate” shall mean the Default Rate; provided, further, in no event shall the Bank Rate be less than the applicable rate on any Bonds that are not Bank Bonds.

“Base Rate” means, for any date, a rate per annum equal to the highest of (a) the sum of the Fed Funds Rate in effect on such day plus three percent (3.00%), (b) the sum of the LIBOR Index Rate in effect on such day plus three percent (3.00%), (c) the sum of the Prime Rate in effect on such day plus two percent (2.00%), (d) the sum of the SIFMA Rate in effect on such day plus three percent (3.00%), and (e) six and one-half of one percent (6.50%) per annum.

“Bond Interest is Taxable” means that interest paid or to be paid on a Bond is or will be includable for Federal income tax purposes in the gross income of the Bank including, without limitation, the includability of interests in the gross income of the Bank based on the allegation or premise that the Bank is not the owner of the Bonds for Federal income tax purposes, but excluding the inclusion of interest on such Bond as an item of tax preference for purposes of the calculation of an alternative minimum tax imposed on the Bank.

“Bonds” has the meaning set forth in the recitals hereof.

“BSA” has the meaning set forth in Section 5.01(v) hereof.

“Business Day” means any day which is not (i) a Saturday, Sunday or (ii) a day on which banks located in (A) in the city in which the Corporate Trust Office of the Trustee is located, (B) the city in which Drawings under the Letter of Credit are to be honored (initially, New York, New York) is located, (C) the city in which the Corporate Trust Office of the Tender Agent at which the Bonds may be tendered for purchase by the owners thereof is located or (D) the city in which the principal office of the Remarketing Agent is located, are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

“Change of Law” shall mean the adoption or implementation, after the Date of Issuance, of, or any change, after the Date of Issuance, in, any law, rule, treaty or regulation, or any policy, guideline or directive of, or any change, after the Date of Issuance, in the interpretation or administration thereof by any court, central bank or other administrative or Governmental

Authority (in each case whether or not having the force of law), or compliance by the Bank with any request or directive of any such court, central bank or other administrative or Governmental Authority (whether or not having the force of law) or the occurrence of the effective date of any of the foregoing if adopted prior to the Date of Issuance or any change after the Date of Issuance in the application, interpretation or enforcement of any of the foregoing, provided that notwithstanding anything herein to the contrary, (x) the Dodd Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (y) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case, pursuant to Basel III, shall in each case be deemed to be a “Change of Law,” regardless of the date enacted, adopted or issued.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and all rules and regulations from time to time promulgated thereunder.

“Conversion Date” means the date on which all of the Bonds are converted to bear interest at a rate other than a Covered Rate.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state.

“Covered Rate” means the Weekly Interest Rate.

“Credit Facility” has the meaning set forth in the Indenture.

“Custody Agent” means U.S. Bank National Association, and its permitted successors and assigns.

“Custody Agreement” means the Custody Agreement dated as of January 1, 2016, between the Bank and the Custody Agent, as amended and supplemented from time to time.

“Date of Issuance” means January [___], 2016, which, subject to the satisfaction of the conditions precedent set forth in Section 3.01 hereof, is date on which the Bank will issue the Letter of Credit.

“Debt” means with respect to any Person, all items that would be classified as a liability in accordance with generally accepted accounting principles, including, without limitation, (a) indebtedness or liability for borrowed money (including by the issuance of debt security), or for the deferred purchase price of property or services (including trade obligations); (b) obligations as lessee under leases which should have been, or should be, recorded as capital leases in accordance with generally accepted accounting principles; (c) current liabilities in respect of unfunded benefits under employee benefit, retirement or pension plans; (d) obligations issued for the account of any other Person; (e) all obligations, contingent or otherwise, arising under letters of credit or acceptance facilities; (f) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business) and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any other Person or otherwise to assure a creditor against loss; (g) obligations secured by any mortgage, lien, pledge, security interest or other charge

or encumbrance on property, whether or not the obligations have been assumed; and (h) obligations of such Person under Interest Rate Protection Agreements.

“Default” means the occurrence of any event or the existence of any condition which constitutes an Event of Default or the occurrence of any event or the existence of any condition which with the giving of notice, the passage of time, or both, would constitute an Event of Default.

“Default Rate” means a per annum rate of interest equal to the sum of the Base Rate from time to time in effect plus four percent (4.00%).

“Determination of Taxability” means (i) the receipt by the Bank of a notice of deficiency issued by the Internal Revenue Service to the effect that Bond Interest is Taxable, or (ii) the delivery to the Bank of a written opinion of nationally recognized bond counsel to the effect that Bond Interest is Taxable.

“Dodd-Frank Act” means the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as enacted by the United States Congress, and signed into law on July 21, 2010, and all statutes, rules, guidelines or directives promulgated thereunder.

“Drawing” means and includes an Acceleration Drawing, an Interest Drawing, a Liquidity Drawing, a Redemption Drawing and a Stated Maturity Drawing.

“Environmental Laws” means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment, including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean up or other remediation thereof.

“Event of Default,” in relation to this Reimbursement Agreement, shall have the meaning assigned to such term in Article VII hereof, and in relation to any Related Document, shall have the meaning set forth therein.

“Event of Insolvency” means, with respect to any Person, the occurrence of one or more of the following events:

(a) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation, dissolution of, or order of other similar relief against, such Person;

(b) the commencement by or against such Person of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the such Person or its debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for such Person or any substantial part of its property or there shall be appointed or

designated with respect to it, an entity such as an organization, board, commission, authority, agency or body to monitor, review, oversee, recommend or declare a financial emergency or similar state of financial distress with respect to it or there shall be declared or introduced or proposed for consideration by it or by any legislative or regulatory body with competent jurisdiction over it, the existence of a state of financial emergency or similar state of financial distress in respect of it;

- (c) the making of an assignment for the benefit of creditors by such Person;
- (d) the failure of such Person to generally pay its debts as they become due;
- (e) the declaration or imposition of a moratorium, restructuring, adjustment or comparable restriction with respect to the payment of any of the debts of such Person;
- (f) such Person shall admit in writing its inability to pay its debts when due; or
- (g) the initiation of any actions to authorize or further any of the foregoing by or on behalf of such Person.

“Excess Interest Amount” has the meaning set forth in Section 2.11(b) hereof.

“Excluded Bond” means any Bond which bears interest at a rate other than a Covered Rate, any Bank Bond or any Bond registered in the name of, or held by a Person for the account of, the Issuer, or the Agency or any affiliate of the Issuer or the Agency.

“Executive Order” has the meaning set forth in Section 4.01(x) hereof.

“Exposure” means, for any date with respect to a Person and any Interest Rate Protection Agreement, the amount of any Settlement Amount that would be payable by such Person if such Interest Rate Protection Agreement were terminated as of such date. Exposure shall be determined in accordance with the standard methods of calculating such exposure under similar arrangements as prescribed from time to time by the Bank, taking into account the methodology for calculating amounts due upon early termination of an Interest Rate Protection Agreement as set forth in such Interest Rate Protection Agreement and the notional principal amount, term and other relevant provisions thereof.

“Facility Fee” has the meaning set forth in the Fee Agreement.

“Fed Funds Rate” means, for any day, a fluctuating interest rate per annum equal to the weighted average (rounded to the next higher 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average (rounded to the next higher 1/100 of 1%) of the quotations for such day on such transactions received by the Bank from three Federal funds brokers of recognized standing selected by the Bank. Each determination of the Fed Funds Rate by the Bank shall be conclusive and binding on the Issuer and the Agency.

“Fee Agreement” shall mean the Fee Agreement dated the Date of Issuance among the Bank, the Issuer and the Agency, as the same may be amended or supplemented from time to time by written instrument signed by the Bank, the Issuer and the Agency.

“Financing Agreement” means the 2002 Financing Agreement, dated as of June 1, 2002, by and between the Issuer and the Agency, as it may be amended or supplemented from time to time in accordance with the terms hereof and thereof.

“Fiscal Year” means with respect to the Issuer, the fiscal year of the Issuer ending on June 30 of each calendar year and with respect to the Agency, the fiscal year of the Agency ending on June 30 of each calendar year.

“Fitch” means Fitch, Inc. or any successor rating agency.

“Governmental Authority” means any nation or government, any state, department, agency or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government, and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

“Indenture” means the Indenture of Trust, dated as of March 1, 2008, by and between the Issuer and the Trustee, as amended by the Amendment No. 1 to Indenture of Trust and Amendment No. 2 to Indenture of Trust, and as it may be further amended or supplemented from time to time in accordance with the terms hereof and thereof.

“Installment Payments” has the meaning set forth in the Installment Purchase Agreement.

“Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of March 1, 2008, by and between the Agency and the Issuer, as amended by Amendment No. 1 to Installment Purchase Agreement and Amendment No. 2 to Installment Purchase Agreement, and as it may be further amended or supplemented from time to time in accordance with the terms hereof and thereof.

“Interest Drawing” means a drawing under the Letter of Credit resulting from a presentation of a certificate by the Trustee to the Bank in the form of Annex C to the Letter of Credit.

“Interest Purchase Drawing” means the portion of a drawing under the Letter of Credit pursuant to a Liquidity Drawing to pay the portion of the purchase price of Bonds representing accrued interest on Bonds to be purchased.

“Interest Rate Protection Agreement” means an interest rate swap, cap or collar agreement or similar arrangement between any Person and a financial institution providing for the transfer or mitigation of interest rate risks either generally or under specific contingencies.

“Issuer” means the Chino Basin Regional Financing Authority, and its successors and assigns permitted hereunder.

“Issuer Submitted Financial Statements” has the meaning given to such term in Section 4.01(i) hereof.

“JPA Agreement” means the Joint Exercise of Powers Agreement, dated as of May 1, 1993, between the Chino Basin Municipal Water District and the Cucamonga County Water District, as it may be amended or supplemented from time to time in accordance with the terms hereof and thereof.

“Letter of Credit” means the Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] issued by the Bank on the Date of Issuance, in the form of Exhibit A hereto, with appropriate insertions, including such amendments, modifications or supplements permitted pursuant to its terms and the terms hereof.

“LIBOR Index Rate” means, for any day, a rate per annum (rounded upwards, if necessary to the nearest 1/1000 of 1%) for deposits in United States Dollars for a period equal to one month, which appears on Reuters LIBOR01 Page (or such other commercially available source providing such quotations as may be designated by the Bank from time to time) as of 11:00 a.m. (London, England time) on such date (or, if such day is not a Business Day, on the immediately preceding Business Day); provided, that if such rate does not appear on such page on such date, the LIBOR Index Rate shall be determined by an alternate method that is designed to produce a rate as similar as possible to the LIBOR Index Rate which alternate method shall be reasonably selected by the Bank.

“Liquidity Advance” has the meaning set forth in Section 2.03(a) hereof.

“Liquidity Drawing” means any drawing under the Letter of Credit accompanied by a certificate in the form attached as Annex E to the Letter of Credit in order to pay the purchase price of Bonds tendered for purchase pursuant to the Indenture and not remarketed.

“Margin Stock” shall have the meaning assigned to that term in Regulation U promulgated by the Board of Governors of the Federal Reserve System, as now and hereafter from time to time in effect.

“Master Resolution” has the meaning set forth in the Installment Purchase Agreement.

“Material Adverse Change” means the occurrence of any event or change resulting in a material and adverse change (in the opinion of the Bank) in the business, condition (financial or otherwise), operations or prospects of the Issuer, the Agency (or the Agency System) or the Watermaster since the last day of the period reported in the Submitted Financial Statements, the Agency Submitted Financial Statements or the Watermaster Submitted Financial Statements, as applicable, or which materially and adversely affects the validity or enforceability of this Reimbursement Agreement or any of the other Related Documents (including the pledge of the security thereunder or the priority of the liens created thereby) or the ability of the Agency to operate the Agency System or conduct its business as presently conducted or as proposed or contemplated to be conducted or to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement and the Financing Agreement or the ability of the Issuer, the Agency or the Watermaster to perform its respective obligations hereunder or thereunder.

“Maximum Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law without regard to any filing made by a lender with respect to notice of rates in excess of any statutory or regulatory threshold interest rate.

“Moody’s” means Moody’s Investors Service, Inc. or any successor rating agency.

“Obligations” means the Reimbursement Obligations (which includes obligations of the Agency to repay Liquidity Advances, unreimbursed Drawings and all other amounts owing to the Bank evidenced and secured by Bank Bonds), the obligations of the Issuer or the Agency to pay all fees and expenses specified in this Agreement and the Fee Agreement and all other obligations of the Agency or the Issuer to the Bank arising under or in relation to this Agreement and the Related Documents, including in each instance, all interest accrued thereon.

“OFAC” has the meaning set forth in Section 4.01(x) hereof.

“Offering Document” means the Supplement to Official Statement dated January [___], 2016 (including the cover page and all summary statements, appendices and other materials included or incorporated by reference or attached thereto), as amended or supplemented or any other preliminary or final official statement of the Issuer or prospectus used with respect to the remarketing of the Bonds or supplement to official statement.

“Operation and Maintenance Costs” has the meaning set forth in the Installment Purchase Agreement.

“Original Stated Amount” has the meaning set forth in the Letter of Credit.

“Outstanding” has the meaning set forth in the Indenture.

“Owner” means the registered owner of a Bond or, if the Bonds are held in book entry form, the beneficial owner of such Bond.

“Parity Installment Payments” has the meaning set forth in the Installment Purchase Agreement.

“Parity Obligations” has the meaning set forth in the Installment Purchase Agreement.

“Participant(s)” means any bank(s) or other financial institution(s) which may purchase a participation interest from the Bank in the Letter of Credit, this Reimbursement Agreement and certain of the Related Documents pursuant to a participation agreement between the Bank and the Participant(s).

“Patriot Act” has the meaning set forth in Section 10.14 hereof.

“Payment Documents” has the meaning set forth in the Letter of Credit.

“Person” means an individual, a corporation, a partnership, an association, a joint venture, a trust, a business trust, a limited liability company or any other entity or organization, including a governmental or political subdivision or an agency or instrumentality thereof.

“Prime Rate” means the rate of interest announced by the Bank from time to time as its prime commercial rate, or equivalent, as in effect on such day for United States dollar loans, with any change in the Prime Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate, it being understood that such rate may not be the Bank’s best or lowest rate. Any change in the Prime Rate announced by the Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

“Principal Purchase Drawing” means a drawing under the Letter of Credit pursuant to a Liquidity Drawing to pay the portion of the purchase price of Bonds representing the principal amount of Bonds to be purchased.

“Prior Bank” has the meaning set forth in the Recitals hereto.

“Prior Letter of Credit” has the meaning set forth in the Recitals hereto.

“Quarterly Payment Date” has the meaning set forth in the Fee Agreement.

“Rating Agency” means Fitch, Moody’s or S&P or any successor rating agency.

“Recharge Agreement” means the Recharge Facilities Financing Agreement, dated as of May 1, 2002, by and between the Watermaster and the Issuer, as it may be amended or supplemented from time to time in accordance with the terms hereof and thereof.

“Redemption Drawing” means a drawing under the Letter of Credit resulting from the presentation of a certificate by the Trustee to the Bank in the form of Annex D to the Letter of Credit.

“Reimbursement Account” has the meaning set forth in the Fee Agreement.

“Reimbursement Agreement” or “Agreement” means this Reimbursement Agreement, including such amendments, modifications or supplements permitted pursuant to the terms hereof.

“Reimbursement Obligations” means any and all obligations of the Issuer or the Agency to reimburse the Bank for any Drawings under the Letter of Credit and all obligations to repay the Bank for any Liquidity Advance, including, in each instance, all interest accrued thereon which such obligations are evidenced by the Bank Bonds.

“Related Documents” means, collectively, this Agreement, the Fee Agreement, the Letter of Credit, the Custody Agreement, the Indenture, the Remarketing Agreement, the Bonds, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement, the Offering Document, the authorizing resolutions of the Issuer, the Agency and the Watermaster and any exhibits, instruments or agreements relating thereto, as the same may be amended from time to time in accordance with their respective terms and the terms hereof.

“Remarketing Agent” means initially the Person acting from time to time as the Remarketing Agent under the Indenture and the Remarketing Agreement, currently Citigroup Global Markets Inc.

“Remarketing Agreement” means the Remarketing Agreement by and between the Issuer and the Remarketing Agent dated as of March 1, 2008 and any similar agreement between the Issuer and any successor Remarketing Agent, including, in each case, such amendments, modifications or supplements permitted pursuant to its terms and the terms hereof.

“Reserve Fund” means the Reserve Fund, and any account thereof, established pursuant to the provisions of the Indenture.

“Reserve Requirement” means \$2,130,835.86.

“Revenues” means amounts received by the Issuer pursuant to or with respect to the Installment Purchase Agreement, the Financing Agreement and the Recharge Agreement and all interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture.

“S&P” means Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor rating agency.

“Settlement Amount” means, with respect to a Person and any Interest Rate Protection Agreement, any amount payable by such Person under the terms of such Interest Rate Protection Agreement in respect of, or intended to compensate the other party for, the value of such Interest Rate Protection Agreement upon early termination thereof.

“SIFMA Rate” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association or any Person acting in cooperation with or under the sponsorship of the Securities Industry and Financial Markets Association and acceptable to the Bank and effective from such date. In the event Municipal Market Data no longer produces an index satisfying the requirements of the preceding sentence, the SIFMA Rate (a/k/a, the “SIFMA Municipal Swap Index”) shall be deemed to be the S&P Weekly High Grade Index, or if either such index is not available, such other similar national index as reasonably designated by the Bank.

“State” means the State of California.

“Stated Expiration Date” means the date set forth in the Letter of Credit as the date on which the Letter of Credit is stated to expire (i.e., initially, January [__], 201[___]), unless terminated in accordance with the terms of the Letter of Credit or as extended from time to time pursuant to the terms of the Letter of Credit and this Agreement.

“Stated Maturity Drawing” means a drawing under the Letter of Credit resulting from the presentation of a certificate by the Trustee to the Bank in the form of Annex G to the Letter of Credit.

“Substitution Date” means the date on which the Letter of Credit is replaced by an Alternate Credit Facility pursuant to the terms of this Agreement and the other Related Documents.

“Subordinate Obligation” has the meaning set forth in the Installment Purchase Agreement.

“Tender Agent” means U.S. Bank National Association or its permitted successor as tender agent under the Indenture.

“Termination Date” has the meaning set forth in the Letter of Credit.

“Trustee” means U.S. Bank National Association and its permitted successors and assigns as trustee under the Indenture.

“2007 Installment Purchase Agreement (Improvement Projects)” has the meaning set forth in the Installment Purchase Agreement.

“2007 Installment Purchase Agreement (Replacement Projects)” has the meaning set forth in the Installment Purchase Agreement.

“2010A Installment Purchase Agreement” means that certain Installment Purchase Agreement, dated as of March 1, 2010, by and between the Agency and the Issuer.

“Watermaster” means the Chino Basin Watermaster, and its successors and assigns.

“Watermaster Fixed Project Costs” has the meaning assigned to the term “Fixed Project Costs” in the Recharge Agreement.

“Watermaster Submitted Financial Statements” shall mean the audited financial statements of the Watermaster for the most recently completed Fiscal Year.

“Weekly Interest Rate” has the meaning set forth in the Indenture.

“Written” or “in writing” means any form of written communication or a communication by means of facsimile device.

Section 1.02. Incorporation of Certain Definitions by Reference. Each capitalized term used herein and not otherwise defined herein shall have the meaning provided therefor in the Indenture and the Bonds, as applicable, unless the context otherwise requires.

Section 1.03. Accounting Matters. All accounting terms used herein without definition shall be interpreted in accordance with generally accepted accounting principles, and except as otherwise expressly provided herein all accounting determinations required to be made pursuant to this Reimbursement Agreement shall be made in accordance with generally accepted accounting principles.

Section 1.04. Computation of Time Periods. In this Reimbursement Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise specified herein, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding.”

Section 1.05. New York City Time Presumption. All references herein to times of the day shall be presumed to refer to New York City time unless otherwise specified.

Section 1.06. Relation to Other Documents. Nothing in this Reimbursement Agreement shall be deemed to amend, or relieve the Issuer or the Agency of any of its obligations under any Related Document. To the extent any provision of this Reimbursement Agreement conflicts with any provision of any other Related Document to which the Issuer or the Agency and the Bank are parties, the provisions of this Reimbursement Agreement shall control.

Section 1.07. Interpretation. All words used herein shall be construed to be of such gender or number as the circumstances require. Reference to any document means such document as amended or supplemented from time to time as permitted under their respective terms and the terms hereof. Reference herein to an Article, Exhibit or Section shall constitute a reference to such Article, Exhibit or Section of or to this Reimbursement Agreement unless otherwise specified.

ARTICLE II

LETTER OF CREDIT

Section 2.01. Issuance of Letter of Credit. Upon the terms, subject to the conditions and relying upon the representations and warranties set forth in this Agreement or incorporated herein by reference, the Bank agrees to issue the Letter of Credit (substantially in the form of Exhibit A hereto). The Letter of Credit shall be in the Original Stated Amount, which is the sum of (i) the aggregate principal amount of the Bonds outstanding as of the Date of Issuance, plus (ii) interest thereon at an assumed rate of twelve percent (12%) per annum for a period of 49 days on the basis of a 365 day year, rounded up to the nearest dollar.

Section 2.02. Letter of Credit Drawing. The Trustee or Tender Agent, as applicable, is authorized to make Drawings under the Letter of Credit in accordance with its terms. No Drawing under the Letter of Credit shall be made for the payment of the principal or purchase price of, or interest on, Excluded Bonds. The Agency and the Issuer hereby direct the Bank to make payments under the Letter of Credit in the manner therein provided. The Agency and the Issuer hereby irrevocably approve reductions and reinstatements of the Available Amount with respect to the Letter of Credit as provided in the Letter of Credit.

Section 2.03. Reimbursement of Certain Drawings under the Letter of Credit; Mandatory Prepayment; Interest. (a) If the conditions precedent contained in Section 3.02 hereof are satisfied at the time of payment by the Bank of a Liquidity Drawing, the portion of such Liquidity Drawing that constitutes the Principal Purchase Drawing shall constitute an advance (each a "Liquidity Advance") to the Issuer. The Issuer promises to repay to the Bank for each Liquidity Advance on the earliest to occur of (i) the Substitution Date, (ii) the date on which any Bonds purchased with funds disbursed under the Letter of Credit in connection with such Liquidity Drawing are redeemed, prepaid or canceled pursuant to the Indenture, (iii) the date on which any Bonds purchased with funds disbursed under the Letter of Credit in connection with such Liquidity Advance are remarketed pursuant to the Indenture, (iv) the Conversion Date and (v) the date on which the Available Amount of the Letter of Credit is permanently reduced to zero or the Letter of Credit is otherwise terminated (other than as a result of the Letter of Credit expiring on the Stated Expiration Date). The Issuer's obligations to repay each Liquidity Advance and to pay interest thereon as hereinafter provided shall be evidenced and secured by the related Bank Bonds. The Issuer also promises to repay to the Bank interest on the unpaid principal amount of each

Liquidity Advance from the date such Liquidity Advance is made until it is paid in full as provided herein, at a rate per annum equal to the Bank Rate from time to time in effect, which shall be payable monthly in arrears on the first Business Day of each calendar month for the immediately preceding calendar month (commencing on the first such date to occur after the making of the related Liquidity Advance), and on the date that the final principal installment of such Liquidity Advance is payable as herein provided. Unless otherwise paid in full on a date provided above, each Liquidity Advance shall be payable by the Issuer in equal quarterly installments on each Amortization Payment Date applicable to such Liquidity Advance (“Quarterly Principal Payments”), beginning on the first Amortization Payment Date to occur after the date the related Liquidity Advance was made and on each Amortization Payment Date thereafter; provided, however, that in any event the entire unpaid principal balance of such Liquidity Advance shall be due and payable on the related Amortization End Date (the period commencing on the date the related Liquidity Advance was made and ending on the related Amortization End Date is herein referred to as the “Amortization Period”). Each Quarterly Principal Payment shall be that amount of principal which will result in equal (as nearly as possible) aggregate Quarterly Principal Payments over the applicable Amortization Period.

Bank Bonds shall bear interest at the Bank Rate from time to time in effect and shall be redeemed on each Amortization Payment Date and in the principal amounts equal to each Quarterly Principal Payment payable by the Issuer under this Section 2.03(a), and each such payment made to redeem Bank Bonds which is received by the Bank shall be deemed to satisfy, on a dollar for dollar basis, the aggregate quarterly installment due on the date of such payment.

(b) Any Liquidity Advance may be prepaid in whole or in part on the day such Liquidity Advance is made. Any Liquidity Advance created pursuant to paragraph (a) above may be prepaid in whole or in part without premium or penalty on any other Business Day upon one (1) Business Day’s prior written notice.

(c) Upon the Bank’s receipt of any payment or prepayment of any Liquidity Advance, the amount of such Liquidity Advance shall be reduced by the amount of such payment or prepayment.

(d) Upon honoring any Liquidity Drawing, the Bank shall be deemed to have advanced such funds advanced under the Letter of Credit to the Issuer and the Issuer shall cause such proceeds to be used by the Trustee to purchase the Bank Bonds in respect of which such Liquidity Drawing is made, and the Issuer shall cause the Trustee to hold such Bank Bonds for the benefit of the Bank, and register such Bank Bonds in the name of the Bank, or its nominee, or to otherwise deliver such Bank Bonds as directed by the Bank pursuant to the Indenture and the Custody Agreement. During such time as the Bank is the owner of any Bonds, the Bank shall have all the rights granted to a Bondowner under the Indenture and such additional rights as may be granted to the Bank hereunder. To the extent that the Bank actually receives payment in respect to principal of or interest on any Bank Bond held by the Bank, the Liquidity Advance made in connection with the purchase of such Bank Bond shall be deemed to have been reduced pro tanto, with the Bank crediting any payment on such Bank Bond received by the Bank, first to the payment of any outstanding interest accrued on the related Liquidity Advance, and second to the payment of the principal of such Liquidity Advance. Any such payment or prepayment to be applied to principal of Liquidity Advances hereunder shall be applied to the prepayment of related Liquidity Advances

in chronological order of their issuance hereunder, and within each Liquidity Advance in inverse order of the principal installments payable thereon. Following the occurrence of an Event of Default, any payments received by the Bank hereunder shall be applied by the Bank to the payment of the Obligations in such order as the Bank shall determine.

Section 2.04. Reimbursement of Drawings under the Letter of Credit and Certain Liquidity Drawings. The Issuer agrees to reimburse the Bank for the full amount of the portion of any Liquidity Drawing that constitutes an Interest Purchase Drawing, the portion of any Liquidity Drawing that constitutes a Principal Purchase Drawing (other than the portion of such Liquidity Drawing that constitutes a Principal Purchase Drawing for which the applicable conditions precedent contained in Section 3.02 hereof are satisfied on the date such Liquidity Drawing is made) and the full amount of all other Drawings under the Letter of Credit immediately upon payment by the Bank of each such Drawing and on the date of each such payment. In the event the Issuer does not so reimburse the Bank for the full amount of the portion of such Liquidity Drawing that constitutes the Interest Purchase Drawing, the portion of such Liquidity Drawing that constitutes the Principal Purchase Drawing (other than any Liquidity Drawing for which the applicable conditions precedent contained in Section 3.02 hereof are satisfied on the date such Liquidity Drawing is made) and the full amount of all other Drawings immediately upon payment by the Bank of each such Drawing, such Reimbursement Obligation shall automatically, and without further action, bear interest at the Default Rate, payable on demand.

Section 2.05. Fees. The Issuer hereby agrees to pay, or cause to be paid, to the Bank a nonrefundable Facility Fee at the times and in the amounts set forth in the Fee Agreement and the terms of such Fee Agreement are incorporated herein by reference as if fully set forth herein. The Issuer also agrees to pay to the Bank all other fees and amounts due pursuant to the terms of the Fee Agreement at the times and in the amounts set forth in the Fee Agreement. The terms of the Fee Agreement are hereby incorporated herein by reference as if fully set forth herein. All references to amounts or obligations due hereunder shall be deemed to include all amounts and obligations (including, without limitation fees and expenses) under the Fee Agreement. The Issuer agrees to perform its obligations provided for in the Fee Agreement, including, without limitation, the payment of the costs, expenses and stamp and other taxes and fees provided for therein at the times and in the amounts as set forth therein, the terms of which Fee Agreement are incorporated herein by this reference as if fully set forth herein.

Section 2.06. Yield Protection. (a) If the Bank or any Participant shall have determined that a Change of Law has occurred, the result of which is to (A) change the basis of taxation of payments to the Bank or any Participant of any amounts payable hereunder or under the Fee Agreement (except for taxes on the overall net income of the Bank or such Participant), (B) impose, modify or deem applicable any reserve, special deposit or similar requirement against performing or maintaining its obligations under this Agreement or maintaining or honoring Drawings under the Letter of Credit or assets held by, or deposited with or for the account of, the Bank or such Participant or (C) impose on the Bank or any Participant any other condition regarding this Agreement or the Letter of Credit, and the result of any event referred to in clause (A), (B) or (C) above shall be to increase the cost to the Bank or such Participant of performing or maintaining its obligations hereunder or maintaining or honoring Drawings under the Letter of Credit, or to reduce the amount of any sum received or receivable by the Bank or such Participant hereunder or under the Fee Agreement, then, the Issuer shall pay to the Bank or such Participant at such time and in

such amount as is set forth in paragraph (c) of this Section 2.06, such additional amount or amounts as will compensate the Bank or such Participant for such increased costs or reductions in amount received or receivable.

(b) If the Bank or any Participant shall have determined that a Change of Law has occurred that shall impose, modify or deem applicable any capital adequacy, liquidity or similar requirement (including, without limitation, a request or requirement that affects the manner in which the Bank or the Participant allocates capital or liquidity resources to its commitments, including its obligations under the Letter of Credit) that either (A) affects or would affect the amount of capital or liquidity to be maintained by the Bank or any Participant or (B) reduces or would reduce the rate of return on the Bank's or the Bank's controlling corporation's or Participant's or the Participant's controlling corporation's capital or liquidity to a level below that which the Bank or the Participant could have achieved but for such circumstances (taking into consideration the Bank's or the Bank's controlling corporation's or Participant's or the Participant's controlling corporation's policies with respect to capital adequacy or liquidity) then, the Issuer shall pay to the Bank at such time and in such amount as is set forth in clause (c) of this Section 2.06, such additional amount or amounts as will compensate the Bank or the Bank's controlling corporation or the Participant or the Participant's controlling corporation for such costs of maintaining such increased capital or liquidity or such reduction in the rate of return on the Bank's or the Bank's controlling corporation's capital or liquidity or the Participant's or the Participant's controlling corporation's capital or liquidity related to the maintenance of this Agreement and the Letter of Credit.

(c) All payments of amounts referred to in clauses (a) and (b) of this Section 2.06 shall be due and payable in full on the next succeeding Quarterly Payment Date that is at least thirty (30) calendar days after the Issuer's receipt of notice thereof. Interest on the sums due as described in clauses (a) and (b) of this Section 2.06, and in the preceding sentence, shall begin to accrue from the date when the payments were first due at a rate per annum equal to the Default Rate until such amounts have been paid in full and shall be payable on demand and in accordance with the terms hereof. A certificate as to such increased cost, increased capital or liquidity or reduction in return incurred by the Bank or any Participant as a result of any event mentioned in clause (a) or (b) of this Section 2.06 setting forth, in reasonable detail, the basis for calculation and the amount of such calculation shall be submitted by the Bank to the Issuer and shall be conclusive (absent manifest error) as to the amount thereof. In making the determinations contemplated by such certificate, the Bank or the Participant may make such reasonable estimates, assumptions, allocations and the like as the Bank or the Participant, as applicable, in good faith determines to be appropriate. The obligations of the Issuer under this Section shall survive termination of this Reimbursement Agreement.

Section 2.07. Method and Application of Payments. Except as may be otherwise provided herein, all fees under the Fee Agreement shall be computed on the basis of a year of 360 days and the actual number of days elapsed and interest on amounts owed hereunder, under the Fee Agreement or with respect to Bank Bonds shall be computed on the basis of a year of 360 days, and the actual number of days elapsed. Interest shall accrue during each period during which interest is computed from and including the first day thereof to but excluding the last day thereof. All payments by or on behalf of the Agency or the Issuer to the Bank hereunder or under the Fee Agreement shall be fully earned when due and nonrefundable when paid and made in lawful

currency of the United States of America and in immediately available funds. Amounts payable to the Bank hereunder and under the Fee Agreement shall be transferred to the Reimbursement Account not later than 2:00 p.m. New York, New York time, on the date payment is due. Any payment received by the Bank after 2:00 p.m., New York, New York time, shall be deemed to have been received by the Bank on the next Business Day. If any payment hereunder or under the Fee Agreement is due on a day that is not a Business Day, then such payment shall be due on the next succeeding Business Day, and, in the case of the computation of the interest hereunder or fees under the Fee Agreement, such extension of time shall, in such case, be included in the computation of the payment due hereunder or thereunder. Payments received by the Bank shall be applied, first, to any fees, costs, charges or expenses payable to the Bank under this Reimbursement Agreement or the Fee Agreement; second, to past due interest; third, to current interest; and, fourth, to principal.

Section 2.08. Maintenance of Accounts. The Bank shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Issuer or the Agency and the amounts payable and paid from time to time hereunder and under the Fee Agreement. In any legal action or proceeding in respect of this Reimbursement Agreement or the Fee Agreement, the entries made in such account or accounts shall be presumptive evidence of the existence and amounts of the obligations of the Issuer or the Agency therein recorded. The failure to record any such amount shall not, however, limit or otherwise affect the obligations owed to the Bank hereunder and under the Fee Agreement to repay all amounts owed hereunder and under the Fee Agreement, together with all interest accrued thereon as provided herein.

Section 2.09. Cure. The Issuer agrees to pay, or cause to be paid, to the Bank on demand, any amounts advanced by or on behalf of the Bank, to the extent required to cure any Default or Event of Default under this Reimbursement Agreement or any other Related Document. The Bank shall give the Issuer reasonably prompt notice of any such advances. The Bank shall have the right, but not the obligation, to cure any such Default or Event of Default.

Section 2.10. Net of Taxes. (a) Taxes. Any and all payments to the Bank by the Issuer or the Agency hereunder and under the Fee Agreement shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges, withholdings or liabilities imposed thereon, excluding, however, taxes imposed on or measured by the net income or capital of the Bank by any jurisdiction or any political subdivision or taxing authority thereof or therein solely as a result of a connection between the Bank and such jurisdiction or political subdivision (all such non excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Issuer or the Agency shall be required by law to withhold or deduct any Taxes imposed by the United States or any political subdivision thereof or any other taxing jurisdiction (or any other jurisdiction from which or through which payments are made) from or in respect of any sum payable hereunder or under the Fee Agreement to the Bank, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.10), the Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Issuer or the Agency, as applicable, shall make such deductions and (iii) the Issuer or the Agency, as applicable, shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law. If the Issuer or the Agency shall make any payment under this Section 2.10 to or for the benefit of the Bank with respect to Taxes and if the

Bank in its sole discretion determines that it shall receive a refund or shall claim any credit or deduction for such Taxes against any other taxes payable by the Bank to any taxing jurisdiction in the United States then the Bank shall pay to the Issuer or the Agency, as applicable an amount equal to the amount by which such other taxes are actually reduced; provided that the aggregate amount payable by the Bank pursuant to this sentence shall not exceed the aggregate amount previously paid by the Issuer or the Agency, as applicable, to the applicable party with respect to such Taxes. In addition, the Issuer and the Agency agrees to pay any present or future stamp, recording or documentary taxes and any other excise or property taxes, charges or similar levies that arise under the laws of the United States of America or any state of the United States or any other taxing jurisdiction from any payment made hereunder or from the execution or delivery or otherwise with respect to this Agreement (hereinafter referred to as "Other Taxes"). The Bank shall provide to the Issuer and the Agency within a reasonable time a copy of any written notification it receives with respect to Taxes or Other Taxes owing by the Issuer or the Agency to the Bank hereunder provided that the Bank's failure to send such notice shall not relieve the Issuer or the Agency of its obligation to pay such amounts hereunder.

(b) Indemnity. The Issuer shall indemnify the Bank for the full amount of Taxes and Other Taxes including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.10 paid by the Bank or any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted; provided that the Issuer shall not be obligated to indemnify the Bank for any penalties, interest or expenses relating to Taxes or Other Taxes arising from the Bank's gross negligence or willful misconduct. The Bank agrees to give notice to the Issuer of the assertion of any claim against the Bank relating to such Taxes or Other Taxes as promptly as is practicable after being notified of such assertion; provided that the Bank's failure to notify the Issuer promptly of such assertion shall not relieve the Issuer of its obligation under this Section 2.10. Payments by the Issuer pursuant to this indemnification shall be made within thirty (30) days from the date the Bank makes written demand therefor, which demand shall be accompanied by a certificate describing in reasonable detail the basis thereof. The Bank agrees to repay to the Issuer any refund actually received by the Bank (including that portion of any interest that was included as part of such refund) with respect to Taxes or Other Taxes paid by the Issuer pursuant to this Section 2.10 received by the Bank for Taxes or Other Taxes that were paid by the Issuer pursuant to this Section 2.10 and to contest, with the cooperation and at the expense of the Issuer, any such Taxes or Other Taxes which the Bank or the Issuer reasonably believes not to have been properly assessed.

(c) Notice; Survival. Within thirty (30) days after the date of any payment of Taxes (as defined in Section 2.10(a) hereof) by the Issuer or the Agency, the Issuer shall furnish to the Bank, the original or a certified copy of a receipt evidencing payment thereof. The obligations of the Issuer and the Agency under this Section 2.10 shall survive the termination of this Agreement.

Section 2.11. Maximum Rate. (a) If the amount of interest payable for any period in accordance with terms hereof exceeds the amount of interest that would be payable for such period had interest for such period been calculated at the Maximum Rate, then interest for such period shall be payable in an amount calculated at the Maximum Rate for such period.

(b) Any interest that would have been due and payable for any period but for the operation of Section 2.11(a) shall accrue and be payable as provided in this paragraph (b) and shall, less interest actually paid to the Bank for such period, constitute the “Excess Interest Amount.” If there is any accrued and unpaid Excess Interest Amount as of any date then the principal amount with respect to which interest is payable shall bear interest at the Maximum Rate, until payment to the Bank of the entire Excess Interest Amount.

(c) Notwithstanding the foregoing, on the date on which no principal amount hereunder remains unpaid, the Issuer shall pay to the Bank a fee equal to any accrued and unpaid Excess Interest Amount.

Section 2.12. Pledge; Security. (a) (i) The Issuer, for good and valuable consideration, hereby pledges and places a first lien on the Revenues and the other assets pledged pursuant to the Indenture in favor of the Bank to secure the payment and performance of the Obligations under this Reimbursement Agreement and with respect to Bank Bonds and unconditionally grants, transfers and assigns to the Bank without recourse all of its rights to receive the Revenues and its rights to enforce the Installment Purchase Agreement, the Financing Agreement and the Recharge Agreement upon an event of default thereunder, on a parity with the pledge and lien thereon to secure the Bonds under the Indenture. No filing, registering, recording or publication of this Reimbursement Agreement or the Indenture or any other instrument is required to establish such pledges or to perfect, protect or maintain the liens created hereby or thereby on the Revenues and other assets pledged pursuant to the Indenture. Pursuant to the Indenture, upon the effectiveness of the Letter of Credit, this Reimbursement Agreement shall be deemed to be the Letter of Credit Reimbursement Agreement under the Indenture, and the grant, transfer and assignment under the Indenture of all of the Issuer’s right to receive the Revenues and enforce the Project Documents upon an event of default thereunder will secure payment of all amounts owed to the Bank hereunder (including Bank Bonds).

(ii) In the event of one or more draws under the Letter of Credit and the application of the proceeds thereof to the payment of Bonds, the Bank will be subrogated pro tanto to the rights of the Trustee and the holders of the Bonds in and to all funds and security held by the Trustee under the Indenture for the payment of the principal of and interest on the Bonds, including without limitation all project funds, revenue funds, debt service funds, reserve funds and redemption funds and securities and other instruments comprising investments thereof held as security for the payment of Bonds. In addition, the Bank shall have any and all other subrogation rights available to the Bank at law or in equity.

(b) (i) The portion of the Obligations (other than Facility Fees and other fees payable pursuant to the Fee Agreement) under this Agreement allocable to the portion of the Bonds allocable to the Installment Purchase Agreement constitute Contracts under and is defined in the Installment Purchase Contract and the Obligations owed to the Bank hereunder (other than the Facility Fees and other fees payable under the Fee Agreement) constitute Parity Installment Payments under the Installment Purchase Agreement. The Agency, for good and valuable consideration, hereby pledges in favor of the Bank a legal, valid, and enforceable lien on and pledge of all of the Agency’s right, title, and interest in the Agency Revenues, subject to the application thereof as provided in the Installment Purchase Agreement, and such pledge constitutes

a valid and enforceable pledge of all right, title and interest of the Agency in, and all rights of the Agency to receive, any of the Agency Revenues securing such Obligations hereunder (other than the Facility Fees and other fees payable under the Fee Agreement). The Obligations owed to the Bank hereunder (other than Facility Fees and other fees payable under the Fee Agreement) allocable to the portion of the Bonds allocable to the Installment Purchase Agreement shall be secured by and payable from the Agency Revenues on a parity basis with the Installment Payments and the other Parity Installment Payments. There is no Lien on the Agency Revenues with a higher priority than the pledge of the Agency Revenues under the Installment Purchase Agreement. All documents or instruments required to be filed or recorded in any public office, and all notifications required to be given to any Person, in order to provide notice of such pledge to present and future creditors and otherwise protect and perfect the pledge in Agency Revenues.

(ii) The portion of Facility Fees and other fees payable under the Fee Agreement payable pursuant to the Installment Purchase Agreement shall be payable as Operation and Maintenance Costs pursuant to the Installment Purchase Agreement.

(c) A portion of the Obligations owed to the Bank hereunder and under the Fee Agreement constitute Agency Fixed Project Costs under and in accordance with the terms of the Financing Agreement. The provisions of the Financing Agreement are effective to create a legal, valid, and enforceable pledge of all of the Agency's right, title, and interest in the Agency Financing Agreement Revenues, subject to the application thereof as provided in the Financing Agreement (including, without limitation, that portion of the Obligations owed to the Bank hereunder and under the Fee Agreement that constitute Agency Fixed Project Costs). The pledge of the Agency Financing Agreement Revenues set forth in the Financing Agreement constitutes a valid and enforceable pledge of all right, title and interest of the Agency in, and all rights of the Agency to receive, any of the Agency Financing Agreement Revenues securing the Agency Fixed Project Costs (including, without limitation, that portion of the Obligations owed to the Bank hereunder and under the Fee Agreement that constitute Agency Fixed Project Costs). The portion of the Obligations owed to the Bank hereunder and under the Fee Agreement that constitute Agency Fixed Project Costs shall be secured by and payable from the Agency Financing Agreement Revenues on a parity basis with the other Agency Fixed Project Costs. There is no Lien on the Agency Financing Agreement Revenues with a higher priority than the pledge of the Agency Financing Agreement Revenues under the Financing Agreement. All documents or instruments required to be filed or recorded in any public office, and all notifications required to be given to any Person, in order to provide notice of such pledge to present and future creditors and otherwise protect and perfect the pledge in Agency Financing Agreement Revenues.

(d) A portion of Obligations owed to the Bank hereunder and under the Fee Agreement constitute Watermaster Fixed Project Costs under and in accordance with the terms of the Recharge Agreement. The obligations owed by the Watermaster under the Recharge Agreement (including, without limitation that portion of the Obligations owed to the Bank hereunder and under the Fee Agreement that constitute Watermaster Fixed Project Costs) are general obligations of the Watermaster payable as an operation fee (as determined in accordance with generally accepted accounting principles) under the Installment Purchase Agreement and are payable on a parity with all other operation and maintenance expenses of the Watermaster.

Section 2.13. Termination, Replacement and Reduction of the Letter of Credit. Notwithstanding any provisions of this Agreement to the contrary, the Agency and the Issuer agree not to terminate, replace or replace the Letter of Credit, except upon (i) the payment to the Bank of all Obligations payable hereunder and under the Fee Agreement and (ii) the Issuer providing the Bank with thirty (30) days prior written notice of its intent to terminate, replace or reduce the Letter of Credit; provided that all payments to the Bank referred to in clause (i) above shall be made in immediately available funds; provided, further, that any such termination, replacement or reduction of the Letter of Credit shall be in compliance with the terms and conditions of the Indenture and the Installment Payment Agreement. The Agency and the Issuer agree that any termination or replacement of the Letter of Credit as a result of the provision of any Alternate Credit Facility will require, as a condition thereto, that the Issuer, the Agency or the issuer of such Alternate Credit Facility will provide funds on the date of such termination or replacement, which funds will be sufficient to pay in full at the time of termination or replacement of the Letter of Credit all Obligations due and owing to the Bank hereunder.

Section 2.14. Late Payments. If any Obligation is not paid when due, such Obligation shall bear interest until paid in full at a rate per annum equal to the Default Rate, payable on demand.

Section 2.15. Source of Funds. All payments made by the Bank pursuant to the Letter of Credit shall be made from funds of the Bank, and not from the funds of any other Person.

Section 2.16. Agency Obligations. Notwithstanding anything to the contrary set forth herein, in the event the Issuer fails to make any payments or other obligations required to be paid or performed by it pursuant to the terms of this Agreement (including, without limitation, the obligations set forth in Sections 2.03, 2.04, 2.05, 2.06, 2.09, 2.10, 2.11, 7.02 and 8.04 hereof), the Agency hereby agrees to make (i) the portion of such payments allocable to the Bonds allocable to the Installment Purchase Agreement pursuant to the terms hereof from Agency Revenues on a parity with the payments of Installment Payments and Parity Installment Payments under the Installment Purchase Agreement and (ii) the portion of such payments allocable to the Agency Financing Agreement Revenues to pay its portion of Agency Fixed Project Costs pursuant to the terms of the Financing Agreement. In the event any obligation of the Issuer hereunder survives the termination of this Agreement, the obligation of the Agency created pursuant to this Section 2.16 shall also survive the termination of this Agreement.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01. Closing Conditions. As a condition precedent to the issuance of the Letter of Credit, the Bank shall have received the following items on or before the Date of Issuance, each in form and substance satisfactory to the Bank and its counsel:

(a) A true and complete original executed counterpart of this Reimbursement Agreement, the Fee Agreement and the Custody Agreement and certified copies of the other Related Documents.

(b) Certified copies of each the resolutions of the Issuer and the Agency approving this Reimbursement Agreement and the Fee Agreement, the Related Documents and the other matters contemplated hereby (which certificate shall state that such resolutions are in full force and effect on the Date of Issuance), and certified copies of the Issuer's JPA Agreement, notice of a joint powers agreement filed with the Secretary of State and roster of public agencies filing and acknowledgment from the Secretary of State.

(c) Originals (or copies certified to be true copies by the Issuer) of all governmental and regulatory approvals, if any, at the time necessary for the Issuer and the Agency to execute, deliver and perform this Reimbursement Agreement and the Fee Agreement and the transactions contemplated hereby, together with a list of any required approvals still to be received, if any.

(d) Certificates of the Issuer, the Agency and the Watermaster certifying the names and true signatures of the officers of the Issuer, the Agency and the Watermaster, as applicable, authorized to sign this Reimbursement Agreement and the Fee Agreement and the Related Documents and the other documents to be delivered by it hereunder.

(e) Opinions of (i) Cihigoyenette, Grossberg & Clouse, counsel to the Issuer and the Agency; (ii) Stradling Yocca Carlson & Rauth, Bond Counsel; (iii) Brownstein Hyatt Farber Schreck, LLP, counsel to the Watermaster; (iv) counsel to the Trustee and Tender Agent; and (v) domestic and foreign counsel to the Bank, dated the Date of Issuance and addressed to the Bank, the Agency and the Issuer, covering such matters incident to the transactions contemplated by this Agreement, the Fee Agreement, the Custody Agreement or any Related Document as the Bank may reasonably request.

(f) A copy certified on the Date of Issuance by the Issuer of the Related Documents delivered prior to the Date of Issuance.

(g) (i) The representations and warranties of the Issuer and the Agency contained in Article IV and of the Issuer, the Agency and the Watermaster, as applicable, in the Related Documents are correct on and as of the Date of Issuance as though made on and as of such date; (ii) no petition by or against the Issuer, the Agency or the Watermaster has at any time been filed under the United States Bankruptcy Code or under any similar law; (iii) no Default or Event of Default has occurred and is continuing, or would result from the execution and performance of this Reimbursement Agreement or the Related Documents; (iv) no Material Adverse Change has occurred and is continuing; and (v) all conditions to the issuance of the Bonds have been satisfied and the Issuer has duly executed and delivered the Bonds to the Trustee.

(h) Certificates signed by duly authorized officers of the Issuer, the Agency and the Watermaster, each dated the Date of Issuance, to the same effect as Section 3.01(g) and covering such other matters incident to the transactions contemplated by this Agreement, the Fee Agreement or any Related Document as the Bank may reasonably request.

(i) Certificates signed by duly authorized officers of the Trustee and Tender Agent, dated the Date of Issuance, covering such matters incident to the transactions contemplated by this Agreement, the Fee Agreement, the Custody Agreement or any Related Document as the Bank may reasonably request, together with certificates (or certified copy of signing resolutions)

certifying the names and true signatures of the officers of the Trustee and Tender Agent authorized to sign the Custody Agreement, the Related Documents and the other documents to be delivered by it hereunder.

(j) Payment of the Bank's fees and expenses (including attorney's fees and expenses described in the Fee Agreement) payable on the Date of Issuance.

(k) A copy of the audited financial statements of the Agency for the Fiscal Years ended June 30, 2014, 2013 and 2012 and a copy of the Agency's investment policy.

(l) Evidence of insurance required by the Installment Purchase Agreement.

(m) Appointment of Trustee, Tender Agent and Remarketing Agent approved by the Bank.

(n) No law, regulation, ruling or other action of the United States, the State or any political subdivision or authority therein or thereof shall be in effect or shall have occurred, the effect of which would be to prevent the Bank from fulfilling its obligations under the Letter of Credit of the Issuer, the Watermaster or the Agency from fulfilling its obligations under the Related Documents.

(o) Evidence that the Bonds have been assigned jointly supported long-and short-term ratings of "Aa1" and "VMIG1" by Moody's and "AAA" and "A-1" by S&P.

(p) Evidence that the Reserve Fund has an amount on deposit therein not less than the Reserve Requirement in accordance with the Indenture.

(q) Written confirmation of the CUSIP number [_____] assigned to the Bonds and evidence that a Bank Bond CUSIP number has been obtained and reserved from Standard and Poor's CUSIP Service Bureau, a division of The McGraw Hill Companies, Inc. and that a nationally recognized securities rating agency shall have confirmed any rating(s) on the Bank Bonds required for the Bank to assign and pledge the Bank Bonds to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank, in each case obtained at the expense of the Issuer or the Agency.

(r) Written confirmation from the Agency that, as of the Date of Issuance, the only outstanding payment obligations of the Agency which are secured by a pledge and lien on the Agency Revenues on a parity with the Installment Payments as of the Date of Issuance are the the 2007 Installment Purchase Agreement (Improvement Projects), the 2007 Installment Purchase Agreement (Replacement Projects), the 2010A Installment Purchase Agreement and the Project Finance Agreement No. C-06-5327-110, dated June 24, 2009, by and between the Agency and the State Water Resources Control Board, as amended by Amendment No. 1, dated February 4, 2010, by and between the Agency and the State Water Resources Control Board, and there is no Agency Senior Debt outstanding.

(s) Evidence that the Trustee has accepted the Letter of Credit as an Alternate Credit Facility under Section 2.18 of the Indenture and that an executed certificate of the Trustee in the

form of Annex B to the Prior Letter of Credit will be delivered to the Prior Bank on the Date of Issuance, and the Prior Letter of Credit and all amendments thereto surrendered immediately thereafter.

(t) Such other documents, instruments, approvals and, if requested by the Bank, certified duplicates of executed originals thereof, and opinions as the Bank may reasonably request.

Section 3.02. Conditions to Liquidity Drawings Remaining Outstanding. All amounts drawn under the Letter of Credit as a Liquidity Drawing are due and payable on the date drawn unless on such date the following conditions are satisfied:

- (a) No Default or Event of Default shall have occurred and be continuing;
- (b) All representations and warranties of the Issuer and the Agency made in this Reimbursement Agreement are true and correct; and
- (c) No Material Adverse Change shall have occurred and be continuing.

The Issuer and the Agency shall be deemed to represent and warrant that the conditions described in this Section 3.02 have been satisfied on the date of each Liquidity Drawing.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties of the Issuer. To induce the Bank to enter into this Reimbursement Agreement and to issue the Letter of Credit, the Issuer represents and warrants as of the Date of Issuance and as of the date of each Drawing as follows:

(a) Existence and Power. The Issuer is a joint powers authority duly organized and validly existing under the laws of the State under and pursuant to the Constitution of the State. The Issuer has all power and authority to conduct its business as currently conducted, to own its assets and to enter into and satisfy its obligations under this Reimbursement Agreement and the other Related Documents to which it is a party.

(b) Regulatory Authority. The Issuer is duly authorized to conduct its business and activities under all laws, rules, regulations and ordinances applicable to the Issuer, its business and activities, and the Issuer has obtained all required approvals of the State and of federal, regional and local governmental bodies required to be obtained prior to the date of the execution and delivery of the Bonds, the Related Documents and this Reimbursement Agreement.

(c) Noncontravention. The execution and delivery by the Issuer of this Reimbursement Agreement and the Related Documents to which it is a party and the performance of its obligations hereunder and thereunder, will not violate any existing law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Issuer, or result in a breach of any of the terms of, or constitute a default under its JPA Agreement or any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Issuer is a party or by which it or any of its property is

bound or the Act or any of the rules or regulations applicable to it or its property or any decree, ruling or order of any court or other governmental body.

(d) Due Authorization. The execution, delivery and performance by the Issuer of this Reimbursement Agreement and the Related Documents to which it is a party are within its corporate power and authority, and have been duly authorized by all necessary action and will not contravene any provision of its JPA Agreement or the Act.

(e) Valid and Binding Obligations. This Reimbursement Agreement and the Related Documents to which the Issuer is a party have been duly executed and delivered by the Issuer and constitute the valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms, except as such enforceability may be limited by the Issuer's bankruptcy, insolvency, reorganization, moratorium or other laws or equitable principles relating to or limiting creditors' rights generally.

(f) Offering Document. The information contained in the Offering Document (other than information relating solely to the Agency or the Watermaster) is correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Issuer makes no representation as to information in the Offering Document relating to the Bank and provided by the Bank for inclusion therein.

(g) Pending Litigation and Other Proceedings. There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, arbitrator, public board, body or governmental agency pending, or to the Issuer's knowledge threatened, affecting or involving the Issuer or any of its Affiliates or any of its assets, which, if adversely determined, could result in a Material Adverse Change.

(h) Insurance. The Issuer currently maintains insurance of such type and in such amounts or in excess of such amounts as are customarily carried by, and insures against such risks as are customarily insured against by, public agencies with similar activities.

(i) Financial Statements. The balance sheet of the Issuer and the related statement of revenues and expenses and changes in financial position set forth in the audited financial statements of the Issuer for the most recently completed Fiscal Year delivered to the Bank pursuant to Section 5.01(b)(1) hereof commencing with the Fiscal Year ending June 30, 2015 (the "Issuer Submitted Financial Statements"), together with the auditors' report with respect thereto, are complete and correct and fairly present the financial condition, changes in financial position and results of operations of the Issuer at such dates and for such periods, and were prepared in accordance with generally accepted accounting principles. Other than as set forth in the Offering Document, since the last day of the Fiscal Year set forth in the most recent Issuer Submitted Financial Statements there has been no Material Adverse Change nor any increase in its long term debt.

(j) Complete and Correct Information. All information, reports and other papers and data with respect to the Issuer furnished to the Bank or its counsel by the Issuer were, taken in the aggregate and at the time the same were so furnished, complete and correct in all material respects.

No fact is known to the Issuer which materially and adversely affects or in the future may (so far as it can foresee) materially and adversely affect the business, assets or liabilities, financial condition, results of operations of the Issuer, or any of its business prospects which has not been set forth in the Issuer Submitted Financial Statements or in such information, reports, papers and data or otherwise disclosed in writing to the Bank by the Issuer. When taken in the aggregate, no document furnished or statement made by the Issuer in connection with the negotiation, preparation or execution of this Reimbursement Agreement or any Related Document contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading.

(k) Pending Legislation and Decisions. There is no amendment, or to the knowledge of the Issuer, proposed amendment to the Constitution of the State or any State law or any administrative interpretation of the Constitution of the State or any State law, or any legislation that has passed either house of the legislature of the State, or any judicial decision interpreting any of the foregoing, the effect of which will materially adversely affect the security for any of the Bonds or the Issuer's obligations hereunder or under any of the Related Documents, or the Issuer's ability to repay when due its obligations under this Reimbursement Agreement, any of the Bonds, and the Related Documents.

(l) Bond. Each Bond (including all Bank Bonds) has been or will be duly and validly issued under the Indenture and entitled to the benefits thereof.

(m) Default. The Issuer is not in default under (i) any order, writ, injunction or decree of any court or governmental body, agency or other instrumentality applicable to it, or (ii) any law or regulation, or (iii) any bonds or other Indebtedness, or (iv) any contract, agreement or instrument to which the Issuer is a party or by which it or its property is bound, which default could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or the other Related Documents to which the Issuer is a party.

(n) Bank Bonds. The Bank Bonds will be transferred to or held for the benefit of the Bank, free and clear of all liens, security interests or claims of any Person other than the Bank, except for consensual liens or other security interests as may be created by the Bank.

(o) Incorporation of Representations and Warranties. The Issuer hereby makes to the Bank the same representations and warranties made by the Issuer in each Related Document to which it is a party, which representations and warranties, together with the related definitions of terms contained therein, are incorporated herein by this reference with the same effect as if each and every such representation and warranty and definition were set forth herein in its entirety. No amendment to or waiver of such representations, warranties or definitions made pursuant to the relevant Related Documents shall be effective to amend such representations and warranties and definitions as incorporated by reference herein without the prior written consent of the Bank.

(p) Employee Benefit Plan Compliance. The Issuer has no funding deficiency with respect to any employee benefit plan and is otherwise in compliance with terms of any such plan in which the Issuer or any of its employees participate in. Neither the Issuer nor any employee

benefit plan maintained by the Issuer is subject to the Employee Retirement Income Security Act of 1974, as amended.

(q) Sovereign Immunity. The Issuer is not entitled to claim, and shall not assert any claim, with respect to itself or its revenues, assets or property (irrespective of the use or intended use thereof), of immunity on the grounds of sovereignty or similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets (whether before or after judgment, in aid of execution, or otherwise) and execution or enforcement of any judgment to which it or its revenues, assets or property might otherwise be entitled in any suit, action or proceeding relating to this Reimbursement Agreement or the Related Documents in the courts of any jurisdiction, nor may there be attributed to the Issuer or its revenues, assets or property any such immunity (nor shall such attribution be claimed by the Issuer).

(r) Usury; Maximum Rate. The terms of this Reimbursement Agreement, the Fee Agreement and the Related Documents regarding the calculation and payment of interest and fees do not violate any applicable usury laws. The Issuer is authorized to enter into this Reimbursement Agreement and the Fee Agreement and the transactions contemplated hereby by Section 5922 of the California Government Code. The obligations of the Issuer hereunder and under the Fee Agreement are not subject to any maximum interest rate imposed by law.

(s) Federal Reserve Board Regulations. The Issuer will not use any part of the proceeds of the Bonds or the funds [44,769,789] hereunder or under the Letter of Credit and has not incurred any indebtedness to be reduced, retired or purchased by the Issuer out of such proceeds, for the purpose of purchasing or carrying any Margin Stock, and the Issuer does not own and will not acquire any such Margin Stock.

(t) Investment Company Act. The Issuer is not an “investment company” or a company “controlled” by an “investment company,” as such terms are defined in the Investment Company Act of 1940, as amended.

(u) Security. (1) The Indenture creates, to secure the payment of the Bonds and the obligations of the Issuer under this Reimbursement Agreement and the Fee Agreement, a legally valid and binding first lien on and pledge of the Revenues and other assets pledged pursuant to the Indenture. No filing, registering, recording or publication of the Indenture or any other instrument is required to establish the pledge under the Indenture or to perfect, protect or maintain the liens created thereby on the Revenues and other assets pledged pursuant to the Indenture. Pursuant to the Indenture, upon the effectiveness of the Letter of Credit, this Reimbursement Agreement shall be deemed to be the Letter of Credit Reimbursement Agreement under the Indenture, and the grant, transfer and assignment under the Indenture of all of the Issuer’s right to receive the Revenues and enforce the Project Documents upon an event of default thereunder will secure payment of all amounts owed to the Bank hereunder (including Bank Bonds). This Reimbursement Agreement creates, to secure the payment of the obligations of the Issuer under this Reimbursement Agreement, a legally valid and binding first lien on and pledge of the Revenues and other assets pledged pursuant to the Indenture. No filing, registering, recording or publication of this Agreement or any other instrument is required to establish the pledge hereunder or to perfect,

protect or maintain the liens created hereby on the Revenues and other assets pledged pursuant to the Indenture.

(2) There are no obligations of the Issuer that are entitled to a prior lien on the Revenues and other assets pledged pursuant to the Indenture relative to the lien on the Revenues and other assets pledged pursuant to the Indenture conferred by the Indenture upon the Bonds and the obligations of the Issuer under this Reimbursement Agreement.

(3) Except for the Bonds, there are no obligations of the Issuer that are entitled to a benefit of a pledge of the Revenues on a parity with the lien of the Revenues afforded to the obligations of the Issuer under this Reimbursement Agreement by the Indenture.

(4) The Bank is (and the Prior Bank is no longer) the “Credit Facility Provider” within the meaning of the Indenture, the Letter of Credit is an Alternate Credit Facility and therefore the “Credit Facility” within the meaning of the Indenture and this Agreement is the “Letter of Credit Reimbursement Agreement” within the meaning of the Indenture.

(v) Tax Exempt Status. The Issuer has not taken any action or omitted to take any action, and knows of no action taken or omitted to be taken by any other Person, which action, if taken or omitted, could adversely affect the exclusion from interest on the Bonds from gross income for Federal income tax purposes or the exemption of such interest from State personal income taxes.

(w) Purchase of Bonds. The purchase and holding of Bonds by the Issuer: (a) is authorized under applicable law, including the Code, Treasury Regulations or announcements of the Internal Revenue Service and guidance of the Securities and Exchange Commission; (b) will not violate any existing law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Issuer, or result in a breach of any of the terms of, or constitute a default under its JPA Agreement, any of the Related Documents or any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Issuer is a party or by which it or any of its property is bound or the Act or any of the rules or regulations applicable to it or its property or any decree, ruling or order of any court or other governmental body; (c) will not adversely affect the excludability of interest on the Bonds from the gross income of the holders thereof for purposes of Federal income taxation under the Code; (d) is within the Issuer’s corporate power and authority and prior thereto will be duly authorized by all necessary action and will not contravene any provision of its JPA Agreement or the Act; (e) will not result in a voidable preference; and (f) will not result in the cancellation or extinguishment of such Bonds or the debt evidenced thereby.

(x) Anti-Terrorism Laws. The Issuer is not in violation of any Laws relating to terrorism or money laundering (“Anti-Terrorism Laws”), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the “Executive Order”), and the Patriot Act;

(i) The Issuer is not any of the following: (A) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order; (B) a Person

owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order; (C) a Person with which the Bank is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; (D) a Person that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order; or (E) a Person that is named as a “specially designated national and blocked person” on the most current list published by the Office of Foreign Asset Control (“OFAC”) or any list of Persons issued by OFAC pursuant to the Executive Order at its official website or any replacement website or other replacement official publication of such list;

(ii) The Issuer does not (A) conduct any business or engage in making or receiving any contribution of funds, goods or services to or for the benefit of any Person described in subsection 4.01(x)(i)(B) above, (B) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order or (C) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

Section 4.02. Representations and Warranties of the Agency. To induce the Bank to enter into this Reimbursement Agreement and to issue the Letter of Credit, the Agency represents and warrants as of the Date of Issuance and as of the date of each Drawing as follows:

(a) Existence and Power. The Agency is a municipal water district duly organized and validly existing under the laws of the State under and pursuant to the Constitution of the State. The Agency has all power and authority to conduct its business as currently conducted, to own its assets and to enter into and satisfy its obligations under this Reimbursement Agreement and the other Related Documents to which it is a party.

(b) Regulatory Authority. The Agency is duly authorized to conduct its business and activities under all laws, rules, regulations and ordinances applicable to the Agency, its business and activities (including the Agency System), and the Agency has obtained all required approvals of the State and of federal, regional and local governmental bodies required to be obtained for the operation of the Agency System or prior to the date of the execution and delivery of the Bonds, the Related Documents and this Reimbursement Agreement.

(c) Noncontravention. The execution and delivery by the Agency of this Reimbursement Agreement and the Related Documents to which it is a party and the performance of its obligations hereunder and thereunder, will not violate any existing law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Agency, or result in a breach of any of the terms of, or constitute a default under any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Agency is a party or by which it or any of its property is bound or the Act or any of the rules or regulations applicable to it or its property or any decree, ruling or order of any court or other governmental body.

(d) Due Authorization. The execution, delivery and performance by the Agency of this Reimbursement Agreement and the Related Documents to which it is a party are within its

corporate power and authority, and have been duly authorized by all necessary action and will not contravene any provision of the Act.

(e) Valid and Binding Obligations. This Reimbursement Agreement and the Related Documents to which the Agency is a party have been duly executed and delivered by the Agency and constitute the valid and binding obligations of the Agency, enforceable against the Agency in accordance with their respective terms, except as such enforceability may be limited by the Agency's bankruptcy, insolvency, reorganization, moratorium or other laws or equitable principles relating to or limiting creditors' rights generally.

(f) Offering Document. The information contained in the Offering Document relating to the Agency and its member agencies is correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(g) Pending Litigation and Other Proceedings. There is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, arbitrator, public board, body or governmental agency pending, or to the Agency's knowledge threatened, affecting or involving the Agency or any of its Affiliates or any of its assets (including, without limitation, the Agency System, the Agency Revenues or amounts on deposit in the Agency Revenue Fund), which, if adversely determined, could result in a Material Adverse Change (excluding routine regulatory notices which, if adversely determined, could not result in a Material Adverse Change).

(h) Insurance. The Agency currently maintains insurance of such type and in such amounts or in excess of such amounts as are customarily carried by, and insures against such risks as are customarily insured against by, public agencies with similar activities, including all such insurance on the Agency System required by Section 5.02(f) hereof and by the Installment Purchase Agreement.

(i) Financial Statements. The balance sheet of the Agency and the related statement of revenues and expenses and changes in financial position set forth in the audited financial statements of the Agency for the most recently completed Fiscal Year (the "Agency Submitted Financial Statements"), together with the auditors' report with respect thereto, have heretofore been furnished to the Bank. The Agency Submitted Financial Statements are complete and correct and fairly present the financial condition, changes in financial position and results of operations or any business prospects of the Agency System, the Agency Revenues and amounts on deposit in the Agency Revenue Fund, at such dates and for such periods, and were prepared in accordance with generally accepted accounting principles. Other than as set forth in the Offering Document or disclosed to the Bank in writing, since the last day of the Fiscal Year set forth in the most recent Agency Submitted Financial Statements there has been no Material Adverse Change nor any increase in its long term debt.

(j) Complete and Correct Information. All information, reports and other papers and data with respect to the Agency furnished to the Bank or its counsel by the Agency were, taken in the aggregate and at the time the same were so furnished, complete and correct in all material respects. No fact is known to the Agency which materially and adversely affects or in the future may (so far as it can foresee) materially and adversely affect the business, assets or liabilities,

financial condition, results of operations or any business prospects of the Agency, or any of its business prospects which has not been set forth in the Agency Submitted Financial Statements or in such information, reports, papers and data or otherwise disclosed in writing to the Bank by the Agency. When taken in the aggregate, no document furnished or statement made by the Agency in connection with the negotiation, preparation or execution of this Reimbursement Agreement or any Related Document contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading.

(k) Pending Legislation and Decisions. There is no amendment, or to the knowledge of the Agency, proposed amendment to the Constitution of the State or any State law or any administrative interpretation of the Constitution of the State or any State law, or any legislation that has passed either house of the legislature of the State, or any judicial decision interpreting any of the foregoing, the effect of which will materially adversely affect the security for any of the Bonds or the Agency's obligations hereunder or under any of the Related Documents, or the Agency's ability to repay when due its obligations under this Reimbursement Agreement, any of the Bonds, and the Related Documents.

(l) Default. The Agency is not in default under (i) any order, writ, injunction or decree of any court or governmental body, agency or other instrumentality applicable to it, or (ii) any law or regulation, or (iii) any bonds or other Indebtedness, or (iv) any contract, agreement or instrument to which the Agency is a party or by which it or its property is bound, which default could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or the other Related Documents to which the Agency is a party.

(m) Incorporation of Representations and Warranties. The Agency hereby makes to the Bank the same representations and warranties made by the Agency in each Related Document to which it is a party, which representations and warranties, together with the related definitions of terms contained therein, are incorporated herein by this reference with the same effect as if each and every such representation and warranty and definition were set forth herein in its entirety. No amendment to or waiver of such representations, warranties or definitions made pursuant to the relevant Related Documents shall be effective to amend such representations and warranties and definitions as incorporated by reference herein without the prior written consent of the Bank.

(n) Employee Benefit Plan Compliance. The Agency has no funding deficiency currently due and payable with respect to any employee benefit plan and is otherwise in compliance with terms of any such plan in which the Agency or any of its employees participate in. Neither the Agency nor any employee benefit plan maintained by the Agency is subject to the Employee Retirement Income Security Act of 1974, as amended.

(o) Sovereign Immunity. The Agency is not entitled to claim, and shall not assert any claim, with respect to itself or its revenues, assets or property (irrespective of the use or intended use thereof), of immunity on the grounds of sovereignty or similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets (whether before or after judgment, in aid of execution, or otherwise) and execution or enforcement of any judgment to which it or its revenues, assets or property might

otherwise be entitled in any suit, action or proceeding relating to this Reimbursement Agreement in the courts of any jurisdiction, nor may there be attributed to the Agency or its revenues, assets or property any such immunity (nor shall such attribution be claimed by the Agency).

(p) Usury; Maximum Rate. The terms of this Reimbursement Agreement and the Fee Agreement and the Related Documents regarding the calculation and payment of interest and fees do not violate any applicable usury laws. The Agency is authorized to enter into this Reimbursement Agreement and the transactions contemplated hereby by Section 5922 of the California Government Code. The obligations of the Agency, if any, hereunder are not subject to any maximum interest rate imposed by law.

(q) Federal Reserve Board Regulations. The Agency will not use any part of the proceeds of the Bonds or the funds [44,769,789] hereunder and has not incurred any indebtedness to be reduced, retired or purchased by the Agency out of such proceeds, for the purpose of purchasing or carrying any Margin Stock, and the Agency does not own and will not acquire any such Margin Stock.

(r) Investment Company Act. The Agency is not an “investment company” or a company “controlled” by an “investment company,” as such terms are defined in the Investment Company Act of 1940, as amended.

(s) Security. (i) The portion of Obligations under this Agreement (other than Facility Fees and other fees payable under the Fee Agreement) allocable to the portion of the Bonds allocable to the Installment Purchase Agreement constitute Contracts under and as defined in the Installment Purchase Agreement and the Obligations owed to the Bank hereunder (other than Facility Fees and other fees payable under the Fee Agreement) constitute Parity Installment Payments under the Installment Purchase Agreement. This Agreement creates a legally valid and binding first lien on and pledge of the Agency Revenues and all amounts on deposit in the Agency Revenue Fund as described in Section 2.12(b) hereof. No filing, registering, recording or publication of the Indenture or any other instrument is required to establish the pledge under the Installment Purchase Agreement or to perfect, protect or maintain the liens created thereby on the Agency Revenues and all amounts on deposit in the Agency Revenue Fund.

(ii) The portion of Facility Fees and other fees payable under the Fee Agreement payable pursuant to the Installment Purchase Agreement are payable as and constitute Operation and Maintenance Costs pursuant to the Installment Purchase Agreement.

(iii) The Bank is (and the Prior Bank is no longer) the “Credit Facility Provider” within the meaning of the Installment Purchase Agreement.

(t) Tax Exempt Status. The Agency has not taken any action or omitted to take any action, and knows of no action taken or omitted to be taken by any other Person, which action, if taken or omitted, could adversely affect the exclusion from interest on the Bonds from gross income for Federal income tax purposes or the exemption of such interest from State personal income taxes.

(u) Investment Policy. The Agency has delivered to the Bank a true and complete copy of its investment policy. All investments of the Agency have been and are made substantially in accordance with its investment policy. Only the Board of Directors of the Agency may amend, rescind or otherwise modify its investment policy.

(v) Budget. The annual operating budget of the Agency and any supplements thereto for the current Fiscal Year, a true and complete copy of which has been delivered to the Bank, fairly presents the anticipated income and expenses of the Agency and the Revenues for such Fiscal Year.

(w) Agency System. The Agency has maintained the Agency System in good working order and repair, and there have been no changes to and no event has occurred which has had, or may result in, a Material Adverse Change since June 30, 2014.

(x) Environmental Matters. (i) In the ordinary course of its business, the Agency conducts an ongoing review of Environmental Laws on the business, operations and facilities of the Agency System, in the course of which it identifies and evaluates associated liabilities and costs (including, without limitation, any capital or operating expenditures required for clean up or closure of properties presently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, any related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted thereat and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of such review the Agency does not believe that Environmental Laws are likely to result in a Material Adverse Change.

(ii) The Agency has not received notice to the effect that it is not in compliance with any of the requirements of applicable federal, state or local environmental, health and safety statutes and regulations or are the subject of any governmental investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which noncompliance or remedial action could have a Material Adverse Effect.

(y) Ownership of Property; Liens. The Agency has good record and marketable title in fee simple to, or valid leasehold interests in all of its property necessary or used in the ordinary conduct of its business or essential to the proper to its operations, including, without limitation, the Agency System, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(z) Parity Obligations. All Parity Obligations issued under the Master Resolution have been paid in full and, as of the Date of Issuance, there are no Parity Obligations outstanding under the Master Resolution. There is no ability for any additional Parity Obligations to be issued or incurred under the Master Resolution.

(aa) Anti-Terrorism Laws. The Agency is not in violation of any Anti-Terrorism Laws, including the Executive Order and the Patriot Act;

(i) The Agency is not any of the following: (A) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order; (B) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order; (C) a Person with which the Bank is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; (D) a Person that commits, threatens or conspires to commit or supports “terrorism” as defined in the Executive Order; or (E) a Person that is named as a “specially designated national and blocked person” on the most current list published by OFAC or any list of Persons issued by OFAC pursuant to the Executive Order at its official website or any replacement website or other replacement official publication of such list;

(ii) The Agency does not (A) conduct any business or engage in making or receiving any contribution of funds, goods or services to or for the benefit of any Person described in subsection 4.02(aa)(i)(B) above, (B) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order or (C) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

ARTICLE V

AFFIRMATIVE COVENANTS

Section 5.01. Issuer Affirmative Covenants. So long as the Letter of Credit is in effect or any Obligation is owed to the Bank hereunder or under any other Related Document, the Issuer covenants and agrees as follows, unless the Bank shall otherwise consent in writing:

(a) Compliance with Laws and Regulations. The Issuer shall comply with all laws, ordinances, orders, rules and regulations of duly constituted public authorities which may be applicable to it or its properties.

(b) Reporting Requirements. The Issuer shall keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Issuer on a consolidated or combined basis in accordance with generally accepted accounting principles consistently applied. The Issuer shall furnish to the Bank copies of each of the following:

(1) Annual Financial Statements. As soon as available, and in any event within 240 days after the close of each Fiscal Year of the Issuer commencing with the Fiscal Year ending June 30, 2015, the complete audited financial statements of the Issuer including the balance sheet as of the end of such Fiscal Year and the related statements of revenues, expenses and cash flows and changes in fund balance for such Fiscal Year, setting forth in each case in comparative form the corresponding figures for the preceding Fiscal Year all in reasonable detail, certified and prepared by an independent certified public accountant in accordance with generally accepted accounting principles, consistently applied.

(2) Watermaster Annual Financial Statements. Within 10 Business Days of the Authority's receipt thereof pursuant to the Recharge Agreement, the audited financial statements of the Watermaster.

(3) Certificate of Compliance. Simultaneously with the delivery of each set of financial statements referred to in Sections 5.02(a)(1) and (a)(2) hereof, a certificate signed by an Authorized Representative of the Issuer stating that (i) under his/her supervision the Issuer has made a review of its activities during the preceding annual period for the purpose of determining whether or not the Issuer has complied with all of the terms, provisions and conditions of this Reimbursement Agreement and the Related Documents and (ii) to the best of his/her knowledge the Issuer is not in Default in the performance or observance of any of the terms, covenants, provisions or conditions of this Reimbursement Agreement or any of the Related Documents, or if the Issuer shall be in Default, such certificate shall specify each such Default, the nature and status thereof and any remedial steps taken or proposed to correct each such Default.

(4) Other Reports. Promptly upon request by the Bank, copies of any financial statement or report furnished to any other holder of the long term securities of the Issuer pursuant to the terms of any long term indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Bank pursuant to any other clause of this Section 5.01(b).

(5) Amendments. Promptly after the adoption thereof, copies of any amendments of or supplements to its JPA Agreement and copies of any amendments to the Related Documents.

(6) Indenture Information. Copies of all notices, certificates, opinions and other reports or documents required to be filed pursuant to the Indenture. The Issuer shall provide the Bank written notice of any change in the identity of the Trustee, the Tender Agent or the Remarketing Agent upon becoming aware of the same. The Issuer shall, upon request, provide or cause to be provided, to the Bank the list of the name and address of the last known holders of the Bonds.

(7) Debt. As soon as practicable but in any event within 10 Business Days after the issuance thereof, copies of any prospectus, official statement, offering circular, placement memorandum, or similar or corresponding document, and any supplements thereto and updates and amendments thereof, that the Issuer makes available in connection with the offering for sale of any securities issued by the Issuer, and, on request, copies of such other financial reports that the Issuer shall customarily and regularly provide to the public. The Issuer shall provide to the Bank written notice of the issuance of any debt or securities issued or incurred by the Watermaster promptly after the Issuer acquires knowledge thereof.

(8) Other Information. Such other information respecting the business, properties or the condition or operations, financial or otherwise, of the Issuer or

concerning the Revenues or the Related Documents as the Bank may from time to time reasonably request.

(c) Notices.

(1) Notice of Default. The Issuer shall provide to the Bank immediate notice by telephone, promptly confirmed in writing, of any Default or Event of Default.

(2) Litigation. The Issuer shall provide to the Bank written notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, against the Issuer or any Affiliate which, if adversely determined, could result in a Material Adverse Change promptly after the Issuer acquires knowledge thereof. The Issuer shall provide to the Bank written notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, against the Watermaster which, if adversely determined, could result in a Material Adverse Change promptly after the Issuer acquires knowledge thereof.

(3) Certain Notices. The Issuer shall furnish to the Bank a copy of any notice, certification, demand or other writing or communication given by the Remarketing Agent, the Trustee or the Tender Agent to the Issuer or by the Issuer to the Remarketing Agent, the Trustee or the Tender Agent under or in connection with any of the Related Documents, including without limitation notice of any resignation or removal of the Remarketing Agent, the Trustee or the Tender Agent, in each case promptly after the receipt or giving of the same.

(4) Material Adverse Change. The Issuer shall provide to the Bank written notice of the occurrence of any event which could result in a Material Adverse Change promptly after the Issuer acquires knowledge thereof.

(5) Other Notices. The Issuer shall promptly give written notice to the Bank of any material dispute which may exist between the Issuer and the Remarketing Agent, the Trustee or the Tender Agent or any dispute in connection with any transaction contemplated under this Reimbursement Agreement or any Related Document.

(d) Further Assurances. The Issuer shall, upon the request of the Bank, from time to time, execute and deliver and, if necessary, file, register and record such further financing statements, amendments, confirmation statements and other documents and instruments and take such further action as may be reasonably necessary to effectuate the provisions of this Reimbursement Agreement and the Related Documents. Except to the extent it is exempt therefrom, the Issuer will pay or cause to be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with

the execution and delivery of this Reimbursement Agreement, the Related Documents and such instruments of further assurance.

(e) Right of Entry. The Issuer shall permit the duly authorized representatives of the Bank during normal business hours and upon reasonable notice to enter the premises of the Issuer, or any parts thereof, to examine and copy the Issuer's financial and corporate books, records and accounts, and to discuss the affairs, finances, business and accounts of the Issuer with the Issuer's officers, employees and independent public accountants, provided, however, that when a Default or Event of Default exists, the Issuer hereby authorizes the Bank (and its duly authorized representatives) to do any of the foregoing at the expense of the Issuer at any time during normal business hours and with reasonable advance notice.

(f) Payment of Obligations; Removal of Liens. The Issuer shall pay (a) all indebtedness and obligations of the Issuer in accordance with the terms thereof and (b) all assessments or other governmental charges as the same respectively become due, all taxes, assessments (general or special) and governmental charges of any kind whatsoever that may be at any time lawfully assessed or levied against or with respect to the Revenues or other assets pledged pursuant to the Indenture or any interest thereon and promptly discharge or cause to be discharged all liens, encumbrances and charges on such property and assets.

(g) Related Documents. The Issuer shall promptly pay all amounts payable by it hereunder and under the Related Documents according to the terms hereof or thereof and shall duly perform each of its obligations under this Reimbursement Agreement and the other Related Documents to which it is a party; which provisions, as well as related defined terms contained therein, are hereby incorporated by reference herein with the same effect as if each and every such provision were set forth herein in its entirety without giving effect to any expiration, amendment, supplement or termination of the Related Documents to which the Bank has not given its express written consent. The Issuer shall cause the Trustee, the Tender Agent, any co-trustee appointed under the Related Documents and the Remarketing Agent at all times to comply with the terms of the Related Documents to which they are a party. The Issuer shall at all times while the Letter of Credit is in effect or Obligations are owed to the Bank hereunder or under the Fee Agreement, cause the Tender Agent to be the Trustee, as required by the Indenture. The Issuer shall strictly enforce the provisions of the Installment Purchase Agreement, the Financing Agreement and the Recharge Agreement, including but not limited to, the payment provisions thereof.

(h) Insurance. The Issuer will at all times maintain insurance with respect to its business operations and properties against such risks, in such amounts, with such companies and with such deductibles as is customary for public agencies with similar activities.

(i) Alternate Credit Facility; Conversion to Rate Other Than Covered Rate.

(1) The Issuer shall obtain an Alternate Credit Facility to replace the Letter of Credit or cause the Bonds to be converted to a rate other than a Covered Rate pursuant to the Indenture if (i) the Bank shall decide not to extend the Stated Termination Date pursuant to the terms hereof, (ii) the Letter of Credit terminates by its terms, or (iii) the Bank shall furnish notice pursuant to Section 7.02(a)(ii) of this Agreement to the Tender Agent.

(2) The Issuer agrees that any Alternate Credit Facility will require, as a condition to the effectiveness of the Alternate Credit Facility, that the Issuer will provide funds to the extent necessary, in addition to other funds available, on the date the Alternate Credit Facility becomes effective, for the repayment of all obligations of the Issuer under this Agreement or with respect to Bank Bonds. On such date any and all amounts owed to the Bank hereunder or under the Indenture or the Bonds shall be payable in full to the Bank.

(3) The Issuer shall not permit an Alternate Credit Facility to become effective with respect to less than all of the Bonds without the prior written consent of the Bank.

(j) Employee Benefit Plan Compliance. The Issuer and each Affiliate shall in a timely fashion, comply, in all material respects with all requirements under any employee benefit plan in which the Issuer or any of its employees participate.

(k) Disclosure of Participants. The Issuer agrees to permit the Bank to disclose any information received by the Bank in connection herewith, including without limitation the financial information described in Section 5.01(b) hereof, to any Participants of the Bank in the Participated Obligations.

(l) Sovereign Immunity. To the extent that the Issuer has or hereafter may acquire under any applicable law any right to immunity from set off or legal proceedings, including but not limited to a writ of mandamus ordering a levy of taxes by the Issuer, on the grounds of sovereignty or otherwise, the Issuer hereby irrevocably waives such rights to immunity for itself and agrees not to invoke any defense of immunity in respect of its obligations arising under or related to this Reimbursement Agreement or the Related Documents.

(m) Proceeds of Bonds. The proceeds of the Bonds will be used by the Issuer solely for the purposes described in the Indenture.

(n) Proceeds of Letter of Credit. The Issuer shall cause the amounts under the Letter of Credit to be used only to pay the principal of, interest on or purchase price of Bonds which are not Excluded Bonds.

(o) Conversions; Defeasance; Redemption. The Issuer (a) shall promptly furnish, or cause to be furnished, to the Bank, not later than its furnishing the same to the Remarketing Agent, a copy of any written notice furnished by the Issuer to the Remarketing Agent pursuant to the Indenture indicating a proposed conversion of the interest rate on the Bonds; (b) shall not permit a conversion of the Bonds to Bonds bearing an interest rate other than a Covered Rate without the prior written consent of the Bank if, after giving effect to such conversion, any Bonds remain as Bank Bonds; and (c) upon any partial redemption of the Bonds, shall cause Bank Bonds to be redeemed prior to other Bonds. In addition, the Issuer will not defease, nor allow the defeasance of, the Bonds without having contemporaneously satisfied all of its Obligations hereunder and under the Fee Agreement.

(p) Preservation of Lien. The Issuer shall take all necessary action to maintain and preserve the lien on and security interest in the Revenues and other assets pledged pursuant to the

Indenture securing the Bonds and the payment and performance of the Issuer's Obligations hereunder and under the Fee Agreement and with respect to Bank Bonds.

(q) Trustee, Tender Agent and Remarketing Agent. The Issuer shall maintain one or more financial institutions acceptable to the Bank as the Trustee, the Tender Agent and the Remarketing Agent.

(r) Unenhanced Ratings. The Issuer shall maintain unenhanced ratings assigned to the Bonds by Moody's and S&P.

(s) Reserve Fund. The Issuer shall at all times maintain or replenish the Reserve Fund in an amount not less than the Reserve Requirement in accordance with the Indenture.

(t) Additional Rights. In the event that the Issuer shall directly or indirectly, enter into or otherwise consent to any credit agreement, bond purchase agreement, liquidity agreement or other agreement or instrument (or any amendment, supplement or modification thereto) under which, directly or indirectly, any Person or Persons undertakes to make loans or advances or extend credit or liquidity to the Issuer, as applicable, with respect to or payable from or secured by, any of the Revenues or other assets pledged pursuant to the Indenture, which such agreement (or amendment thereto) provides such Person with additional covenants, collateral, events of default or remedies than are provided to the Bank in this Reimbursement Agreement, provide the Bank with a copy of each such agreement (or amendment thereto) and such additional covenants, collateral, events of default or remedies shall automatically be deemed to be incorporated into this Reimbursement Agreement and the Bank shall have the benefits of such additional covenants, collateral, events of default or remedies as if specifically set forth herein. The Issuer shall promptly enter into an amendment to this Reimbursement Agreement to include such additional covenants, collateral, events of default or remedies (provided that the Bank shall maintain the benefit of such additional covenants, collateral, events of default or remedies even if the Issuer fails to provide such amendment).

(u) Additional Covenants Regarding Remarketing Agent. The Issuer shall at all times cause a Remarketing Agent acceptable to the Bank to be in place and at all times have in place a Remarketing Agreement with respect thereto acceptable to the Bank. The Issuer shall cause the Remarketing Agreement with respect to each Remarketing Agent to at all times provide that (i) the Remarketing Agent may not resign until a successor remarketing agent has been appointed and has accepted its appointment, and (ii) the Remarketing Agent shall use its best efforts to remarket the Bonds (including without limitation Bank Bonds) at rates up to and including the maximum rate permitted under the Indenture without regard to the rate paid to the Bank with respect to Bank Bonds. If at any time the Remarketing Agent shall fail to remarket the Bonds for a period of thirty (30) successive calendar days or shall otherwise fail to perform its duties under the Remarketing Agreement, the Issuer shall, at the direction of the Bank, appoint a successor remarketing agent acceptable to the Bank.

(v) Anti-Terrorism. The Issuer shall (a) ensure that no Person who owns a controlling interest in or otherwise controls the Agency is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by OFAC, the Department of the Treasury or included in any Executive Orders, that prohibits or limits Bank from making any

advance or extension of credit to Issuer or from otherwise conducting business with the Issuer and (b) ensure that the Bond proceeds and proceeds drawn under the Letter of Credit shall not be used to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto. Further, the Agency shall comply, and cause any of its subsidiaries to comply, with all applicable Bank Secrecy Act (“BSA”) laws and regulations, as amended.

Section 5.02. Agency Affirmative Covenants. So long as the Letter of Credit is in effect or any Obligation is owed to the Bank hereunder or under any other Related Document, the Agency covenants and agrees as follows, unless the Bank shall otherwise consent in writing:

(a) Reporting Requirements. The Agency shall keep proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Agency on a consolidated or combined basis in accordance with generally accepted accounting principles consistently applied. The Agency shall furnish to the Bank copies of each of the following:

(1) (A) Annual Financial Statements. As soon as available, and in any event within 240 days after the close of each Fiscal Year of the Agency, the complete audited financial statements of the Agency including the balance sheet as of the end of such Fiscal Year and the related statements of revenues, expenses and cash flows and changes in fund balance for such Fiscal Year, setting forth in each case in comparative form the corresponding figures for the preceding Fiscal Year all in reasonable detail, certified and prepared by an independent certified public accountant in accordance with generally accepted accounting principles, consistently applied.

(B) Quarterly Financial Statements. As soon as available, and in any event within 90 days after the close of each fiscal quarter of the Agency, an unaudited financial report of the Agency showing the actual financial performance of the Agency compared to the Agency’s budget for such fiscal period all in reasonable detail, certified by the Chief Financial Officer of the Authority.

(2) Certificate of Compliance. Simultaneously with the delivery of each set of financial statements referred to in (a)(1) above, a certificate signed by an Authorized Representative of the Agency stating that (i) under his/her supervision the Agency has made a review of its activities during the preceding annual period for the purpose of determining whether or not the Agency has complied with all of the terms, provisions and conditions of this Reimbursement Agreement and the Related Documents and (ii) to the best of his/her knowledge the Agency is not in Default in the performance or observance of any of the terms, covenants, provisions or conditions of this Reimbursement Agreement or any of the Related Documents, or if the Agency shall be in Default, such certificate shall specify each such Default, the nature and status thereof and any remedial steps taken or proposed to correct each such Default.

(3) Other Reports. Promptly upon request by the Bank, copies of any financial statement or report furnished to any other holder of the long term securities of the Agency pursuant to the terms of any long term indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Bank pursuant to any other clause of this Section 5.02(a).

(4) Budget. As near as practicable to the beginning of each Fiscal Year and in any event within thirty (30) days after the beginning of each Fiscal Year, an annual budget of the Agency for such upcoming Fiscal Year.

(5) Debt. As soon as practicable but in any event within 10 Business Days after the issuance thereof, copies of any prospectus, official statement, offering circular, placement memorandum, or similar or corresponding document, and any supplements thereto and updates and amendments thereof, that the Agency makes available in connection with the offering for sale of any securities issued by the Agency, and, on request, copies of such other financial reports that the Agency shall customarily and regularly provide to the public.

(6) Other Information. Such other information respecting the business, properties or the condition or operations, financial or otherwise, of the Agency or concerning the Agency System, the Agency Revenues, amounts on deposit in the Agency Revenue Fund or the Related Documents as the Bank may from time to time reasonably request.

(b) Notices.

(1) Notice of Default. The Agency shall provide to the Bank immediate notice by telephone, promptly confirmed in writing, of any Default or Event of Default.

(2) Litigation. The Agency shall provide to the Bank written notice of all actions, suits and proceedings before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, against the Agency or any Affiliate which, if adversely determined, could result in a Material Adverse Change (excluding routine regulatory notices which, if adversely determined, could not result in a Material Adverse Change) promptly after the Agency acquires knowledge thereof.

(3) Material Adverse Change. The Agency shall provide to the Bank written notice of the occurrence of any event which could result in a Material Adverse Change promptly after the Agency acquires knowledge thereof.

(c) Further Assurances. The Agency shall, upon the request of the Bank, from time to time, execute and deliver and, if necessary, file, register and record such further financing statements, amendments, confirmation statements and other documents and instruments and take such further action as may be reasonably necessary to effectuate the provisions of this Reimbursement Agreement and the Related Documents. Except to the extent it is exempt therefrom, the Agency will pay or cause to be paid all filing, registration and recording fees

incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of such instruments of further assurance, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Reimbursement Agreement, the Related Documents and such instruments of further assurance.

(d) Right of Entry. The Agency shall permit the duly authorized representatives of the Bank during normal business hours and upon reasonable notice to enter the premises of the Agency, or any parts thereof, to examine and copy the Agency's financial and corporate books, records and accounts, and to discuss the affairs, finances, business and accounts of the Agency with the Agency's officers, employees and independent public accountants; provided, however, that when a Default or Event of Default exists, Agency hereby authorizes the Bank (and its duly authorized representative) to do any of the foregoing at the expense of the Agency at any time during normal business hours and with reasonable advance notice.

(e) Payment of Obligations; Removal of Liens. The Agency shall pay (a) all indebtedness and obligations of the Agency in accordance with the terms thereof and (b) all assessments or other governmental charges as the same respectively become due, all taxes, assessments (general or special) and governmental charges of any kind whatsoever that may be at any time lawfully assessed or levied against or with respect to the Agency Revenues or any interest thereon and promptly discharge or cause to be discharged all liens, encumbrances and charges on such property and assets. The Agency shall include in each of the annual budgets of the Agency all Installment Payments and other payments required to be made by it under the Installment Purchase Agreement, the Financing Agreement and this Reimbursement Agreement.

(f) Insurance. The Agency shall at all times maintain with responsible insurers all such insurance on the Agency System as required by the Installment Purchase Agreement and as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any useful part of the Agency System is damaged or destroyed, such part will be restored for use or will be replaced. The money collected from insurance against accident to or destruction of the Agency System will be used for repairing or rebuilding or replacing the damaged or destroyed Agency System, and to the extent not so applied, will be applied as set forth in the Installment Purchase Agreement.

(g) Sovereign Immunity. To the extent that the Agency has or hereafter may acquire under any applicable law any right to immunity from set off or legal proceedings, including but not limited to a writ of mandamus ordering a levy of taxes by the Agency, on the grounds of sovereignty or otherwise, the Agency hereby irrevocably waives such rights to immunity for itself and agrees not to invoke any defense of immunity in respect of its obligations arising under or related to this Reimbursement Agreement or the Related Documents.

(h) Preservation of Lien. The Agency shall take all necessary action to maintain and preserve the lien on and security interest in the Agency Revenues and all amounts on deposit in the Agency Revenue Fund securing the Installment Payments and the payment and performance of the Agency's obligations under the Installment Purchase Agreement.

(i) Unenhanced Ratings. The Agency shall maintain unenhanced long term ratings assigned to any Debt of the Agency secured by the Agency Revenues by [Fitch,]Moody's and S&P.

(j) Maintenance of Agency System. The Agency shall at all times operate or cause to be operated the Agency System properly and in an efficient and economical manner, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Agency System may be properly and advantageously conducted. The Agency shall pay (a) all indebtedness and obligations of the Agency in accordance with the terms thereof and (b) all assessments or other governmental charges as the same respectively become due, all taxes, assessments (general or special) and governmental charges of any kind whatsoever that may be at any time lawfully assessed or levied against or with respect to the Agency System or Agency Revenues or amounts on deposit in the Agency Revenue Fund or any interest thereon and promptly discharge or cause to be discharged all liens, encumbrances and charges on such property and assets.

(k) Rate Covenant. The Agency shall fix, prescribe and collect or cause to be collected rates, fees and charges with respect to the Agency System during each Fiscal Year which are reasonably fair and nondiscriminatory and which will be at least sufficient to yield during each Fiscal Year, Agency Net Revenues equal to 115% of Agency Debt Service for such Fiscal Year. The Agency may make adjustments from time to time in such rates, fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Agency Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements described in this paragraph.

(l) Collection of Rates and Charges. The Agency shall have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Agency System to pay the rates, fees and charges applicable to the Agency System to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill.

(m) Additional Rights. In the event that the Agency shall directly or indirectly, enter into or otherwise consent to any credit agreement, bond purchase agreement, liquidity agreement or other agreement or instrument (or any amendment, supplement or modification thereto) under which, directly or indirectly, any Person or Persons undertakes to make loans or advances or extend credit or liquidity to the Agency, as applicable, with respect to or payable from or secured by, any of the Agency Revenues, which such agreement (or amendment thereto) provides such Person with additional covenants, collateral, events of default or remedies than are provided to the Bank in this Reimbursement Agreement, provide the Bank with a copy of each such agreement (or amendment thereto) and such additional covenants, collateral, events of default or remedies shall automatically be deemed to be incorporated into this Reimbursement Agreement and the Bank shall have the benefits of such additional covenants, collateral, events of default or remedies as if specifically set forth herein. The Agency shall promptly enter into an amendment to this Reimbursement Agreement to include such additional covenants, collateral, events of default or remedies (provided

that the Bank shall maintain the benefit of such additional covenants, collateral, events of default or remedies even if the Issuer fails to provide such amendment).

(n) Anti-Terrorism. The Agency shall (a) ensure that no Person who owns a controlling interest in or otherwise controls the Agency is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by OFAC, the Department of the Treasury or included in any Executive Orders, that prohibits or limits Bank from making any advance or extension of credit to the Agency or from otherwise conducting business with the Agency and (b) ensure that the Bond proceeds and proceeds drawn under the Letter of Credit shall not be used to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto. Further, the Agency shall comply, and cause any of its subsidiaries to comply, with all applicable BSA laws and regulations, as amended.

ARTICLE VI

NEGATIVE COVENANTS

Section 6.01. Issuer Negative Covenants. So long as the Letter of Credit is in effect or any amount is due or owing to the Bank under this Reimbursement Agreement or any Related Document, the Issuer shall comply with each of the negative covenants contained in this Section 6.01 unless the Bank shall have otherwise given its prior written consent:

(a) Amendments. The Issuer shall not amend, modify or supplement, nor agree to any amendment or modification of, or supplement to, any of the Related Documents, its JPA Agreement, nor take any action, nor cause the Trustee, the Tender Agent or the Remarketing Agent to take any action under any of the Related Documents, inconsistent with the rights, interests or remedies of the Bank hereunder including, without limitation, its obligations to the Bank hereunder or under the other Related Documents and the pledge, security interest or lien securing the Bonds and the payment and performance of the Issuer's obligations hereunder and with respect to Bank Bonds, or which materially and adversely affects the rights, interests and/or remedies of the Bank hereunder or under the Bank Bonds or any of the Related Documents, the security for the obligations to the Bank hereunder or under the Bank Bonds or any of the Related Documents, or the ability of the Issuer, the Agency or the Watermaster to perform its respective obligations hereunder or under the Bank Bonds or any of the Related Documents.

(b) Preservation of Existence, Ownership, Etc. The Issuer shall not dissolve nor shall it sell, lease, assign, transfer or otherwise dispose of all or substantially all of its assets. The Issuer shall preserve and maintain its existence, right and franchises and licenses.

(c) Certain Information. The Issuer shall not include in any offering document any information concerning the Bank that is not supplied in writing, or otherwise approved, by the Bank expressly for inclusion therein or make change to any reference to the Bank in any offering document without the Bank's prior written consent.

(d) Debt. The Issuer shall not do any of the following: (1) incur, create or assume any Debt or Exposure under any Interest Rate Protection Agreement of any kind secured by a lien on any of the Revenues or other assets pledged pursuant to the Indenture, (2) guarantee, endorse,

become surety for or otherwise in any way become or be responsible for obligations of any other Person, whether by agreement to purchase the indebtedness of any other Person, or agreement for the furnishing of funds to any other Person (directly or indirectly, through the purchase of goods, supplies or services or by way of stock purchase, capital contribution, working capital maintenance agreement, advance or loan) or for the purpose of paying or discharging the indebtedness of any other Person, or otherwise; or (3) enter into or be a party to any contract for the purchase of merchandise, materials, supplies or other property if such contract provides that payment for such merchandise, materials, supplies or other property shall be made regardless of whether delivery of such merchandise, materials, supplies or other property is ever made or tendered; except for the endorsement of negotiable instruments by the Issuer in the ordinary course of business for collection.

(e) Transfer of Assets. The Issuer shall not dissolve nor shall it sell, lease, assign, transfer or otherwise dispose of all or a substantial portion of its properties and assets.

(f) Consolidation or Merger. The Issuer shall not consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it or acquire all or substantially all of the property and assets of any other Person.

(g) Trustee; Tender Agent; Remarketing Agent. The Issuer shall not remove the Trustee, the Tender Agent or the Remarketing Agent or appoint a tender agent or co-trustee or appoint a successor Trustee, Tender Agent or Remarketing Agent without the written consent of the Bank. If the position of Trustee, Tender Agent or Remarketing Agent becomes vacant, the Issuer shall promptly appoint a successor which is reasonably acceptable to the Bank.

(h) Accounting Methods and Fiscal Year. The Issuer shall not adopt, permit or consent to any change in accounting practices other than as required by generally accepted accounting principles and will not adopt, permit or consent to any change in its Fiscal Year.

(i) Exempt Status. The Issuer shall not take any action or omit to take any action that, if taken or omitted, would adversely affect the excludability of interest on the Bonds from the gross income of the holders thereof for purposes of Federal income taxation under the Code.

(j) Voluntary Redemption or Conversion. The Issuer shall not voluntarily redeem any Bonds pursuant to the Indenture prior to redeeming Bank Bonds in full or if, after giving effect to such redemption, there would be any unpaid Excess Interest Amount owing under this Reimbursement Agreement or any other amount in respect of such Bank Bonds which shall not have been paid in full. The Issuer shall not voluntarily convert any Bonds to a rate other than a Covered Rate pursuant to the Indenture if, after giving effect to such conversion, there would be any unpaid Excess Interest Amount owing under this Reimbursement Agreement or any other amount in respect of such Bank Bonds which shall not have been paid in full.

(k) Termination. So long as any of the Issuer's obligations under this Agreement or with respect to Bank Bonds remain unpaid, the Issuer shall not terminate this Agreement, the Indenture, the Installment Purchase Agreement, the Financing Agreement or the Recharge Agreement or replace the Letter of Credit with an Alternate Credit Facility.

(l) No Priority Claim. The Issuer shall not incur, assume or permit any pledge, lien, charge or encumbrance on the Revenues or the assets pledged under the Indenture with a claim to payment of higher priority than the claim of the Bonds or any of the Issuer's obligations under this Agreement or with respect to Bank Bonds.

(m) Investment Practices. The Issuer shall not invest any amounts on deposit in the funds and accounts established under the Indenture in any investments other than Permitted Investments.

(n) Purchase of Bonds. The Issuer shall not take or permit to be taken any action, or omit to take or permit to be omitted, any action that, if taken or omitted, would cause the Issuer to violate the provisions of Notice 2008-88 issued on March 25, 2008, by the Treasury Department of the United States and the Internal Revenue Service, as extended by Notice 2010-7 issued on January 19, 2010, by the Treasury Department of the United States and the Internal Revenue Service ("Notice 2010-7"), including all supplements and amendments issued thereto, and all other federal, state or other laws, regulations or guidelines, relating to an issuer's purchase or holding of bonds (however described), whether or not having the force of law, or the enforcement, interpretation or administration thereof by any court or any governmental authority charged with the administration thereof. The Issuer shall not purchase and retain any Bonds for future remarketing without obtaining opinions of Bond Counsel as to the matters set forth in Section 4.01(w) hereof.

Section 6.02. Agency Negative Covenants. So long as the Letter of Credit is in effect or any amount is due or owing to the Bank under this Reimbursement Agreement or any Related Document, the Agency shall comply with each of the negative covenants contained in this Section 6.02 unless the Bank shall have otherwise given its prior written consent:

(a) Amendments. The Agency shall not amend, modify or supplement, nor agree to any amendment or modification of, or supplement to, any of the Related Documents, nor take any action inconsistent with the rights, interests or remedies of the Bank hereunder or under the Related Documents including, without limitation, its obligations to the Bank hereunder and the pledge, security interest or lien securing the Bonds and the payment and performance of the Issuer's Obligations hereunder and with respect to Bank Bonds, or which materially and adversely affects the rights and remedies of the Bank hereunder or under the Bank Bonds or any of the Related Documents, the security for the obligations to the Bank hereunder or under the Bank Bonds or any of the Related Documents, or the ability of the Issuer, the Agency or the Watermaster to perform its respective obligations hereunder or under the Bank Bonds or any of the Related Documents.

(b) Preservation of Existence, Ownership, Etc. The Agency shall not dissolve nor shall it sell, lease, assign, transfer or otherwise dispose of all or substantially all of its assets. The Agency shall preserve and maintain its existence, right and franchises and licenses.

(c) Debt. The Agency shall not do any of the following: (1) incur, create or assume any Debt or Exposure under any Interest Rate Protection Agreement of any kind secured by a lien on any of the Agency Revenues or amounts on deposit in the Agency Revenue Fund, (2) guarantee, endorse, become surety for or otherwise in any way become or be responsible for obligations of any other Person, whether by agreement to purchase the indebtedness of any other Person, or

agreement for the furnishing of funds to any other Person (directly or indirectly, through the purchase of goods, supplies or services or by way of stock purchase, capital contribution, working capital maintenance agreement, advance or loan) or for the purpose of paying or discharging the indebtedness of any other Person, or otherwise; or (3) enter into or be a party to any contract for the purchase of merchandise, materials, supplies or other property if such contract provides that payment for such merchandise, materials, supplies or other property shall be made regardless of whether delivery of such merchandise, materials, supplies or other property is ever made or tendered; except for the endorsement of negotiable instruments by the Issuer in the ordinary course of business for collection; provided, however, that the Agency may incur, create or assume any such Debt or Exposure or guarantee or enter into such obligation if such obligation is on a fully subordinated basis (both in time and right of payment) to the lien securing the Installment Payments and the payment and performance of the Agency's obligations under the Installment Purchase Agreement; and provided, further that the Agency may incur, create or assume any such Debt or guarantee or enter into such obligation (other than any termination payment under any Interest Rate Protection Agreement, which may only be an obligation fully subordinated (both in time and right of payment) to the lien securing the Installment Payments and the payment and performance of the Agency's obligations under the Installment Purchase Agreement) as a Subordinate Obligation only if the estimated Agency Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter shall produce a sum equal to at least 125% of the estimated Agency Debt Service for each of such Fiscal Years, after giving effect to the incurrence of such Debt or guarantee or obligation.

(d) No Sale, Assignment, Transfer or Pledge. The Agency shall not abandon, vacate, close, sell, mortgage or otherwise dispose of the Agency System or any portion thereof essential to the proper operation of the Agency System or to the maintenance of Agency Revenues. The Agency shall not enter into any lease or agreement which materially impairs the operation of the Agency System or any part thereof necessary to secure adequate Agency Revenues for the payment of Installment Payments and other payments required to be made by it under the Installment Purchase Agreement and the Financing Agreement, or payment and performance of the Agency's obligations under this Reimbursement Agreement, the Installment Purchase Agreement and the Financing Agreement.

(e) Consolidation or Merger. Other than as disclosed to the Bank in a letter dated January [___], 2016 to which the Bank hereby gives its prior written consent, the Agency shall not voluntarily consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it or acquire all or substantially all of the property and assets of any other Person.

(f) Exempt Status. The Agency shall not take any action or omit to take any action that, if taken or omitted, would adversely affect the excludability of interest on the Bonds from the gross income of the holders thereof for purposes of Federal income taxation under the Code.

(g) No Priority Claim. The Agency shall not incur, assume or permit any pledge, lien, charge or encumbrance on the Agency Revenues with a claim to payment of higher priority than the claim of the Installment Payments, Parity Installment Payments and Obligations owed to the Bank hereunder.

(h) Investment Practices. The Agency shall not directly or indirectly, make, retain or have outstanding any investments (whether through purchase of stock or obligations or otherwise) in, or loans or advances to, any other Person, or acquire all or any substantial part of the assets or business of any other Person, or subordinate any claim or demand it may have to the claim or demand of any other Person; provided, however, that the foregoing shall not operate to prevent investments permitted by the Agency's investment policy from time to time in effect.

ARTICLE VII

EVENTS OF DEFAULT

Section 7.01. Events of Default. The occurrence of any of the following events (including the expiration of any specified time) shall constitute an "Event of Default," unless waived by the Bank in writing:

(a) (i) Failure of the Agency or the Issuer to pay when due any amount owed hereunder, under the Fee Agreement or under any of the Related Documents, (ii) failure of the Issuer to pay to the Bank, on the day on which such Drawing is paid by the Bank, an amount equal to all amounts drawn under the Letter of Credit pursuant to the final Principal Purchase Drawing paid by the Bank in connection with the mandatory tender of the Bonds pursuant to Section 2.16(e) of the Indenture on the fifth (5th) Business Day preceding the expiration of the Letter of Credit, or (iii) default by the Agency under the Installment Purchase Agreement or the Financing Agreement or default by the Watermaster under the Recharge Agreement if such default is a payment default or causes the acceleration of payments thereunder.

(b) Failure of the Issuer to observe any of the covenants set forth in Section 5.01(f), (g), (h), (i), (l), (m), (n), (o), (p), (r), (s), (t), (u) or (v) or in Section 6.01 or failure of the Agency to perform any of the covenants set forth in Section 5.02(e), (f), (g), (h), (i), (j), (k), (l), (m) or (n) or in Section 6.02 or in Section 6.9 or 6.19(l), (n), (o), or (p) of the Installment Purchase Agreement.

(c) Failure of the Issuer, the Agency or the Watermaster to observe or perform any of their respective covenants, conditions or provisions of this Reimbursement Agreement or any of the Related Documents (other than as specified in (a) or (b) above) and to remedy such failure within 30 days after the occurrence thereof.

(d) Any representation or warranty made by the Issuer or the Agency herein or by the Issuer, the Agency or the Watermaster in any Related Document or in any certificate, financial or other statement furnished by it pursuant to this Reimbursement Agreement or any of the Related Documents shall prove to have been untrue or incomplete in any material respect when made or deemed made.

(e) The occurrence and continuation of an Event of Default under any of the Related Documents (other than as specified in another Event of Default under this Section 7.01).

(f) Other than as specified in (a) above, (i) default by the Issuer with respect to any Debt payable from or secured by a lien on the Revenues, (ii) default by the Agency with respect to any Debt payable from or secured by a lien on the Agency Revenues (including without

limitation any Subordinate Obligation) or the Pledged Revenues (as defined in the Financing Agreement), or (iii) default by the Watermaster with respect to any Debt, if the case of (i), (ii) or (iii) such default is a payment default or causes the acceleration of payments thereunder.

(g) Default by the Issuer, the Agency or the Watermaster in the payment of any amount due in respect of any Debt owed to the Bank or default by the Issuer, the Agency or the Watermaster in the payment of any amount due in respect of any other Debt (measured in the case of any Interest Rate Protection Agreement, by the Issuer's, the Agency's or the Watermaster's Exposure thereunder), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Debt is incurred or issued, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any act or omission by the Issuer, the Agency or the Watermaster under any such mortgage agreement or other instrument which results in such Debt becoming, or being capable of becoming, immediately due and payable (or, with respect to any Interest Rate Protection Agreement, which results in such Interest Rate Protection Agreement being terminated early or being capable of being terminated early).

(h) The entry or filing of any judgment, writ or warrant of attachment or of any similar process (i) against the Issuer, (ii) in an amount in excess of \$2,500,000 against the Agency, (iii) in an amount in excess of \$2,500,000 against the Watermaster or (iv) against any of the Revenues, and in any such case, failure of the Issuer, the Agency or the Watermaster, as applicable, to vacate, bond, stay or contest in good faith such judgment, writ, warrant of attachment or other process for a period of 30 days or failure to pay or satisfy such judgment within 60 days.

(i) The occurrence of an Event of Insolvency with respect to the Issuer, the Agency or the Watermaster.

(j) The unenhanced rating assigned to the Bonds or any Debt of the Issuer secured by the Revenues or Debt of the Agency secured by the Agency Revenues by Fitch, Moody's or S&P, shall be withdrawn, suspended or fall below "A-" by Fitch, "A3" by Moody's or "A-" by S&P.

(k) This Reimbursement Agreement or any of the Related Documents, or any material provision hereof or thereof, ceases to be valid and binding on the Issuer, the Agency or the Watermaster; or this Reimbursement Agreement or any of the Related Documents, or any material provision hereof or thereof, is declared null and void, or the validity or enforceability of this Agreement, any Related Document, or any material provision hereof or thereof is contested by the Issuer, the Agency or the Watermaster or any officer or member of the governing body of the Issuer, the Agency or the Watermaster or the Issuer, the Agency or the Watermaster denies it has any or further liability under this Reimbursement Agreement or any of the Related Documents.

(l) Any funds or investments on deposit in, or otherwise to the credit of, any of the funds or accounts established hereunder or under the Indenture or any of the Related Documents shall become subject to any writ, judgment, warrant or attachment, execution or similar process.

(m) Any change in the Code or any allegation by the Internal Revenue Service is made which results, or would result, in interest on the Bonds being included in gross income to the

holders thereof for purposes of Federal income taxation or not being exempt from State personal income taxes.

(n) The Issuer or the Agency fails to receive an unqualified opinion with respect to their respective financial statements.

(o) The powers or the ability of the Issuer to collect payments under the Related Documents to which it is a party shall be limited in any way that prevents the Issuer from collecting payments in an amount sufficient, along with other moneys of the Issuer, to pay its debts as they become due.

(p) A Material Adverse Change (other than as specified in another Event of Default under this Section 7.01) occurs, and, in the event any such condition can be repealed, overturned or cured, such condition is not repealed, overturned or cured, or the Issuer or the Agency fails to provide sufficient alternative sources of funds to cure such condition, within three (3) months after receipt by the Issuer and the Agency of written notice thereof from the Bank.

(q) Any pledge or security interest created by the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or this Agreement to secure any amount due under any Bonds, this Agreement or the Fee Agreement shall fail to be fully enforceable or fail to have the priority required under the Indenture, the Installment Purchase Agreement, the Financing Agreement, the Recharge Agreement or this Agreement, in any case, by reason of a final, non-appealable judgment of a court of competent jurisdiction.

Section 7.02. Rights and Remedies. (a) Upon the occurrence and continuation of an Event of Default, the Bank, in its sole discretion, (i) may by notice to the Issuer and the Trustee, declare the Obligations hereunder to be immediately due and payable, and the same shall thereupon become immediately due and payable (provided that, the Obligations hereunder and under the Fee Agreement shall be and become automatically and immediately due and payable without such notice upon the occurrence of an Event of Default described in Section 7.01(i) above), without demand, presentment, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer, (ii) may deliver to the Trustee written notice that an Event of Default has been declared under this Reimbursement Agreement and that the Letter of Credit will terminate ten (10) days after receipt of such notice together with a written request that the Trustee (A) declare the principal of all Bonds then outstanding and the interest accrued thereon to be immediately due and payable or (B) cause a mandatory tender of the Bonds, (iii) may cure any default, event of default or event of nonperformance under this Reimbursement Agreement or under any of the Related Documents (in which event the Issuer shall reimburse the Bank therefor pursuant to Section 2.08 hereof), (iv) may exercise its banker's lien, or right of set off, (v) may proceed to protect its right by suit in equity, action at law or other appropriate proceedings, whether for specific performance of any covenant or agreement of the Issuer or the Agency herein contained or in and of the exercise of any power or remedy granted to the Bank under any of the Related Documents or (vi) may exercise any other rights or remedies available under any Related Document, any other agreement or at law or in equity. If the Event of Default is the failure by the Issuer to reimburse the Bank on a timely basis for an Interest Drawing, the Bank may, deliver to the Tender Agent notice that the Letter of Credit will not be reinstated pursuant to the terms of the Letter of Credit. The rights and remedies of the Bank specified herein are for the sole and exclusive

benefit, use and protection of the Bank, and the Bank is entitled, but shall have no duty or obligation to the Issuer, the Agency, the Trustee, the Tender Agent, the Bondholders or otherwise, (i) to exercise or to refrain from exercising any right or remedy reserved to the Bank hereunder, or (ii) to cause the Trustee or the Tender Agent or any other party to exercise or to refrain from exercising any right or remedy available to it under any of the Related Documents.

(b) Upon the occurrence and during the continuance of an Event of Default, all amounts owing to the Bank hereunder shall bear interest at the Default Rate, payable on demand.

ARTICLE VIII

NATURE OF OBLIGATIONS; INDEMNIFICATION

Section 8.01. Obligations Absolute. The obligations of the Issuer and the Agency under this Reimbursement Agreement shall be absolute, unconditional and irrevocable, and shall not be subject to any right of setoff or counterclaim against the Bank or any Participant and shall be paid and performed strictly in accordance with the terms of this Reimbursement Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of the Letter of Credit or any of the Related Documents or any cancellation or extinguishment of the Bonds or the debt evidenced thereby;

(b) any amendment or waiver of any provision of all or any of the Related Documents;

(c) the existence of any claim, setoff, defense or other rights which the Issuer or the Agency may have at any time against the Trustee, the Tender Agent, any beneficiary or any transferee of the Letter of Credit (or any persons or entities for whom the Trustee, the Tender Agent, any such beneficiary or any such transferee may be acting), the Bank, any Participant or any other Person, whether in connection with this Reimbursement Agreement, the Related Documents or any transaction contemplated thereby or any unrelated transaction;

(d) any statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) payment by the Bank under the Letter of Credit against presentation of a sight draft or certificate which does not comply with the terms of the Letter of Credit; and

(f) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

Section 8.02. Continuing Obligation. This Reimbursement Agreement is a continuing obligation, shall survive the expiration of the Letter of Credit and shall (a) be binding upon the Issuer and the Agency, and their respective successors and assigns, and (b) inure to the benefit of and be enforceable by the Bank and its successors, transferees and assigns; provided that the Issuer and the Agency may not, except as otherwise expressly provided herein, assign all or any part of this Reimbursement Agreement without the prior written consent of the Bank.

Section 8.03. Liability of the Bank. With respect to the Bank, the Issuer and the Agency each assumes any and all risks with respect to the acts or omissions of each of the Trustee, the Tender Agent, and the Remarketing Agent in connection with its use of the Letter of Credit or any amounts made available by the Bank thereunder. Neither the Bank nor any of the officers, directors, employees or agents thereof shall be liable or responsible for any of the following: (a) the use that may be made of the Letter of Credit or any amounts made available by the Bank thereunder or for any acts or omissions of the Trustee, the Tender Agent, the Issuer, the Agency or the Remarketing Agent in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement(s) thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under the Letter of Credit, except for any direct, as opposed to special, consequential, indirect or punitive damages (the right to receive special, consequential, indirect or punitive damages being hereby waived), suffered by the Issuer which are determined by a final and nonappealable judgment of a court of competent jurisdiction to be caused by (i) the Bank's willful misconduct or gross negligence in determining whether documents presented under the Letter of Credit comply with the terms thereof or (ii) the Bank's willful failure to pay under the Letter of Credit after the presentation to it by the Tender Agent (or a successor tender agent under the Indenture in accordance with its terms) of documents strictly complying with the terms and conditions thereof; provided, however, that the maximum amount of damages recoverable by the Issuer as provided above is expressly limited to the Available Amount. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

Section 8.04. Indemnification; Taxes, Etc. In addition to any and all rights of reimbursement, indemnification, subrogation or any other rights pursuant hereto or under law or equity, the Issuer and the Agency hereby agree to indemnify and hold harmless each of the Bank, each Participant and their respective officers, directors, employees and agents (each an "Indemnified Party") from and against any and all claims, damages, losses, liabilities, reasonable costs or expenses whatsoever (including reasonable attorneys' fees) that an Indemnified Party may incur (or which may be claimed against an Indemnified Party by any Person whatsoever) that arises out of the transactions contemplated by this Reimbursement Agreement or the Related Documents, including, without limitation, (i) any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in the Offering Document or any other offering circular or document used in connection therewith, or in any supplement or amendment thereof, or the omission or alleged omission to state therein a material fact necessary to make such statements, in the light of the circumstances under which they are or were made, not misleading or the failure to deliver the Offering Document or any other offering circular or document to any offeree or purchaser of Bonds (but excluding any information included in the Offering Document or such other offering circular relating to the Bank and provided in writing by the Bank for inclusion therein); (ii) the execution and delivery or transfer of, or payment or failure to pay under the Letter of Credit; (iii) the issuing, offering, sale, remarketing or resale of the Bonds; (iv) the proposed use of the proceeds of the Bonds or any amounts drawn hereunder; or (v)(A) any condition of the Project, including without limitation, any environmental condition, (B) the construction, reconstruction, improvement, use, occupancy, conduct or management of or any work or anything

whatsoever done or omitted to be done in or about the Project or (C) any accident, injury or damage whatsoever to any person occurring in or about the Project; provided that neither the Issuer nor the Agency shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (1) the willful misconduct or gross negligence of the Bank or (2) the Bank's willful failure to pay under the Letter of Credit after the presentation to it by the Tender Agent (or a successor tender agent under the Indenture to whom such Letter of Credit has been transferred in accordance with its terms) a Drawing strictly complying with the terms and conditions of the Letter of Credit. Nothing under this Section 8.04 is intended to limit the Issuer's or the Agency's payment obligations hereunder.

To the extent permitted by law, the Issuer and the Agency agree to indemnify and hold the Bank harmless (on a net after tax basis) from (i) any present or future claim or liability for stamp, transfer, documentary, excise or other similar tax and any penalties or interest with respect thereto, which may be assessed, levied or collected by any government authority in connection with the execution, delivery and performance of, or any payment made under, the Letter of Credit, the Bonds and the other Related Documents, or any amendment thereto, and (ii) any penalties, interest or similar charges, which may be assessed, levied or collected under the Code as a consequence of the failure of the Bank or any other Bank Bondholder to include the interest on or any amount in respect of interest on the Bonds at any time held by the Bank or such other Bank Bondholder as gross income in its tax returns for any period prior to a Determination of Taxability.

The provisions of this Section 8.04 shall survive the termination of this Reimbursement Agreement and the payment in full of the Bonds and the obligations of the Issuer thereunder and hereunder.

Section 8.05. Facsimile Documents. At the request of the Issuer, the Letter of Credit provides that Drawings thereunder may be presented to the Bank by, among other methods, facsimile. The Issuer acknowledges and assumes all risks relating to the use of such facsimile demands for payment and agrees that its obligations under this Reimbursement Agreement and the Related Documents shall remain absolute, unconditional and irrevocable as provided in Section 8.01 above if the Bank honors such facsimile demands for payment.

ARTICLE IX

TRANSFER, REDUCTION OR EXTENSION OF LETTER OF CREDIT

Section 9.01. Transfer, Reduction and Reinstatement. The Letter of Credit may be transferred, reduced and reinstated in accordance with the provisions set forth therein.

Section 9.02. Extension. The Stated Termination Date may be extended by the Bank upon the written request of the Issuer and the Agency given to the Bank at least 60 days but no more than 180 days prior to the then current Stated Termination Date. By making any such request, the Issuer and the Agency shall be deemed to represent and warrant that (a) no Default or Event of Default has occurred and is continuing; (b) no Material Adverse Change has occurred and is continuing; and (c) all representations and warranties of the Issuer and the Agency made in this Reimbursement Agreement are true and correct and are deemed to be made as of the date of such

request. The Bank may, in its sole and absolute discretion, decide to accept or reject any such proposed extension. Within 30 days of receipt of a request for extension, the Bank shall, at its sole and absolute discretion and on such terms and conditions as to which the Bank, the Issuer and the Agency may agree, either notify the Issuer, the Agency and the Tender Agent that the Letter of Credit will be extended to the new Stated Termination Date set forth in such notice in accordance with the terms of the Letter of Credit or notify the Issuer, the Agency and the Tender Agent that the then current Stated Termination Date will not be so extended. In the event the Bank fails to definitively respond to such request within such period of time, the Bank shall be deemed to have refused to grant the extension requested. If the Stated Termination Date of the Letter of Credit is extended, the Issuer and the Agency shall, except as otherwise agreed to in writing by the Bank, be deemed to have made the representations and warranties contained herein on and as of the date on which the Stated Termination Date of the Letter of Credit is so extended. Any such extension of the Stated Termination Date of the Letter of Credit will be deemed to be on the existing terms of this Agreement unless the Bank, the Issuer and the Agency have entered into a writing confirming a change in any term of this Agreement. Upon any extension of the Stated Termination Date, the Bank shall deliver to the Tender Agent a notice in the form of Annex J to the Letter of Credit.

ARTICLE X

MISCELLANEOUS

Section 10.01. Right of Setoff. Upon the occurrence of an Event of Default, the Bank and its affiliates may, at any time and from time to time, without notice to the Issuer or the Agency or any other person (any such notice being expressly waived), set off and appropriate and apply, against and on account of, any obligations and liabilities of the Issuer or the Agency to the Bank or its affiliates arising under or connected with this Reimbursement Agreement and the Related Documents, without regard to whether or not the Bank shall have made any demand therefor, and although such obligations and liabilities may be contingent or unmatured, any and all deposits (general or special, including but not limited to indebtedness evidenced by certificates of deposit, whether matured or unmatured, but not including trust accounts) and any other indebtedness or other payment obligation at any time held or owing by the Bank or its affiliates to or for the credit or the account of the Issuer or the Agency.

Section 10.02. Amendments and Waivers. No amendment or waiver of any provision of this Reimbursement Agreement nor consent to any departure by the Issuer or the Agency from any such provision shall in any event be effective unless the same shall be in writing and signed by the Bank. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. In the event any agreement contained in this Reimbursement Agreement should be breached by the Issuer or the Agency and thereafter waived by the Bank, such waiver shall be limited to the particular breach so waived for the specific period set out in such waiver and such waiver shall not constitute a waiver of such breach for any other period and shall not waive any other or similar breach hereunder.

Section 10.03. No Waiver; Remedies. No failure on the part of the Bank to exercise, and no delay in exercising, any right under this Reimbursement Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any right under this Reimbursement

Agreement preclude any other further exercise of such right or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 10.04. Notices. Unless specifically indicated otherwise herein, all notices and other communications provided for hereunder shall be in writing and

if to the Issuer, addressed to it at: Chino Basin Regional Financing Authority
c/o Inland Empire Utilities Agency
6075 Kimball Avenue
Chino, California 91710
Attention: Treasurer
Telephone:
Facsimile:

if to the Agency, addressed to it at: Inland Empire Utilities Agency
6075 Kimball Avenue
Chino, California 91710
Attention: Chief Financial Officer
Telephone:
Facsimile: (909) 993 9009

or if to the Bank, addressed to it at: To the addresses set forth in the Fee Agreement.

or if to the Trustee or the Tender Agent, addressed to it at: U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90071
Attention: Corporate Trust Services

or if to the Remarketing Agent, addressed to it at: Citigroup Global Markets Inc.
390 Greenwich Street, 2nd Floor
New York, New York 10013
Attention: Short Term Trading

or as to each party at such other address as shall be designated by such party in a written notice to the other parties.

Any notice or other communication shall be sufficiently given and shall be deemed given when delivered to the addressee in writing or when given by telephone immediately confirmed in writing by tested telex, facsimile or other telecommunication device.

Section 10.05. Severability. Any provision of this Reimbursement Agreement which is prohibited, unenforceable or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability or nonauthorization without invalidating the remaining provisions hereof or affecting the validity, enforceability or legality of such provision in any other jurisdiction.

Section 10.06. GOVERNING LAW. THIS REIMBURSEMENT AGREEMENT SHALL BE DEEMED TO BE A CONTRACT UNDER, AND SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE FEDERAL LAW WITHOUT REGARD TO CHOICE OF LAW RULES; PROVIDED, HOWEVER, THE OBLIGATIONS OF THE ISSUER AND THE AGENCY HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE AND APPLICABLE FEDERAL LAW WITHOUT REGARD TO CHOICE OF LAW RULES.

Section 10.07. Consent to Jurisdiction, Venue and Service of Process. Pursuant to, and in accordance with, Section 5-1402 of the New York General Obligations Law (or any successor statute thereto), the Issuer, the Agency and the Bank irrevocably (a) agree that any suit, action or other legal proceeding arising out of or relating to this Reimbursement Agreement or the Fee Agreement may be brought in the nonexclusive jurisdiction of a court of record in the State of New York located in the Borough of Manhattan or in the United States District Court for the Southern District of the State of New York located in the Borough of Manhattan, (b) consent to the jurisdiction of each such court in any such suit, action or proceeding, and (c) waive any objection which it may have to the laying of venue of any such suit, action or proceeding in any of such courts and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Issuer, the Agency and the Bank also irrevocably consent to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the respective address set forth for such party in Section 10.04. The Bank also (a) agrees that any suit, action or other legal proceeding arising out of or relating to this Reimbursement Agreement or the Fee Agreement may be brought in the nonexclusive jurisdiction of a court of record in the State, (b) consents to the jurisdiction of each such court in any such suit, action or proceeding, and (c) waives any objection which it may have to the laying of venue of any such suit, action or proceeding in any of such courts and any claim that any such suit, action or proceeding has been brought in an inconvenient forum. The Issuer, the Agency and the Bank agree that a final judgment in any suit, action or proceeding shall be conclusive and may be enforced in appropriate jurisdictions by suit on the judgment or in any other manner provided by law. All mailings under this Section 10.07 shall be by certified mail, return receipt requested.

Nothing in this Section 10.07 shall affect the right of the Bank to serve legal process in any other manner permitted by law or affect the right of the Bank to bring any suit, action or proceeding against the Issuer or the Agency or their respective property in the courts of any other jurisdiction.

Section 10.08. Headings. Section headings in this Reimbursement Agreement are included herein for convenience of reference only and shall not have any effect for purposes of interpretation or construction of the terms of this Reimbursement Agreement.

Section 10.09. Participations. The Issuer and the Agency acknowledge and agree that the Bank may participate portions of its obligations under the Letter of Credit and the obligations of the Issuer under the Bank Bonds, this Reimbursement Agreement and any other Related Documents (collectively, the “Participated Obligations”) to other financial institutions without the consent of the Issuer or the Agency and waives any notice of such participations. The Issuer and the Agency further acknowledge and agree that upon any such participation the Participants will become owners of a pro rata portion of the Participated Obligations and the Issuer and the Agency

each waives any right of setoff it may at any time have against the Bank or any Participant with regard to the Participated Obligations. Notwithstanding the grant of a participation by the Bank to a Participant, it is understood and agreed by the parties to this Agreement that the Issuer and the Agency shall continue to deal solely and directly with the Bank.

Section 10.10. Successors and Assigns. This Reimbursement Agreement shall be binding upon and inure to the benefit of the Issuer, the Agency, the Bank and their respective successors, endorsees and assigns, except that the Issuer and the Agency may not assign or transfer their respective rights or obligations hereunder (other than by merger or consolidation) without the prior written consent of the Bank. This Reimbursement Agreement is a continuing obligation and shall survive the Termination Date. The Bank may grant interests in its rights hereunder as provided in Section 10.09; provided, however, that no such grant shall affect the obligations of the Bank under the Letter of Credit.

Notwithstanding any other provision of this Reimbursement Agreement, the Bank may at any time pledge or grant a security interest in all or any portion of its rights (including, without limitation, rights to payment under this Reimbursement Agreement) to secure obligations of the Bank to a Federal Reserve Bank, without notice to or consent of the Issuer or the Agency; provided that no such pledge or grant of a security interest shall release the Bank from any of its obligations hereunder, as the case may be, or substitute any such pledge or grantee for the Bank as a party hereto, as the case may be.

Section 10.11. Counterparts. This Reimbursement Agreement may be signed in any number of counterpart copies, but all such copies shall constitute one and the same instrument.

Section 10.12. Complete and Controlling Agreement. This Reimbursement Agreement and the other Related Documents completely set forth the agreements among the Bank, the Issuer and the Agency and fully supersede all prior agreements, both written and oral, among the Bank, the Issuer and the Agency relating to the issuance of the Letter of Credit and all matters set forth herein and in the Related Documents.

Section 10.13. WAIVER OF JURY TRIAL. IF AND TO THE EXTENT EVER PERMITTED UNDER APPLICABLE LAW, THE ISSUER, THE AGENCY AND THE BANK AS OF SUCH TIME AND TO SUCH EXTENT EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION (WHETHER AS CLAIM, COUNTER CLAIM, AFFIRMATIVE DEFENSE OR OTHERWISE) BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH, THIS REIMBURSEMENT AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE ISSUER, THE AGENCY OR THE BANK AND THE ISSUER AND THE AGENCY EACH HEREBY AGREES TO EXECUTE AND DELIVER ANY AND ALL ASSURANCES, WAIVERS AND CONSENTS TO THE BANK AS OF SUCH TIME IN ORDER TO EFFECTUATE SUCH WAIVER AND CONSENT. IF AND TO THE EXTENT THAT THE FOREGOING WAIVER OF THE RIGHT TO A JURY TRIAL IS UNENFORCEABLE FOR ANY REASON IN SUCH FORUM, THE ISSUER, THE AGENCY AND THE BANK HEREBY CONSENT TO THE ADJUDICATION OF ANY AND ALL CLAIMS PURSUANT TO JUDICIAL REFERENCE AS PROVIDED IN CALIFORNIA CODE

OF CIVIL PROCEDURE SECTION 638, AND THE JUDICIAL REFEREE SHALL BE EMPOWERED TO HEAR AND DETERMINE ANY AND ALL ISSUES IN SUCH REFERENCE WHETHER FACT OR LAW. THE ISSUER AND THE AGENCY EACH FURTHER AGREES THAT, IN THE EVENT OF LITIGATION, IT WILL NOT PERSONALLY OR THROUGH ITS AGENTS OR ATTORNEYS SEEK TO REPUDIATE THE VALIDITY OF THIS SECTION 10.13. THE ISSUER AND THE AGENCY EACH ACKNOWLEDGES AND AGREES THAT IT HAS RECEIVED FULL AND SUFFICIENT CONSIDERATION FOR THIS PROVISION AND RECOGNIZES AND AGREES THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK ENTERING INTO THIS REIMBURSEMENT AGREEMENT AND ISSUING THE LETTER OF CREDIT. THE ISSUER AND THE AGENCY EACH REPRESENTS AND ACKNOWLEDGES THAT IT HAS REVIEWED THIS PROVISION WITH ITS LEGAL COUNSEL AND THAT IT HAS KNOWINGLY AND VOLUNTARILY WAIVED ANY JURY TRIAL RIGHTS IT MAY HAVE AND CONSENTED TO JUDICIAL REFERENCE FOLLOWING CONSULTATION WITH SUCH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT OR TO JUDICIAL REFERENCE UNDER CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 638 AS PROVIDED HEREIN.

Section 10.14. USA Patriot Act. The Bank hereby notifies the Issuer and the Agency that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107 56 (signed into law October 26, 2001)) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Issuer and the Agency, which information includes the name and address of the Issuer and the Agency and other information that will allow the Bank to identify the Issuer and the Agency in accordance with the Patriot Act, and the Issuer and the Agency each hereby agrees to take any action necessary to enable the Bank to comply with the requirements of the Patriot Act.

Section 10.15. Waiver of Suretyship Rights. The Issuer, the Agency and the Bank intend that the obligations of the Issuer and the Agency under this Agreement (including without limitation the Issuer’s and the Agency’s obligation pursuant Section 2.03 hereof to reimburse the Bank for amounts drawn under the Letter of Credit) constitute direct obligations of the Issuer and the Agency and not obligations in the nature of a guaranty or a surety. Nevertheless, should it ever be deemed that the Issuer’s or the Agency’s obligations hereunder are in the nature of a guarantor or surety, then the Issuer and the Agency expressly waive any and all benefits under applicable suretyship or similar laws now or hereafter in effect, including without limitation Sections 2787-2855 of the California Civil Code. The Issuer and the Agency agree that the Bank may enforce this Reimbursement Agreement without the necessity of resorting to or exhausting any security or collateral, and the Issuer and the Agency waive the right to require the Bank to proceed against the Agency, to exercise any right or remedy under this Reimbursement Agreement or to pursue any other remedy, or to enforce any other right.

Section 10.16. No Advisory or Fiduciary Relationship. In connection with any aspect of the transactions contemplated by this Agreement or the Related Documents (including in connection with any amendment, waiver or other modification hereof or of any Related Document), the Issuer and the Agency each acknowledges and agrees that (i)(A) the Letter of Credit issued by the Bank pursuant to this Agreement was negotiated in arm’s-length commercial transactions between the Issuer and/or the Agency, on the one hand, and the Bank, on the other

hand, (B) the Issuer and the Agency have each consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Issuer and the Agency are each capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated by this Agreement; (ii)(A) in connection with the issuance of the Letter of Credit by the Bank pursuant to this Agreement and with the discussions, undertakings and procedures leading up to the consummation of the transactions contemplated by this Agreement, the Bank is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Issuer or the Agency or any other Person in connection with the transactions contemplated by this Agreement or the discussions, undertakings and procedures leading thereto and (B) the Bank has no obligation to the Issuer or the Agency with respect to the transactions contemplated by this Agreement except those obligations expressly set forth in the Letter of Credit; and (iii) the Bank may be engaged in a broad range of transactions that involve interests that differ from those of the Issuer or the Agency, and the Bank has no obligation to disclose any of such interests to the Issuer or the Agency. To the fullest extent permitted by law, each of the Issuer and the Agency hereby waives and releases any claims that it may have against the Bank with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of the transactions contemplated by this Agreement.

Section 10.17. Redaction. In the event the Issuer or the Agency delivers or causes to be delivered to the Remarketing Agent for delivery to the Municipal Securities Rulemaking Board, or directly to the Municipal Securities Rulemaking Board, in either instance pursuant to Rule G-34 (“CUSIP Numbers, New Issue, and Market Information Requirements”), a copy of this Agreement or the Fee Agreement (including without limitation any amendments hereto or thereto), the Issuer and the Agency shall only provide or cause to be provided a copy of this Agreement and the Fee Agreement (including without limitation any amendments hereto or thereto), in the forms provided by the Bank, that redacts such confidential information contained in this Agreement and the Fee Agreement (including without limitation any amendments hereto or thereto) which could be used in a fraudulent manner, such as any VRDO liquidity bank routing or account numbers, staff names and contact information and fees assessed by the Bank, which redaction is consistent with MSRB Notice 2011-17 (February 23, 2011). The Bank shall provide such redacted copies of this Agreement and the Fee Agreement (including without limitation any amendments hereto or thereto) upon request by the Issuer or the Agency. The Issuer and the Agency shall cause the Remarketing Agent to deliver only such redacted copies of this Agreement and the Fee Agreement (including without limitation any amendments hereto or thereto), in the forms provided by the Bank, to the Municipal Securities Rulemaking Board pursuant to said Rule G-34.

Section 10.18. Notice of New Addresses Under Related Documents. The Issuer and the Agency shall deliver a notice to each of the Trustee, the Remarketing Agent, each of the Rating Agencies and each required notice party of the addresses of the Bank set forth in the Fee Agreement as notice of a new address for notices to the Bank under the respective notice provisions of each of the Related Documents.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Reimbursement Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

CHINO BASIN REGIONAL FINANCING
AUTHORITY

By: _____
Name:
Title: President

INLAND EMPIRE UTILITIES AGENCY

By: _____
Name:
Title: General Manager

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By: _____
Name:
Title:

EXHIBIT A

FORM OF IRREVOCABLE TRANSFERABLE LETTER OF CREDIT

January [___], 2016

**U.S. \$[44,769,789]

No. LG/MIS/NY-[_____]

U.S. Bank National Association,
as trustee (the "Trustee")
633 West Fifth Street, 24th Floor
Los Angeles, California 90071

Attention: Corporate Trust Services

Ladies and Gentlemen:

We hereby establish in your favor as Trustee under the Indenture of Trust dated as of March 1, 2008 (as amended to date and as may be further amended, supplemented or otherwise modified, the "Indenture") by and between Chino Basin Regional Financing Authority (the "Issuer") and U.S. Bank National Association, as Trustee, for the benefit of the holders of the Bonds (as hereinafter defined), our irrevocable transferable Letter of Credit No. LG/MIS/NY-[_____] for the account of the Issuer and the Inland Empire Utilities Agency (the "Agency"), whereby we hereby irrevocably authorize you to draw on us from time to time, from and after the date hereof to and including the earliest to occur of our close of business on: (i) January [___], 201[___] (as extended from time to time, the "Stated Expiration Date"), (ii) the date which is one (1) Business Day following the Conversion Date, as such date is specified in a certificate in the form of Annex A hereto (the "Conversion Date"), (iii) the date which is one (1) Business Day after receipt from you of a certificate in the form set forth as Annex B hereto, (iv) the date on which an Acceleration Drawing or Stated Maturity Drawing is honored by us, and (v) the date which is ten (10) days following receipt by you of a written notice from us in the form of Annex L-1 or Annex L-2, (the earliest of the foregoing dates herein referred to as the "Termination Date"), a maximum aggregate amount not exceeding \$[44,769,789] (the "Original Stated Amount") to pay principal of, premium, if any, and accrued interest on, or the purchase price of, the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series of 2008B (the "Bonds") bearing interest at a Weekly Interest Rate (the "Covered Rate"), in accordance with the terms hereof (said \$[44,769,789] having been calculated to be equal to (A) \$[44,060,000], the principal amount of the Bonds, plus (B) \$[709,789] which is at least 49 days' accrued interest on said principal amount of the Bonds at the rate of twelve percent (12%) per annum (the "Cap Interest Rate") and assuming a year of 365 days. This credit is available to you against presentation of the following documents (the "Payment Documents") presented to Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank") as described below:

A certificate (with all blanks appropriately completed) (i) in the form attached as Annex C hereto (an "Interest Drawing"), (ii) in the

form attached as Annex D hereto (a “Redemption Drawing”), (iii) in the form attached as Annex E hereto (a “Liquidity Drawing”); (iv) in the form attached as Annex F hereto (an “Acceleration Drawing”), or (v) in the form attached as Annex G (a “Stated Maturity Drawing”), each certificate to state therein that it is given by your duly authorized representative and dated the date such certificate is presented hereunder.

All drawings shall be made by presentation of each Payment Document at the Bank at Facsimile No. (212) 224-4566, Sumitomo Mitsui Banking Corporation, New York Branch, 277 Park Avenue, New York, New York 10172, Attention: Trade Credit Services Dept., Reference: Irrevocable Letter of Credit No. LG/MIS/NY-[____], without further need of documentation, including the original of this Letter of Credit, it being understood that each Payment Document so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Bank at Telephone No. (212) 224-4310 on the Business Day preceding the day of such drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so).

We agree to honor and pay the amount of any Payment Document if presented in compliance with all of the terms of this Letter of Credit. If any such drawing, other than a Liquidity Drawing, is presented prior to 2:30 P.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 1:00 P.M., New York time, on the following Business Day. If any such Drawing, other than a Liquidity Drawing, is presented at or after 2:30 P.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 1:00 P.M. New York time, on the second following Business Day. If a Liquidity Drawing is presented prior to 11:30 A.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 2:30 P.M., New York time, on the same Business Day. If a Liquidity Drawing is presented at or after 11:30 A.M., New York time, on any Business Day, payment shall be made in immediately available funds, by 2:30 P.M., New York time, on the following Business Day. Payments made hereunder shall be made by wire transfer to you or by deposit into your account with us in accordance with the instructions specified by the Trustee in the drawing certificate relating to a particular Drawing hereunder. “Business Day” means any day which is not (i) a Saturday, Sunday or (ii) a day on which banks located in the city in which drawings under the Letter of Credit are to be honored is located (initially, New York, New York), are authorized or required to remain closed or (iii) a day on which The New York Stock Exchange is closed.

The Available Amount (as hereinafter defined) of this Letter of Credit will be reduced automatically by the amount of any drawing hereunder; provided, however, that the amount of any Interest Drawing hereunder, less the amount of the reduction in the Available Amount attributable to interest as specified in a certificate in the form of Annex D or Annex E hereto, shall be automatically reinstated effective at 9:00 A.M., New York time, five (5) calendar days from the date such drawing is honored by us unless you have received notice from us in the form of Annex L-2 hereof by 5:00 P.M., New York time, on the fourth (4th) calendar day after such date that the Bank has not been reimbursed in full for any such drawing or any other Event of Default has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and directing the trustee to cause the acceleration the Bonds pursuant to the terms of the Indenture. After payment by the Bank of a Liquidity Drawing, the obligation of the Bank to honor drawings

under this Letter of Credit will be automatically reduced by an amount equal to said drawing. In addition, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the Bank's obligations to honor drawings hereunder will be automatically reinstated in the amount stated on a certificate in the form of Annex K concurrently upon receipt by the Bank of such Annex K, and receipt by the Bank or the Trustee on behalf of the Bank of the amount equal to the amount stated on such Annex K.

Upon our honoring a certificate of the Trustee in the form of Annex D hereto, the Letter of Credit will automatically and permanently reduce the amount available to be drawn hereunder by the amount specified in such certificate.

The "Available Amount" shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest Drawings, Redemption Drawings or Liquidity Drawings, (ii) less the amount of any reduction thereof pursuant to a reduction certificate in the form of Annex H hereto, (iii) plus the amount of all reinstatements as above provided.

Prior to the Termination Date, we may extend the Stated Expiration Date from time to time at the request of the Issuer or Agency by delivering to you an amendment to this Letter of Credit in the form of Annex J hereto designating the date to which the Stated Expiration Date is being extended, and thereafter all references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may be extended in a like manner.

Upon the Termination Date this Letter of Credit shall automatically terminate.

This Letter of Credit is transferable in whole only to your successor as Trustee. Any such transfer (including any successive transfer) shall be effected by the presentation to us of this Letter of Credit accompanied by a request in the form of Annex I, attached hereto. Upon such presentation we shall forthwith effect a transfer of this Letter of Credit to your designated transferee. Transfers to designated foreign nationals specially designated nationals are not permitted as being contrary to the U.S. Treasury Department or Foreign Assets Control Regulations.

Other than the provisions for communication by facsimile copy, communications with respect to this Letter of Credit shall be addressed to us at [_____], Attention: [_____], specifically referring to the number of this Letter of Credit Section.

To the extent not inconsistent with the express terms hereof, this Letter of Credit is subject to the terms of the International Standby Practices 1998, International Chamber of Commerce-Publication No. 590 ("ISP98"), except for Article 3.14 thereof. As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of New York.

All payments made by us hereunder shall be made from our funds and not with the funds of any other person.

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever.

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By: _____
Name: _____
Title: _____

**ANNEX A
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

NOTICE OF CONVERSION DATE

[Date]

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [__], 2016 (the "Letter of Credit"), which has been established by you for the account of the Chino Basin Regional Financing Authority and the Inland Empire Utilities Agency in favor of the Trustee.

The undersigned hereby certifies and confirms that on [insert date] the interest rate on the Bonds has been converted to a rate other than a Covered Rate, and, accordingly, said Letter of Credit shall terminate on _____, 20__, which is one (1) Business Day after such Conversion Date in accordance with its terms.

All defined terms used herein which are not otherwise defined herein shall have the same meaning as in the Letter of Credit.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX B
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

NOTICE OF TERMINATION

[Date]

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [__], 2016 (the "Letter of Credit"), which has been established by you for the account of the Chino Basin Regional Financing Authority and the Inland Empire Utilities Agency in favor of the Trustee.

The undersigned hereby certifies and confirms that **[(i) no Bonds (as defined in the Letter of Credit) remain Outstanding within the meaning of the Indenture, (ii) all Drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored or (iii) an Alternate Credit Facility (as defined in the Indenture) has been issued to replace the Letter of Credit pursuant to the Indenture]** and, accordingly, the Letter of Credit shall be terminated in accordance with its terms.

All defined terms used herein which are not otherwise defined shall have the same meaning as in the Letter of Credit.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX C
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

INTEREST DRAWING CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of U.S. Bank National Association, as trustee (the “Beneficiary”), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [___], 2016 (the “Letter of Credit”), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the “Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this Drawing in the amount of \$_____ under the Letter of Credit pursuant to the Indenture with respect to the payment of interest due on all Bonds Outstanding on the Interest Payment Date (as defined in the Indenture) occurring on **[insert applicable date]**, other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency.

3. The amount of the drawing is equal to the amount required to be drawn by the Trustee pursuant to Section 2.17(a) of the Indenture.

4. The amount of the drawing made by this Certificate was computed in compliance with the terms of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20__.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX D
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

REDEMPTION DRAWING AND REDUCTION CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of U.S. Bank National Association, as trustee (the “Beneficiary”), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [___], 2016 (the “Letter of Credit”), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the “Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of \$_____ under the Letter of Credit pursuant to Section **[4.01(a)(i)] [4.01(b)(i)]** of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds to be redeemed by the Issuer or Agency (as defined in the Letter of Credit) pursuant to Section **[4.01(a)(i)] [4.01(b)(ii)]** of the Indenture on **[insert applicable date]** (the “Redemption Date”) other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency (collectively, “Ineligible Bonds”), plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Redemption Date, provided that in the event the Redemption Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph 2 above:

(i) \$_____ is demanded in respect of the principal amount of the Bonds referred to in subparagraph (a) above; and

(ii) \$_____ is demanded in respect of accrued interest on such Bonds.

4. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

5. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

6. Upon payment of the amount drawn hereunder, the Bank is hereby directed to permanently reduce the Available Amount by \$[insert amount of reduction] and the Available Amount shall thereupon equal \$[insert new Available Amount]. The Available Amount has been reduced by an amount equal to the principal of Bonds paid with this drawing and an amount equal to 49 days' interest thereon at a rate of interest equal to twelve percent (12%) per annum.

7. Of the amount of the reduction stated in paragraph 6 above:

(i) \$_____ is attributable to the principal amount of Bonds redeemed or purchased in lieu of redemption; and

(ii) \$_____ is attributable to interest on such Bonds (i.e., 49 days' interest thereon at a rate of interest equal to twelve percent (12%) per annum).

8. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

9. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds Outstanding (to the extent such Bonds are not Ineligible Bonds), plus 49 days' interest thereon at a rate of interest equal to (12%) per annum.

10. In the case of a redemption pursuant to Section 4.01(a)(i) of the Indenture, the Trustee, prior to giving notice of redemption to the owners of the Bonds, received written evidence from the Bank that the Bank has consented to such redemption.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, _____.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX E
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

LIQUIDITY DRAWING CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of U.S. Bank National Association, as trustee (the "Beneficiary") hereby certifies as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [__], 2016 (the "Letter of Credit"), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.
2. The Beneficiary is entitled to make this drawing under the Letter of Credit in the amount of \$_____ with respect to the payment of the purchase price of Bonds tendered for purchase in accordance with Section **[2.16(a)] [2.16(b)] [2.16(d)] [2.16(e)]** of the Indenture and to be purchased on **[insert applicable date]** (the "Purchase Date") which Bonds have not been remarketed as provided in the Indenture or the purchase price of which has not been received by the Trustee (as defined in the Letter of Credit) by 11:30 A.M., New York time, on said Purchase Date.
3. (a) The amount of the drawing is equal to (i) the principal amount of Bonds to be purchased pursuant to the Indenture on the Purchase Date other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) (or if none, the date of issuance of the Bonds) to the Purchase Date, provided that in the event the Purchase Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph (2) above:
 - (i) \$_____ is demanded in respect of the principal portion of the purchase price of the Bonds referred to in subparagraph (2) above; and

(ii) \$_____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The Bonds to be purchased bear interest at the Weekly Interest Rate. In accordance with the Indenture, if this Certificate is (i) presented to the Bank prior to 11:30 A.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 2:30 P.M., New York time, on the same Business Day and (ii) presented to the Bank at or after 11:30 A.M., New York time, on a Business Day, payment shall be made in immediately available funds, by 2:30 P.M., New York time, on the following Business Day.

5. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

6. Upon payment of the amount drawn hereunder, the Bank is hereby directed to reduce the Available Amount of the Letter of Credit by \$[insert amount of reduction] and the Available Amount shall, after giving effect to such reduction, equal \$[insert new Available Amount].

7. Of the amount of reduction stated in paragraph 5 above:

(i) \$_____ is attributable to the principal amount of Bonds tendered; and

(ii) \$_____ is attributable to interest on such Bonds (i.e., 49 days' interest at a rate of interest equal to twelve percent (12%) per annum).

8. The Beneficiary will register or cause to be registered in the name of the Bank (or the Issuer and Agency at the written direction of the Bank), upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and will deliver such Bonds to the Trustee in accordance with the Indenture.

9. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK NATIONAL ASSOCIATION, _____ as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX F
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

ACCELERATION DRAWING CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of U.S. Bank National Association, as trustee (the “Beneficiary”), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [___], 2016 (the “Letter of Credit”), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the “Bank”) in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.

2. An Event of Default has occurred under subsection **[insert subsection]** of Section 7.01 of the Indenture and the Trustee has declared the principal of and accrued interest on all Bonds then outstanding immediately due and payable. The Beneficiary is entitled to make this drawing in the amount of \$_____ under the Letter of Credit in order to pay the principal of and interest accrued on the Bonds due to an acceleration thereof in accordance with Section 7.02 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds Outstanding on **[insert date of acceleration]** (the “Acceleration Date”) other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency, plus (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Acceleration Date.

(b) Of the amount stated in paragraph 2 above:

(i) \$_____ is demanded in respect of the principal portion of the Bonds referred to in subparagraph (a) above; and

(ii) \$_____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20____.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX G
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

STATED MATURITY DRAWING CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned individual, a duly authorized representative of U.S. Bank National Association, as trustee (the "Beneficiary"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [___], 2016 (the "Letter of Credit"), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.
2. The Beneficiary is entitled to make this drawing in the amount of \$ _____ under the Letter of Credit pursuant to the Indenture.
3. (a) The amount of this drawing is equal to the principal amount of and interest on the Bonds Outstanding on June 1, 2032, the maturity date thereof as specified in Section 1.01 of the Indenture, other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency.

(b) Of the amount stated in paragraph (2) above:
 - (i) \$ _____ is demanded in respect of the principal portion of the Bonds referred to in subparagraph (2) above; and
 - (ii) \$ _____ is demanded in respect of payment of the interest portion of such Bonds.
4. The amount of this Drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing

under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX H
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

REDUCTION CERTIFICATE

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned hereby certifies with respect to (i) that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [___], 2016 (the "Letter of Credit"), issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank") in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee under the Indenture.
2. Upon receipt by the Bank of this Certificate, the Available Amount (as defined in the Letter of Credit) shall be reduced by \$_____ and the Available Amount shall thereupon equal \$_____. \$_____ of the new Available Amount is attributable to interest and \$_____ of the new Available Amount is attributable to principal.
3. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.
4. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds Outstanding (other than (i) Bonds bearing interest at a rate other than a Covered Rate, (ii) Bonds, purchased with the proceeds of a Liquidity Drawing and registered in the name of the Bank or its nominee or (iii) Bonds owned by or on behalf of the Issuer or the Agency) plus \$_____ which is at least 49 days' accrued interest on said principal amount of the Bonds at the rate of twelve percent (12.00%) per annum and assuming a year of 365 days.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
[Title of Authorized Representative]

**ANNEX I
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

TRANSFER CERTIFICATE

Date:

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Re: Irrevocable Transferable Letter of Credit
No. LG/MIS/NY-[_____] dated January [__], 2016

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit ("Credit") in its entirety to:

NAME OF TRANSFEREE

(Print Name and complete address of the Transferee)

"Transferee"

ADDRESS OF TRANSFEREE

CITY, STATE/COUNTRY ZIP

All rights of the undersigned Transferor with respect to the above referenced Letter of Credit are transferred to the Transferee. Said Transferee has succeeded the Transferor as Trustee under that certain Indenture (as defined in the Letter of Credit) with respect to the Chino Basin Regional Financing Authority Variable Rate Demand Revenue Refunding Bonds (Inland Empire Utilities Agency), Series 2008B.

By virtue of this transfer, the Transferee shall have the sole rights as beneficiary of said Letter of Credit, including sole rights relating to any past or future amendments thereof, whether increases or extensions or otherwise. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the Transferor.

The Letter of Credit is returned herewith, and we ask you to endorse the transfer on the reverse thereof and to forward it directly to the Transferee with your customary notice of transfer.

Very truly yours,

[Insert Name of Trustee],
as Trustee

By _____
[Insert name and title of authorized officer]

SIGNATURE OF THE ABOVE OFFICER,
DULY AUTHORIZED TO ACT ON
BEHALF OF [insert name of
Trustee], AUTHENTICATED BY:

By _____
Name: _____
Title: _____

**ANNEX J
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

NOTICE OF EXTENSION

U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90071
Attention: Corporate Trust Services

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [__], 2016 (the "Letter of Credit"), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit, the Stated Expiration Date, as defined in the Letter of Credit, has been extended to _____.

This letter should be attached to the Letter of Credit and made a part thereof.

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By _____
Name: _____
Title: _____

**ANNEX K
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

NOTICE OF REMARKETING

Sumitomo Mitsui Banking Corporation
New York Branch
277 Park Avenue
New York, New York 10172
Attention: Trade Credit Services Dept.

Ladies and Gentlemen:

The undersigned, a duly authorized officer of U.S. Bank National Association, as trustee (the "Trustee"), hereby notifies Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank"), with reference to that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____] dated January [__], 2016 (the "Letter of Credit"; terms defined therein and not otherwise defined herein shall have the meanings set forth in the Letter of Credit) issued by the Bank in favor of the Trustee as follows:

1. _____ is the Remarketing Agent under the Indenture for the holders of the Bonds.

2. The Trustee has been advised by the Issuer, Agency, or the Remarketing Agent that the amount of \$_____ paid to the Bank today by the Issuer, Agency, or the Remarketing Agent on behalf of the Issuer and Agency is a payment made to reimburse the Bank, pursuant to the Reimbursement Agreement, for amounts drawn under the Letter of Credit pursuant to a Liquidity Drawing.

3. Of the amount referred to in paragraph 2, \$_____ represents the aggregate principal amount of Bank Bonds resold or to be resold on behalf of the Issuer and Agency.

4. Of the amount referred to in paragraph 2, \$_____ represents accrued and unpaid interest on such Bank Bonds.

5. In accordance with the terms of the Letter of Credit, the Trustee deems that the amount available under the Letter of Credit has been automatically reinstated by the amount stated on 2 above.

IN WITNESS WHEREOF, the Trustee has executed and delivered this Certificate as of this _____ day of _____, ____.

U.S. BANK NATIONAL ASSOCIATION, as
Trustee

By _____
Name: _____
Title: _____

**ANNEX L-1
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

**NOTICE OF MANDATORY TENDER OR ACCELERATION
UPON THE OCCURRENCE OF AN EVENT OF DEFAULT**

[U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90071
Attention: Corporate Trust Services

Ladies and Gentlemen:

The undersigned, a duly authorized officer of Sumitomo Mitsui Banking Corporation, acting through its New York Branch, hereby advises you, with reference to Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____], dated January [__], 2016 (the “Letter of Credit”; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in your favor, that an “Event of Default” has occurred under Section 7.01 of the Reimbursement Agreement dated as of January 1, 2016, among the Issuer, Agency and the Bank, and the Bank has elected to direct the Trustee to accelerate, or cause the mandatory tender of, the Bonds pursuant to the Indenture, whereby the Letter of Credit will terminate ten (10) days following the receipt by the Trustee of this Notice of Mandatory Tender or Acceleration upon the occurrence of an Event of Default..

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By _____
Name: _____
Title: _____

**ANNEX L-2
TO
SUMITOMO MITSUI BANKING CORPORATION, NEW YORK BRANCH
LETTER OF CREDIT**

NO. LG/MIS/NY-[_____]

NOTICE OF NON-REINSTATEMENT AND ACCELERATION

U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, California 90071
Attention: Corporate Trust Services

Ladies and Gentlemen:

The undersigned, a duly authorized officer of Sumitomo Mitsui Banking Corporation, acting through its New York Branch, hereby advises you, with reference to Irrevocable Transferable Letter of Credit No. LG/MIS/NY-[_____], dated January [___], 2016 (the "Letter of Credit"; any capitalized term used herein and not defined shall have its respective meaning as set forth in the Letter of Credit) issued by the Bank in your favor, that the Bank has not been reimbursed for an Interest Drawing under the Letter of Credit or an "Event of Default" has occurred under Section 7.01 of the Reimbursement Agreement dated as of January 1, 2016, among the Issuer, Agency and the Bank and, as a result thereof, the amount of such Interest Drawing will not be reinstated and the Bank has elected to direct the Trustee to accelerate the Bonds pursuant to the Indenture, whereby the letter of credit will terminate ten (10) days following the receipt by the Trustee of this Notice of Non-Reinstatement and Acceleration.

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By _____
Name: _____
Title: _____

**ACTION ITEM
1C**

CHINO BASIN REGIONAL FINANCING AUTHORITY

Date: December 16, 2015

To: The Honorable Commissioners

From: P. Joseph Grindstaff
General Manager

Submitted By: Christina Valencia
Treasurer

Subject: Chino Basin Regional Financing Authority (Authority) Fiscal Years (FYs)
2012/13 through and 2014/15 Annual Financial Statements

RECOMMENDATION

It is recommended that the Board of Commissioners:

1. Approve the Annual Financial Statements for the FY ended June 30, 2013, 2014, and 2015;
and
2. Direct staff to distribute the reports, as appropriate, to the various federal, state, and local agencies, financial institutions, and other interested parties.

BACKGROUND

The Annual Financial Statements of the Authority for the FYs ended June 30, 2013, 2014, and 2015 were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). The Inland Empire Utilities Agency (Agency) independent audit firm, White Nelson Diehl Evans LLP (WNDE) performed the financial audit.

The audited financial statements will allow the Authority to comply with the State Controllers mandate to provide audited financial information when filing the annual State Controller's Report, as well as allow the use of the Authority to secure financing for future regional projects, such as the Recycled Water Interconnection with Jurupa Community Services District and Recycled Water Intertie with the city of Pomona and Monte Vista Water District.

PRIOR BOARD ACTION

None.

IMPACT ON BUDGET

The associated audit service fees are supported by contributions from Inland Empire Utilities Agency and Chino Basin Watermaster included in the annual operating budget.



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Annual Financial Statements Fiscal Year Ended June 30, 2013, 2014, and 2015

December 16, 2015

Highlights

- ❖ Chino Basin Regional Financial Authority (CBRFA) has served as a conduit for the issuance of bonded debt.
- ❖ All related transactions reported by IEUA.
- ❖ CBRFA audited financial statements are now needed to;
 - Comply with State Controller reporting requirements, and
 - Finance future regional projects, such as the recycled water interties with Jurupa Communities Services District, Pomona and Monte Vista Water District.
 - Allow use of other financing options, such as State Revolving Fund (SRF) loans.
- ❖ External audit performed by White Nelson Diehl Evans, LLP.

Financial Information

\$Millions	2012/13	2013/14	2014/15
Total Assets (IEUA receivables)	\$230.5	\$223.6	\$201.6
Total Liabilities (2005A, 2008A, 2008B and 2010A bonds)	(230.5)	(223.6)	(201.6)
Net Position as of June 30,	\$0	\$0	\$0
Total Income (IEUA payment of debt service costs)	\$8.8	\$8.6	\$8.0
TOTAL EXPENSES (Annual debt service costs)	(8.8)	(8.6)	(8.0)
Change in net position at June 30,	0	0	0



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

Questions?

The annual financial statement is consistent with the Agency's business goal of fiscal responsibility

CBRFA – Annual Financial Statement for FY 2012/13

Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As discussed in Note 1E to the financial statements, the Authority incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Also discussed in Note 1E to the financial statements, the Authority has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application, which had no impact on the Authority's financial statements. No other accounting policies were adopted and the application of other existing policies was not changed during the fiscal year ended June 30, 2013. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Audit Findings (Continued)

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

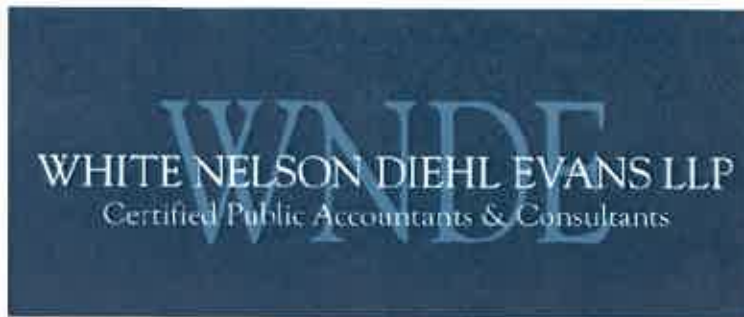
FOR THE YEAR ENDED JUNE 30, 2013

CHINO BASIN REGIONAL FINANCING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2013 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2013, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$6,650,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Total Percent Change
Total assets	\$230,544,222	\$237,238,000	\$ (6,693,778)	-2.82%
Current liabilities	8,734,222	8,558,000	176,222	2.06%
Noncurrent liabilities	221,810,000	228,680,000	(6,870,000)	-3.00%
Total liabilities	230,544,222	237,238,000	(6,693,778)	-2.82%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$6,693,778 to \$230,544,222 in fiscal year 2013, down from \$237,238,000 in fiscal year 2012. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2013	Fiscal Year 2012
General revenues	\$ 8,799,149	\$8,911,567
Operating expenses	(8,799,149)	(8,911,567)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$8,799,149 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$228,680,000 in long-term debt, down from \$235,330,000 in fiscal year 2012, for a decrease of \$6,650,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 14 through 18 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2013

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,864,222
Interest receivable on restricted cash and investments	21,948
Installment contracts receivable	<u>6,870,000</u>

TOTAL CURRENT ASSETS 8,756,170

RESTRICTED ASSETS:

Cash and investments	4,767,353
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NONCURRENT ASSETS:

Installment contracts receivable	<u>217,020,699</u>
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TOTAL ASSETS 230,544,222

LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,864,222
Revenue bonds	<u>6,870,000</u>

TOTAL CURRENT LIABILITIES 8,734,222

NONCURRENT LIABILITIES:

Revenue bonds	<u>221,810,000</u>
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TOTAL LIABILITIES 230,544,222

NET POSITION:

Unrestricted	<u>-</u>
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TOTAL NET POSITION \$ -

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2013

REVENUES	
Interest on installment contracts	\$ 8,680,755
Interest on restricted cash and investments	118,394
	<hr/>
TOTAL REVENUES	8,799,149
	<hr/>
EXPENSES:	
Debt service interest	8,799,149
	<hr/>
TOTAL EXPENSES	8,799,149
	<hr/>
OPERATING INCOME (LOSS)	-
NET POSITION - BEGINNING OF YEAR	<hr/>
NET POSITION - END OF YEAR	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	\$ 2,744,056
	<u>2,744,056</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,744,056</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(6,650,000)
Interest paid on bonds payable	(8,842,926)
	<u>(15,492,926)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,492,926)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on restricted investments	118,398
Interest received on installment contract receivable	8,724,532
	<u>8,842,930</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,842,930</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(3,905,940)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>8,673,293</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,767,353</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	2,744,056
	<u>2,744,056</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,744,056</u>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

In fiscal year 2012-2013, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the Authority early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." This statement established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, deferred bond costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The Authority was not impacted by the implementation of the accounting pronouncement.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the fiscal years beginning after June 15, 2014.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued):

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2013 are classified in the accompanying financial statement as follows:

Restricted assets:

Cash and investments \$ 4,767,353

Cash and investments at June 30, 2013 consisted of the following:

Investments \$ 4,767,353

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity 12 Months or Less</u>
US Treasury Notes	\$ 2,153,136	\$ 2,153,136
Federal Home Loan Mortgage Corporation	2,024,484	2,024,484
Money Mutual Market Funds	589,733	589,733
	<u>\$ 4,767,353</u>	<u>\$ 4,767,353</u>

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
U.S. Treasury Notes	N/A	\$2,153,136	\$ -	\$ -	\$2,153,136
Federal Home Loan Mortgage Corporation	N/A	2,024,484	-	2,024,484	-
Money Mutual Market Funds	A	589,733	589,733	-	-
		<u>\$4,767,353</u>	<u>\$ 589,733</u>	<u>\$2,024,484</u>	<u>\$2,153,136</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

Investments in any one issuer that represent 5% or more of total Authority's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Treasury Note	U.S. Treasury Note	\$ 2,153,136
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 2,024,484

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$17,645,000.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$125,000,000.

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$47,575,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$38,460,000.

Installment contracts receivables at June 30, 2013 consist of the following:

2005A Installment Contract Receivable	\$ 17,645,000
2008A Installment Contract Receivable	125,000,000
2008B Installment Contract Receivable	47,575,000
2010A Installment Contract Receivable	<u>38,460,000</u>
	228,680,000
Less: Restricted Cash and Investments	(4,767,353)
Less: Interest Receivable on Restricted Cash and Investments	<u>(21,948)</u>
Total Installment Contracts Receivable	<u>\$ 223,890,699</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2013, were as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year
2005A Revenue Bonds	\$ 19,035,000	\$ -	\$ (1,390,000)	\$ 17,645,000	\$ 1,445,000
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	49,235,000	-	(1,660,000)	47,575,000	1,725,000
2010A Refunding Revenue Bonds	<u>42,060,000</u>	-	<u>(3,600,000)</u>	<u>38,460,000</u>	<u>3,700,000</u>
Total long-term debt	<u>\$ 235,330,000</u>	<u>\$ -</u>	<u>\$ (6,650,000)</u>	<u>\$ 228,680,000</u>	<u>\$ 6,870,000</u>

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds (Continued):

The bonds maturing through 2023 are Serial Bonds payable in annual installments ranging from \$1,445,000 to \$2,120,000 with interest rates from 4.00% to 5.00%. Principal payments are due each year on November 1 with semi-annual interest payments due November 1 and May 1.

A reserve of the lesser of \$2,308,937 and the maximum aggregate amount of installments payments due in the current or any succeeding fiscal year is required to be set aside, along with a bond insurance policy issued by Ambac Assurance Corporation for bonds maturing November 1, 2009 through November 1, 2022, further secure the payment of principal and interest on the bonds. The reserve requirement at June 30, 2013 is \$2,213,213. The actual amount in the reserve fund was \$2,233,930.

The balance outstanding at June 30, 2013 was \$17,645,000.

Future debt service principal and interest payments owed on the 2005A Revenue Refunding Bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,445,000	\$ 762,900	\$ 2,207,900
2015	1,505,000	694,644	2,199,644
2016	1,585,000	623,238	2,208,238
2017	1,655,000	554,475	2,209,475
2018	1,720,000	486,975	2,206,975
2019 - 2023	<u>9,735,000</u>	<u>1,225,013</u>	<u>10,960,013</u>
Totals	<u>\$ 17,645,000</u>	<u>\$ 4,347,245</u>	<u>\$ 21,992,245</u>

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2013 was \$125,000,000.

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 6,250,000	\$ 6,250,000
2015	-	6,250,000	6,250,000
2016	-	6,250,000	6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019 - 2023	-	31,250,000	31,250,000
2024 - 2028	17,765,000	29,260,625	47,025,625
2029 - 2033	33,980,000	23,063,000	57,043,000
2034 - 2038	59,470,000	11,177,000	70,647,000
2039	13,785,000	344,625	14,129,625
Totals	<u>\$ 125,000,000</u>	<u>\$ 126,345,250</u>	<u>\$ 251,345,250</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,725,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,153,136.

The balance outstanding at June 30, 2013 was \$47,575,000.

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,725,000	\$ 98,470	\$ 1,823,470
2015	1,790,000	91,700	1,881,700
2016	1,865,000	88,120	1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019 - 2023	11,330,000	339,070	11,669,070
2024 - 2028	13,790,000	216,350	14,006,350
2029 - 2032	13,150,000	67,020	13,217,020
Totals	<u>\$ 47,575,000</u>	<u>\$ 1,065,690</u>	<u>\$ 48,640,690</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,700,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

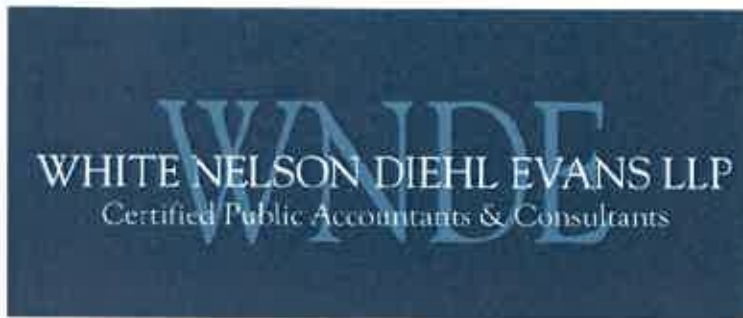
The balance outstanding on June 30, 2013 was \$38,460,000.

Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 3,700,000	\$ 1,595,150	\$ 5,295,150
2015	3,810,000	1,482,500	5,292,500
2016	3,945,000	1,346,450	5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019 - 2022	<u>18,735,000</u>	<u>1,936,125</u>	<u>20,671,125</u>
Totals	<u>\$ 38,460,000</u>	<u>\$ 8,565,725</u>	<u>\$ 47,025,725</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2013 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.



Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. As discussed in Note 1E to the financial statements, the Authority incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Also discussed in Note 1E to the financial statements, the Authority has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". The adoption of this standard required retrospective application, which had no impact on the Authority's financial statements. No other accounting policies were adopted and the application of other existing policies was not changed during the fiscal year ended June 30, 2013. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant Audit Findings (Continued)

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

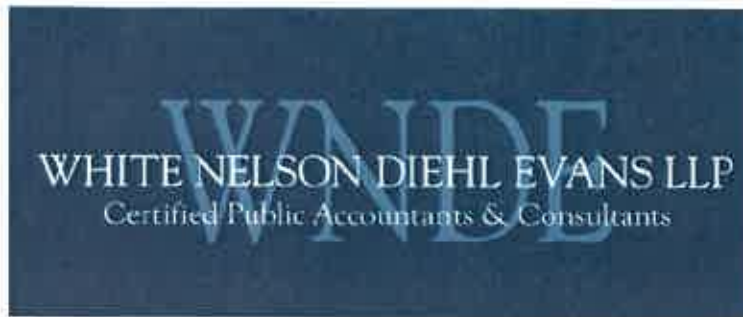
FOR THE YEAR ENDED JUNE 30, 2013

CHINO BASIN REGIONAL FINANCING AUTHORITY

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June 30, 2013

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Statement of Cash Flows	8
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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2013 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2013, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$6,650,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2013	Fiscal Year 2012	Dollar Change	Total Percent Change
Total assets	\$230,544,222	\$237,238,000	\$ (6,693,778)	-2.82%
Current liabilities	8,734,222	8,558,000	176,222	2.06%
Noncurrent liabilities	221,810,000	228,680,000	(6,870,000)	-3.00%
Total liabilities	230,544,222	237,238,000	(6,693,778)	-2.82%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$6,693,778 to \$230,544,222 in fiscal year 2013, down from \$237,238,000 in fiscal year 2012. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2013	Fiscal Year 2012
General revenues	\$ 8,799,149	\$8,911,567
Operating expenses	(8,799,149)	(8,911,567)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$8,799,149 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$228,680,000 in long-term debt, down from \$235,330,000 in fiscal year 2012, for a decrease of \$6,650,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 14 through 18 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2013

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,864,222
Interest receivable on restricted cash and investments	21,948
Installment contracts receivable	<u>6,870,000</u>

TOTAL CURRENT ASSETS 8,756,170

RESTRICTED ASSETS:

Cash and investments	4,767,353
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NONCURRENT ASSETS:

Installment contracts receivable	<u>217,020,699</u>
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TOTAL ASSETS 230,544,222

LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,864,222
Revenue bonds	<u>6,870,000</u>

TOTAL CURRENT LIABILITIES 8,734,222

NONCURRENT LIABILITIES:

Revenue bonds	<u>221,810,000</u>
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TOTAL LIABILITIES 230,544,222

NET POSITION:

Unrestricted	<u>-</u>
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TOTAL NET POSITION \$ -

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2013

REVENUES	
Interest on installment contracts	\$ 8,680,755
Interest on restricted cash and investments	118,394
	<hr/>
TOTAL REVENUES	8,799,149
	<hr/>
EXPENSES:	
Debt service interest	8,799,149
	<hr/>
TOTAL EXPENSES	8,799,149
	<hr/>
OPERATING INCOME (LOSS)	-
NET POSITION - BEGINNING OF YEAR	-
	<hr/>
NET POSITION - END OF YEAR	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	\$ 2,744,056
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,744,056
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(6,650,000)
Interest paid on bonds payable	(8,842,926)
	<hr/>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,492,926)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on restricted investments	118,398
Interest received on installment contract receivable	8,724,532
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	8,842,930
	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,905,940)
	<hr/>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	8,673,293
	<hr/>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,767,353
	<hr/> <hr/>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	2,744,056
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,744,056
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

In fiscal year 2012-2013, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, "*Elements of Financial Statements*" into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the Authority early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." This statement established accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Due to the early implementation of this statement, deferred bond costs, which should be recognized as an expense in the period incurred, were eliminated. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The Authority was not impacted by the implementation of the accounting pronouncement.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", effective for periods beginning after December 15, 2012.
- GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", effective for the periods beginning after June 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the fiscal years beginning after June 15, 2014.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements (Continued):

Pending Accounting Standards (Continued):

- GASB 72 - *"Fair Value Measurement and Application"*, effective for periods beginning after June 15, 2015.
- GASB 73 - *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*, effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, effective for periods beginning after June 15, 2016.
- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.
- GASB 76 - *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, effective for periods beginning after June 15, 2015.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2013 are classified in the accompanying financial statement as follows:

Restricted assets:

Cash and investments \$ 4,767,353

Cash and investments at June 30, 2013 consisted of the following:

Investments \$ 4,767,353

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity 12 Months or Less</u>
US Treasury Notes	\$ 2,153,136	\$ 2,153,136
Federal Home Loan Mortgage Corporation	2,024,484	2,024,484
Money Mutual Market Funds	589,733	589,733
	<u>\$ 4,767,353</u>	<u>\$ 4,767,353</u>

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
U.S. Treasury Notes	N/A	\$2,153,136	\$ -	\$ -	\$2,153,136
Federal Home Loan Mortgage Corporation	N/A	2,024,484	-	2,024,484	-
Money Mutual Market Funds	A	589,733	589,733	-	-
		<u>\$4,767,353</u>	<u>\$ 589,733</u>	<u>\$2,024,484</u>	<u>\$2,153,136</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

2. CASH AND INVESTMENTS (CONTINUED):

Concentration of Credit Risk:

Investments in any one issuer that represent 5% or more of total Authority's investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Treasury Note	U.S. Treasury Note	\$ 2,153,136
Federal Home Loan Mortgage Corporation	United States Government Sponsored Agency Securities	\$ 2,024,484

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$17,645,000.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$125,000,000.

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$47,575,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2013, was \$38,460,000.

Installment contracts receivables at June 30, 2013 consist of the following:

2005A Installment Contract Receivable	\$ 17,645,000
2008A Installment Contract Receivable	125,000,000
2008B Installment Contract Receivable	47,575,000
2010A Installment Contract Receivable	<u>38,460,000</u>
	228,680,000
Less: Restricted Cash and Investments	(4,767,353)
Less: Interest Receivable on Restricted Cash and Investments	<u>(21,948)</u>
Total Installment Contracts Receivable	<u>\$ 223,890,699</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2013, were as follows:

	Balance at <u>July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2013</u>	Due Within <u>One Year</u>
2005A Revenue Bonds	\$ 19,035,000	\$ -	\$ (1,390,000)	\$ 17,645,000	\$ 1,445,000
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	49,235,000	-	(1,660,000)	47,575,000	1,725,000
2010A Refunding Revenue Bonds	<u>42,060,000</u>	<u>-</u>	<u>(3,600,000)</u>	<u>38,460,000</u>	<u>3,700,000</u>
Total long-term debt	<u>\$ 235,330,000</u>	<u>\$ -</u>	<u>\$ (6,650,000)</u>	<u>\$ 228,680,000</u>	<u>\$ 6,870,000</u>

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds (Continued):

The bonds maturing through 2023 are Serial Bonds payable in annual installments ranging from \$1,445,000 to \$2,120,000 with interest rates from 4.00% to 5.00%. Principal payments are due each year on November 1 with semi-annual interest payments due November 1 and May 1.

A reserve of the lesser of \$2,308,937 and the maximum aggregate amount of installments payments due in the current or any succeeding fiscal year is required to be set aside, along with a bond insurance policy issued by Ambac Assurance Corporation for bonds maturing November 1, 2009 through November 1, 2022, further secure the payment of principal and interest on the bonds. The reserve requirement at June 30, 2013 is \$2,213,213. The actual amount in the reserve fund was \$2,233,930.

The balance outstanding at June 30, 2013 was \$17,645,000.

Future debt service principal and interest payments owed on the 2005A Revenue Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,445,000	\$ 762,900	\$ 2,207,900
2015	1,505,000	694,644	2,199,644
2016	1,585,000	623,238	2,208,238
2017	1,655,000	554,475	2,209,475
2018	1,720,000	486,975	2,206,975
2019 - 2023	<u>9,735,000</u>	<u>1,225,013</u>	<u>10,960,013</u>
Totals	<u>\$ 17,645,000</u>	<u>\$ 4,347,245</u>	<u>\$ 21,992,245</u>

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2013 was \$125,000,000.

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ -	\$ 6,250,000	\$ 6,250,000
2015	-	6,250,000	6,250,000
2016	-	6,250,000	6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019 - 2023	-	31,250,000	31,250,000
2024 - 2028	17,765,000	29,260,625	47,025,625
2029 - 2033	33,980,000	23,063,000	57,043,000
2034 - 2038	59,470,000	11,177,000	70,647,000
2039	13,785,000	344,625	14,129,625
Totals	<u>\$ 125,000,000</u>	<u>\$ 126,345,250</u>	<u>\$ 251,345,250</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,725,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,153,136.

The balance outstanding at June 30, 2013 was \$47,575,000.

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2013, are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,725,000	\$ 98,470	\$ 1,823,470
2015	1,790,000	91,700	1,881,700
2016	1,865,000	88,120	1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019 - 2023	11,330,000	339,070	11,669,070
2024 - 2028	13,790,000	216,350	14,006,350
2029 - 2032	<u>13,150,000</u>	<u>67,020</u>	<u>13,217,020</u>
Totals	<u>\$ 47,575,000</u>	<u>\$ 1,065,690</u>	<u>\$ 48,640,690</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2013

4. LONG-TERM DEBT (CONTINUED):

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,700,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

The balance outstanding on June 30, 2013 was \$38,460,000.

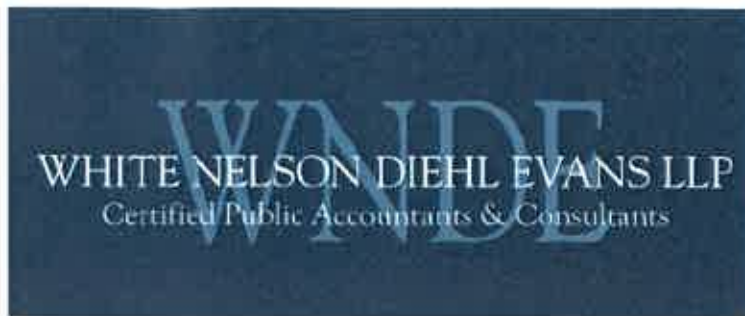
Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 3,700,000	\$ 1,595,150	\$ 5,295,150
2015	3,810,000	1,482,500	5,292,500
2016	3,945,000	1,346,450	5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019 - 2022	<u>18,735,000</u>	<u>1,936,125</u>	<u>20,671,125</u>
Totals	<u>\$ 38,460,000</u>	<u>\$ 8,565,725</u>	<u>\$ 47,025,725</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2013 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

CBRFA – Annual Financial Statement for FY 2013/14



Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2014. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

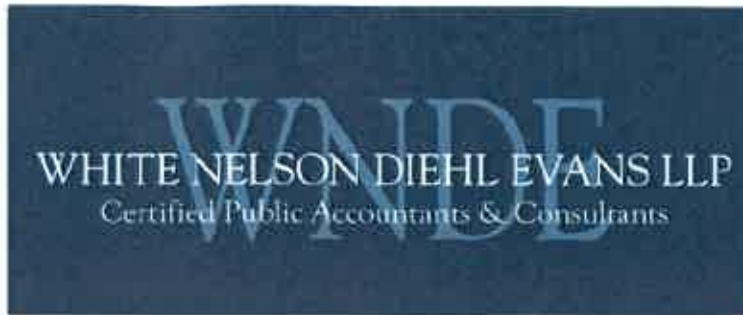
FOR THE YEAR ENDED JUNE 30, 2014

CHINO BASIN REGIONAL FINANCING AUTHORITY

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June 30, 2014

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Statement of Cash Flows	8
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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2014 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2014, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$6,870,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Total Percent Change
Total assets	\$223,616,954	\$230,544,222	\$ (6,927,268)	-3.00%
Current liabilities	8,911,954	8,734,222	177,732	2.03%
Noncurrent liabilities	214,705,000	221,810,000	(7,105,000)	-3.20%
Total liabilities	223,616,954	230,544,222	(6,927,268)	-3.00%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$6,927,268 to \$223,616,954 in fiscal year 2014, down from \$230,544,222 in fiscal year 2013. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2014	Fiscal Year 2013
General revenues	\$ 8,576,408	\$ 8,799,149
Operating expenses	(8,576,408)	(8,799,149)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$8,576,408 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$221,810,000 in long-term debt, down from \$228,680,000 in fiscal year 2013, for a decrease of \$6,870,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 13 through 18 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance and Accounting.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2014

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,806,954
Installment contracts receivable	<u>7,105,000</u>

TOTAL CURRENT ASSETS	8,911,954
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RESTRICTED ASSETS:

Cash and investments	4,754,224
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NONCURRENT ASSETS:

Installment contracts receivable	<u>209,950,776</u>
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TOTAL ASSETS	<u>223,616,954</u>
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LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,806,954
Revenue bonds	<u>7,105,000</u>

TOTAL CURRENT LIABILITIES	8,911,954
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NONCURRENT LIABILITIES:

Revenue bonds	<u>214,705,000</u>
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TOTAL LIABILITIES	<u>223,616,954</u>
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NET POSITION:

Unrestricted	<u>-</u>
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TOTAL NET POSITION	<u><u>\$ -</u></u>
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See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2014

REVENUES	
Interest on installment contracts	\$ 8,528,266
Interest on restricted cash and investments	48,142
	<hr/>
TOTAL REVENUES	8,576,408
	<hr/>
EXPENSES:	
Debt service interest	8,576,408
	<hr/>
TOTAL EXPENSES	8,576,408
	<hr/>
OPERATING INCOME (LOSS)	-
	<hr/>
NET POSITION - BEGINNING OF YEAR	-
	<hr/>
NET POSITION - END OF YEAR	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	\$ 6,834,923
	<u>6,834,923</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,834,923</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(6,870,000)
Interest paid on bonds payable	(8,633,676)
	<u>(15,503,676)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,503,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on restricted investments	70,090
Interest received on installment contract receivable	8,585,534
	<u>8,655,624</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,655,624</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,129)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,767,353</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,754,224</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	6,834,923
	<u>6,834,923</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,834,923</u>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

GASB 66 - *“Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62”*, required to be implemented in the current fiscal year did not impact the Authority.

GASB 67 - *“Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25”*, required to be implemented in the current fiscal year did not impact the Authority.

GASB 70 - *“Accounting and Financial Reporting for Nonexchange Financial Guarantees”*, required to be implemented in the current fiscal year did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority’s financial reporting requirements in the future:

- GASB 68 - *“Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27”*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - *“Government Combinations and Disposals of Government Operations”*, effective for periods beginning after December 15, 2013.
- GASB 71 - *“Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68”*, effective for the fiscal years beginning after June 15, 2014.
- GASB 72 - *“Fair Value Measurement and Application”*, effective for periods beginning after June 15, 2015.
- GASB 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.
- GASB 76 - *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, effective for periods beginning after June 15, 2015.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2014 are classified in the accompanying financial statement as follows:

Restricted assets:	
Cash and investments	<u>\$ 4,754,224</u>

Cash and investments at June 30, 2014 consisted of the following:

Investments	<u>\$ 4,754,224</u>
-------------	---------------------

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Totals	Remaining Maturity 12 Months or Less
Money Market Mutual Funds	<u>\$ 4,754,224</u>	<u>\$ 4,754,224</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Money Market Mutual Funds	A	<u>\$4,754,224</u>	<u>\$4,754,224</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk:

There are no investments in any one issuer that represent 5% or more of total Authority's investments.

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$16,200,000.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$45,850,000.

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$34,760,000.

Installment contracts receivables at June 30, 2014 consist of the following:

2005A Installment Contract Receivable	\$ 16,200,000
2008A Installment Contract Receivable	125,000,000
2008B Installment Contract Receivable	45,850,000
2010A Installment Contract Receivable	<u>34,760,000</u>
	221,810,000
Less: Restricted Cash and Investments	<u>(4,754,224)</u>
Total Installment Contracts Receivable	<u>\$ 217,055,776</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2014, were as follows:

	Balance at <u>July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2014</u>	Due Within <u>One Year</u>
2005A Revenue Bonds	\$ 17,645,000	\$ -	\$ (1,445,000)	\$ 16,200,000	\$ 1,505,000
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	47,575,000	-	(1,725,000)	45,850,000	1,790,000
2010A Refunding Revenue Bonds	<u>38,460,000</u>	-	<u>(3,700,000)</u>	<u>34,760,000</u>	<u>3,810,000</u>
Total long-term debt	<u>\$ 228,680,000</u>	<u>\$ -</u>	<u>\$ (6,870,000)</u>	<u>\$ 221,810,000</u>	<u>\$ 7,105,000</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2023 are Serial Bonds payable in annual installments ranging from \$1,505,000 to \$2,120,000 with interest rates from 4.00% to 5.00%. Principal payments are due each year on November 1 with semi-annual interest payments due November 1 and May 1.

A reserve of the lesser of \$2,308,937 and the maximum aggregate amount of installments payments due in the current or any succeeding fiscal year is required to be set aside, along with a bond insurance policy issued by Ambac Assurance Corporation for bonds maturing November 1, 2009 through November 1, 2022, further secure the payment of principal and interest on the bonds. The reserve requirement at June 30, 2014 is \$2,207,900. The actual amount in the reserve fund was \$2,209,475.

The balance outstanding at June 30, 2014 was \$16,200,000.

Future debt service principal and interest payments owed on the 2005A Revenue Refunding Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,505,000	\$ 694,644	\$ 2,199,644
2016	1,585,000	623,238	2,208,238
2017	1,655,000	554,475	2,209,475
2018	1,720,000	486,975	2,206,975
2019	1,790,000	416,775	2,206,775
2020 - 2023	<u>7,945,000</u>	<u>808,238</u>	<u>8,753,238</u>
Totals	<u>\$ 16,200,000</u>	<u>\$ 3,584,345</u>	<u>\$ 19,784,345</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2014 was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 6,250,000	\$ 6,250,000
2016	-	6,250,000	6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019	-	6,250,000	6,250,000
2020 - 2024	2,620,000	31,184,500	33,804,500
2025 - 2029	20,640,000	28,300,500	48,940,500
2030 - 2034	39,220,000	21,233,000	60,453,000
2035 - 2039	<u>62,520,000</u>	<u>8,127,250</u>	<u>70,647,250</u>
Totals	<u>\$ 125,000,000</u>	<u>\$ 120,095,250</u>	<u>\$ 245,095,250</u>

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,790,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,130,836.

The balance outstanding at June 30, 2014 was \$45,850,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds (Continued):

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,790,000	\$ 91,700	\$ 1,881,700
2016	1,865,000	88,120	1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019	2,095,000	76,540	2,171,540
2020 - 2024	11,785,000	316,410	12,101,410
2025 - 2029	14,340,000	188,770	14,528,770
2030 - 2032	10,050,000	40,720	10,090,720
Totals	<u>\$ 45,850,000</u>	<u>\$ 967,220</u>	<u>\$ 46,817,220</u>

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,810,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

The balance outstanding on June 30, 2014 was \$34,760,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

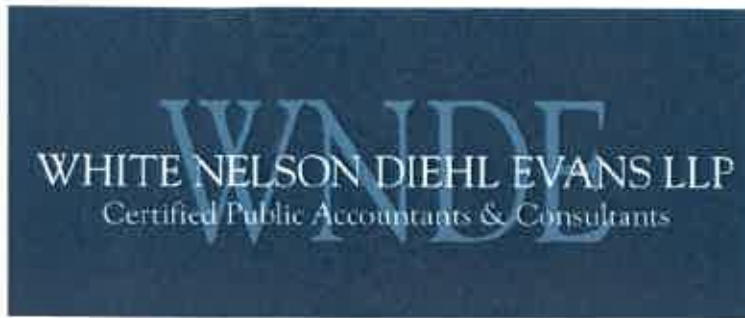
2010A Refunding Revenue Bonds (Continued):

Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 3,810,000	\$ 1,482,500	\$ 5,292,500
2016	3,945,000	1,346,450	5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019	4,285,000	829,625	5,114,625
2020 - 2022	<u>14,450,000</u>	<u>1,106,500</u>	<u>15,556,500</u>
Totals	<u>\$ 34,760,000</u>	<u>\$ 6,970,575</u>	<u>\$ 41,730,575</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.



Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2014. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Need Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

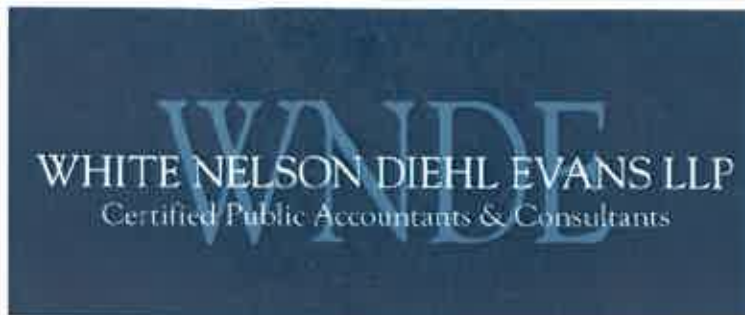
FOR THE YEAR ENDED JUNE 30, 2014

CHINO BASIN REGIONAL FINANCING AUTHORITY

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June 30, 2014

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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2014 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2014, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$6,870,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2014	Fiscal Year 2013	Dollar Change	Total Percent Change
Total assets	\$223,616,954	\$230,544,222	\$ (6,927,268)	-3.00%
Current liabilities	8,911,954	8,734,222	177,732	2.03%
Noncurrent liabilities	214,705,000	221,810,000	(7,105,000)	-3.20%
Total liabilities	223,616,954	230,544,222	(6,927,268)	-3.00%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$6,927,268 to \$223,616,954 in fiscal year 2014, down from \$230,544,222 in fiscal year 2013. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2014	Fiscal Year 2013
General revenues	\$ 8,576,408	\$ 8,799,149
Operating expenses	(8,576,408)	(8,799,149)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$8,576,408 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$221,810,000 in long-term debt, down from \$228,680,000 in fiscal year 2013, for a decrease of \$6,870,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 13 through 18 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance and Accounting.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2014

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,806,954
Installment contracts receivable	<u>7,105,000</u>

TOTAL CURRENT ASSETS 8,911,954

RESTRICTED ASSETS:

Cash and investments	4,754,224
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NONCURRENT ASSETS:

Installment contracts receivable	<u>209,950,776</u>
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TOTAL ASSETS 223,616,954

LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,806,954
Revenue bonds	<u>7,105,000</u>

TOTAL CURRENT LIABILITIES 8,911,954

NONCURRENT LIABILITIES:

Revenue bonds	<u>214,705,000</u>
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TOTAL LIABILITIES 223,616,954

NET POSITION:

Unrestricted	<u>-</u>
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TOTAL NET POSITION \$ -

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2014

REVENUES	
Interest on installment contracts	\$ 8,528,266
Interest on restricted cash and investments	48,142
	<hr/>
TOTAL REVENUES	8,576,408
	<hr/>
EXPENSES:	
Debt service interest	8,576,408
	<hr/>
TOTAL EXPENSES	8,576,408
	<hr/>
OPERATING INCOME (LOSS)	-
	<hr/>
NET POSITION - BEGINNING OF YEAR	-
	<hr/>
NET POSITION - END OF YEAR	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	\$ 6,834,923
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,834,923</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(6,870,000)
Interest paid on bonds payable	(8,633,676)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,503,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on restricted investments	70,090
Interest received on installment contract receivable	8,585,534
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,655,624</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,129)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,767,353</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,754,224</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	6,834,923
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,834,923</u>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62*", required to be implemented in the current fiscal year did not impact the Authority.

GASB 67 - "*Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*", required to be implemented in the current fiscal year did not impact the Authority.

GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees*", required to be implemented in the current fiscal year did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - "*Government Combinations and Disposals of Government Operations*", effective for periods beginning after December 15, 2013.
- GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", effective for the fiscal years beginning after June 15, 2014.
- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2014 are classified in the accompanying financial statement as follows:

Restricted assets:

Cash and investments	<u>\$ 4,754,224</u>
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Cash and investments at June 30, 2014 consisted of the following:

Investments	<u>\$ 4,754,224</u>
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Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Totals	Remaining Maturity 12 Months or Less
Money Market Mutual Funds	<u>\$ 4,754,224</u>	<u>\$ 4,754,224</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Money Market Mutual Funds	A	<u>\$4,754,224</u>	<u>\$4,754,224</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk:

There are no investments in any one issuer that represent 5% or more of total Authority's investments.

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$16,200,000.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2014

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$45,850,000.

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2014, was \$34,760,000.

Installment contracts receivables at June 30, 2014 consist of the following:

2005A Installment Contract Receivable	\$ 16,200,000
2008A Installment Contract Receivable	125,000,000
2008B Installment Contract Receivable	45,850,000
2010A Installment Contract Receivable	<u>34,760,000</u>
	221,810,000
Less: Restricted Cash and Investments	<u>(4,754,224)</u>
Total Installment Contracts Receivable	<u>\$ 217,055,776</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2014, were as follows:

	Balance at July 1, 2013	Additions	Deletions	Balance at June 30, 2014	Due Within One Year
2005A Revenue Bonds	\$ 17,645,000	\$ -	\$ (1,445,000)	\$ 16,200,000	\$ 1,505,000
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	47,575,000	-	(1,725,000)	45,850,000	1,790,000
2010A Refunding Revenue Bonds	<u>38,460,000</u>	-	<u>(3,700,000)</u>	<u>34,760,000</u>	<u>3,810,000</u>
Total long-term debt	<u>\$ 228,680,000</u>	<u>\$ -</u>	<u>\$ (6,870,000)</u>	<u>\$ 221,810,000</u>	<u>\$ 7,105,000</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2023 are Serial Bonds payable in annual installments ranging from \$1,505,000 to \$2,120,000 with interest rates from 4.00% to 5.00%. Principal payments are due each year on November 1 with semi-annual interest payments due November 1 and May 1.

A reserve of the lesser of \$2,308,937 and the maximum aggregate amount of installments payments due in the current or any succeeding fiscal year is required to be set aside, along with a bond insurance policy issued by Ambac Assurance Corporation for bonds maturing November 1, 2009 through November 1, 2022, further secure the payment of principal and interest on the bonds. The reserve requirement at June 30, 2014 is \$2,207,900. The actual amount in the reserve fund was \$2,209,475.

The balance outstanding at June 30, 2014 was \$16,200,000.

Future debt service principal and interest payments owed on the 2005A Revenue Refunding Bonds are as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,505,000	\$ 694,644	\$ 2,199,644
2016	1,585,000	623,238	2,208,238
2017	1,655,000	554,475	2,209,475
2018	1,720,000	486,975	2,206,975
2019	1,790,000	416,775	2,206,775
2020 - 2023	<u>7,945,000</u>	<u>808,238</u>	<u>8,753,238</u>
Totals	<u>\$ 16,200,000</u>	<u>\$ 3,584,345</u>	<u>\$ 19,784,345</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2014 was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ -	\$ 6,250,000	\$ 6,250,000
2016	-	6,250,000	6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019	-	6,250,000	6,250,000
2020 - 2024	2,620,000	31,184,500	33,804,500
2025 - 2029	20,640,000	28,300,500	48,940,500
2030 - 2034	39,220,000	21,233,000	60,453,000
2035 - 2039	62,520,000	8,127,250	70,647,250
Totals	<u>\$ 125,000,000</u>	<u>\$ 120,095,250</u>	<u>\$ 245,095,250</u>

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,790,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,130,836.

The balance outstanding at June 30, 2014 was \$45,850,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds (Continued):

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2014, are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,790,000	\$ 91,700	\$ 1,881,700
2016	1,865,000	88,120	1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019	2,095,000	76,540	2,171,540
2020 - 2024	11,785,000	316,410	12,101,410
2025 - 2029	14,340,000	188,770	14,528,770
2030 - 2032	<u>10,050,000</u>	<u>40,720</u>	<u>10,090,720</u>
Totals	<u>\$ 45,850,000</u>	<u>\$ 967,220</u>	<u>\$ 46,817,220</u>

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,810,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

The balance outstanding on June 30, 2014 was \$34,760,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2014

4. LONG-TERM DEBT (CONTINUED):

2010A Refunding Revenue Bonds (Continued):

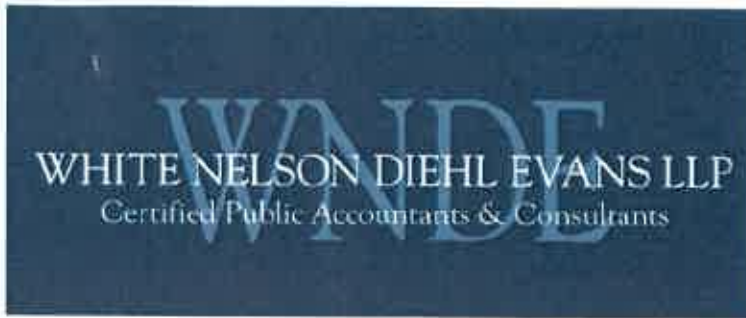
Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 3,810,000	\$ 1,482,500	\$ 5,292,500
2016	3,945,000	1,346,450	5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019	4,285,000	829,625	5,114,625
2020 - 2022	<u>14,450,000</u>	<u>1,106,500</u>	<u>15,556,500</u>
Totals	<u>\$ 34,760,000</u>	<u>\$ 6,970,575</u>	<u>\$ 41,730,575</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2014 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

CBRFA – Annual Financial Statement for FY 2014/15



Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2015. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

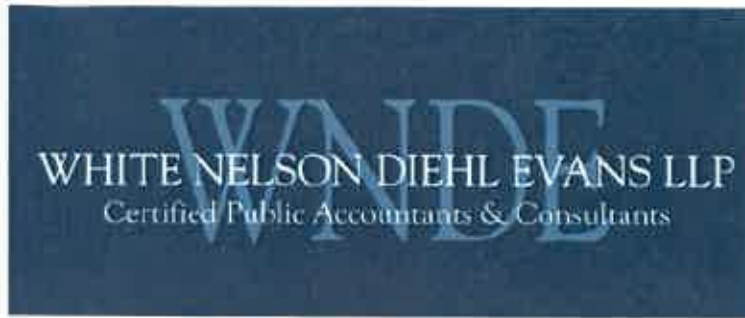
FOR THE YEAR ENDED JUNE 30, 2015

CHINO BASIN REGIONAL FINANCING AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2015 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2015, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$21,800,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Total assets	\$201,647,844	\$223,616,954	\$ (21,969,110)	-9.82%
Current liabilities	7,447,844	8,911,954	(1,464,110)	-16.43%
Noncurrent liabilities	194,200,000	214,705,000	(20,505,000)	-9.55%
Total liabilities	201,647,844	223,616,954	(21,969,110)	-9.82%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$21,969,110 to \$201,647,844 in fiscal year 2015, down from \$223,616,954 in fiscal year 2014. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2015	Fiscal Year 2014
General revenues	\$ 7,953,777	\$ 8,576,408
Operating expenses	(7,953,777)	(8,576,408)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$7,953,777 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$200,010,000 in long-term debt, down from \$221,810,000 in fiscal year 2014, for a decrease of \$21,800,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 13 through 17 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance and Accounting.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2015

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,637,844
Installment contracts receivable	<u>5,810,000</u>

TOTAL CURRENT ASSETS 7,447,844

RESTRICTED ASSETS:

Cash and investments	2,544,713
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NONCURRENT ASSETS:

Installment contracts receivable	<u>191,655,287</u>
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TOTAL ASSETS 201,647,844

LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,637,844
Revenue bonds	<u>5,810,000</u>

TOTAL CURRENT LIABILITIES 7,447,844

NONCURRENT LIABILITIES:

Revenue bonds	<u>194,200,000</u>
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TOTAL LIABILITIES 201,647,844

NET POSITION:

Unrestricted	<u>-</u>
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TOTAL NET POSITION \$ -

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2015

REVENUES	
Interest on installment contracts	\$ 7,953,777
	<hr/>
TOTAL REVENUES	7,953,777
	<hr/>
EXPENSES:	
Debt service interest	7,953,777
	<hr/>
TOTAL EXPENSES	7,953,777
	<hr/>
OPERATING INCOME (LOSS)	-
	<hr/>
NET POSITION - BEGINNING OF YEAR	-
	<hr/>
NET POSITION - END OF YEAR	\$ -
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See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	<u>\$ 19,590,489</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,590,489</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(21,800,000)
Interest paid on bonds payable	<u>(8,122,887)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(29,922,887)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on installment contract receivable	<u>8,122,887</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,122,887</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,209,511)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,754,224</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,544,713</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	<u>19,590,489</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 19,590,489</u></u>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", was required to be implemented in the current fiscal year and did not impact the Authority.

GASB 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Authority.

GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", was required to be implemented in the current fiscal year and did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2015 are classified in the accompanying financial statement as follows:

Restricted assets:	
Cash and investments	<u>\$ 2,544,713</u>

Cash and investments at June 30, 2015 consisted of the following:

Investments	<u>\$ 2,544,713</u>
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Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Totals	Remaining Maturity 12 Months or Less
Money Market Mutual Funds	<u>\$ 2,544,713</u>	<u>\$ 2,544,713</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Money Market Mutual Funds	A	<u>\$2,544,713</u>	<u>\$2,544,713</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk:

There are no investments in any one issuer that represent 5% or more of total Authority's investments.

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency was fully received in November 2014.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

June 30, 2015

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$44,060,000.

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$30,950,000.

Installment contracts receivables at June 30, 2015 consist of the following:

2008A Installment Contract Receivable	\$ 125,000,000
2008B Installment Contract Receivable	44,060,000
2010A Installment Contract Receivable	<u>30,950,000</u>
	200,010,000
Less: Restricted Cash and Investments	<u>(2,544,713)</u>
Total Installment Contracts Receivable	<u>\$ 197,465,287</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	Balance at <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>June 30, 2015</u>	Due Within <u>One Year</u>
2005A Revenue Bonds	\$ 16,200,000	\$ -	\$ (16,200,000)	\$ -	\$ -
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	45,850,000	-	(1,790,000)	44,060,000	1,865,000
2010A Refunding Revenue Bonds	<u>34,760,000</u>	-	<u>(3,810,000)</u>	<u>30,950,000</u>	<u>3,945,000</u>
Total long-term debt	<u>\$ 221,810,000</u>	<u>\$ -</u>	<u>\$ (21,800,000)</u>	<u>\$ 200,010,000</u>	<u>\$ 5,810,000</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

In November 2014, the Authority paid off the remaining balance of the bonds outstanding.

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2015 was \$125,000,000.

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ -	\$ 6,250,000	\$ 6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019	-	6,250,000	6,250,000
2020	-	6,250,000	6,250,000
2021 - 2025	5,465,000	30,982,375	36,447,375
2026 - 2030	23,585,000	27,194,875	50,779,875
2031 - 2035	44,715,000	19,134,625	63,849,625
2036 - 2039	<u>51,235,000</u>	<u>5,283,375</u>	<u>56,518,375</u>
Totals	<u>\$ 125,000,000</u>	<u>\$ 113,845,250</u>	<u>\$ 238,845,250</u>

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,865,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds (Continued):

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,130,836.

The balance outstanding at June 30, 2015 was \$44,060,000.

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,865,000	\$ 88,120	\$ 1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019	2,095,000	76,540	2,171,540
2020	2,180,000	72,350	2,252,350
2021 - 2025	12,255,000	292,840	12,547,840
2026 - 2030	14,910,000	160,090	15,070,090
2031 - 2032	<u>6,830,000</u>	<u>20,620</u>	<u>6,850,620</u>
Totals	<u>\$ 44,060,000</u>	<u>\$ 875,520</u>	<u>\$ 44,935,520</u>

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,945,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2010A Refunding Revenue Bonds (Continued):

The balance outstanding on June 30, 2015 was \$30,950,000.

Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 3,945,000	\$ 1,346,450	\$ 5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019	4,285,000	829,625	5,114,625
2020	4,620,000	607,000	5,227,000
2021 - 2022	<u>9,830,000</u>	<u>499,500</u>	<u>10,329,500</u>
Totals	<u>\$ 30,950,000</u>	<u>\$ 5,488,075</u>	<u>\$ 36,438,075</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

We have audited the financial statements of Chino Basin Regional Financing Authority (the Authority) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated November 2, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2015. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Qualitative Aspects of Accounting Practices (Continued)

The most sensitive estimates affecting the Authority's financial statements were:

- a. Management's estimate of the fair market value of investments which is based on market values provided by outside sources.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Significant Audit Findings (Continued)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Members of the Commission and management of the Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

**CHINO BASIN REGIONAL
FINANCING AUTHORITY
(A COMPONENT UNIT OF THE INLAND EMPIRE UTILITIES AGENCY)**

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

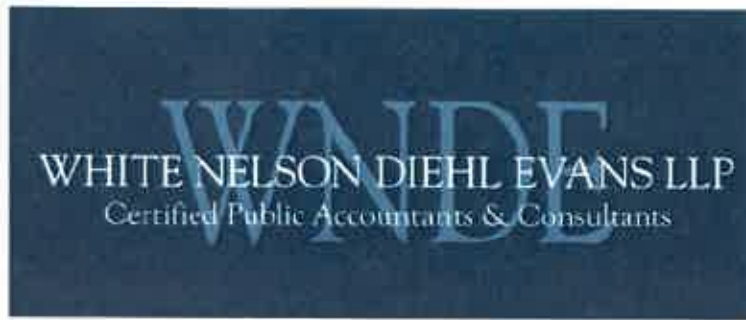
FOR THE YEAR ENDED JUNE 30, 2015

CHINO BASIN REGIONAL FINANCING AUTHORITY

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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

The Members of the Commission
Chino Basin Regional Financing Authority
Chino, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Chino Basin Regional Financing Authority (the Authority), a component unit of the Inland Empire Utilities Agency, as of and for the year ended June 30, 2015 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chino Basin Regional Financing Authority as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1B, the financial statements present only the Chino Basin Regional Financing Authority and do not purport to, and do not present fairly the financial position of the Inland Empire Utilities Agency, as of June 30, 2015, and the changes in its financial position and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Dick Evans LLP

Irvine, California
November 30, 2015

This section of the Authority's annual financial report presents our analysis of the Authority's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The Authority's net position did not change, as the revenue and interest earned on the bond reserves equaled the expenditures and interest expense on the bonds payable.

During the year, \$21,800,000 in long-term debt was paid from payments received from the Installment Purchase Agreements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis are intended to serve as an introduction to the Chino Basin Regional Financing Authority's financial statements. The Authority's financial statements consist of two components: (1) financial statements and (2) notes to the financial statements. The Authority is a self-supporting entity and follows the enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 6 of the financial statements. The goal of the Authority is to have the installment contracts receivable remain equal to the amount of outstanding debt in order that its proceeds are available to pay the debt. Thus, net position of the Authority (the difference between the installment contracts receivable and the unpaid debt) should be zero. Since the Authority is a financing entity, all of the revenues and principal collected on the investment Authority's Revenue Bonds are used to pay the interest and principal on the outstanding Bonds resulting in no change in net position.

Chino Basin Regional Financing Authority
 Management's Discussion and Analysis

NET POSITION

To begin our analysis a summary of the Authority's Statement of Net Position is as follows:

	Fiscal Year 2015	Fiscal Year 2014	Dollar Change	Total Percent Change
Total assets	\$201,647,844	\$223,616,954	\$ (21,969,110)	-9.82%
Current liabilities	7,447,844	8,911,954	(1,464,110)	-16.43%
Noncurrent liabilities	194,200,000	214,705,000	(20,505,000)	-9.55%
Total liabilities	201,647,844	223,616,954	(21,969,110)	-9.82%
Total net position	\$ -	\$ -	\$ -	

As can be seen from the table above, total assets decreased \$21,969,110 to \$201,647,844 in fiscal year 2015, down from \$223,616,954 in fiscal year 2014. The decrease was principally the result of the Authority's payment of debt service.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Fiscal Year 2015	Fiscal Year 2014
General revenues	\$ 7,953,777	\$ 8,576,408
Operating expenses	(7,953,777)	(8,576,408)
Change in net position	-	-
Net position, beginning of year	-	-
Net position, end of year	-	-

The revenue of \$7,953,777 was used to pay the interest expense on the bonds.

BUDGETARY HIGHLIGHTS

The Authority's Board of Directors is not required to adopt a budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Authority does not own any capital assets.

Long-term Debt - At year-end, the Authority had \$200,010,000 in long-term debt, down from \$221,810,000 in fiscal year 2014, for a decrease of \$21,800,000. The decrease was principally due to the Authority paying the debt service. More detailed information about the Authority's long-term debt is presented on pages 13 through 17 in the Notes to the Financial Statements.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about the report or need additional financial information, contact the Agency's Department of Finance and Accounting.

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF NET POSITION

June 30, 2015

ASSETS:

CURRENT ASSETS:

Interest receivable on installment contracts	\$ 1,637,844
Installment contracts receivable	5,810,000

TOTAL CURRENT ASSETS 7,447,844

RESTRICTED ASSETS:

Cash and investments	2,544,713
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NONCURRENT ASSETS:

Installment contracts receivable	191,655,287
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TOTAL ASSETS 201,647,844

LIABILITIES:

CURRENT LIABILITIES:

Interest payable	1,637,844
Revenue bonds	5,810,000

TOTAL CURRENT LIABILITIES 7,447,844

NONCURRENT LIABILITIES:

Revenue bonds	194,200,000
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TOTAL LIABILITIES 201,647,844

NET POSITION:

Unrestricted	-
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TOTAL NET POSITION \$ -

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2015

REVENUES	
Interest on installment contracts	\$ 7,953,777
	<hr/>
TOTAL REVENUES	7,953,777
	<hr/>
EXPENSES:	
Debt service interest	7,953,777
	<hr/>
TOTAL EXPENSES	7,953,777
	<hr/>
OPERATING INCOME (LOSS)	-
	<hr/>
NET POSITION - BEGINNING OF YEAR	-
	<hr/>
NET POSITION - END OF YEAR	\$ -
	<hr/> <hr/>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from installment contracts receivable	<u>\$ 19,590,489</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,590,489</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on bonds payable	(21,800,000)
Interest paid on bonds payable	<u>(8,122,887)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(29,922,887)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on installment contract receivable	<u>8,122,887</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,122,887</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,209,511)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,754,224</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 2,544,713</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ -
Changes in operating assets and liabilities:	
(Increase) decrease in installment contracts receivable	<u>19,590,489</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 19,590,489</u></u>

See accompanying notes to financial statements

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization:

The Chino Basin Regional Financing Authority (the Authority) is a joint exercise of powers authority created by a joint powers agreement between Inland Empire Utilities Agency (Agency) and Cucamonga Valley Water District, dated May 1, 1993. The purpose of the Authority is to provide, through the issuance of debt, financing necessary for the construction of various public improvements. The Authority is a component unit of the Agency.

The Authority functions as a separate entity and its policies are determined by the members of the Commission comprised solely of the governing board of the Agency. All staff work is performed by the officials and staff of the Agency or by consultants.

B. Financial Statement Presentation:

The financial statements which include the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows report information on all of the activities of the Authority. The Authority's assets and liabilities are included in the statement of net position. The statement of revenues, expenses and changes in net position presents changes in net position. These financial statements present only the Chino Basin Regional Financing Authority and do not purport and do not present the financial position of the Inland Empire Utilities Agency.

C. Measurement Focus and Basis of Accounting:

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the statement of net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

D. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. New Accounting Pronouncements:

Current Year Standards:

GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*", was required to be implemented in the current fiscal year and did not impact the Authority.

GASB 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the Authority.

GASB 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*", was required to be implemented in the current fiscal year and did not impact the Authority.

Pending Accounting Standards:

GASB has issued the following statements which may impact the Authority's financial reporting requirements in the future:

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments at June 30, 2015 are classified in the accompanying financial statement as follows:

Restricted assets:

Cash and investments	<u>\$ 2,544,713</u>
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Cash and investments at June 30, 2015 consisted of the following:

Investments	<u>\$ 2,544,713</u>
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Investments Authorized by Debt Agreements:

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Authority's investment policy.

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Authority's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Authority's investments by maturity:

Investment Type	Totals	Remaining Maturity 12 Months or Less
Money Market Mutual Funds	<u>\$ 2,544,713</u>	<u>\$ 2,544,713</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Total</u>	<u>Fiscal Year End Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Money Market Mutual Funds	A	<u>\$2,544,713</u>	<u>\$2,544,713</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk:

There are no investments in any one issuer that represent 5% or more of total Authority's investments.

Custodial Credit Risk:

The Authority's cash and investments are held by the bond trustee who selects the investment under terms of the applicable indenture agreement, acquires the investment and holds the investment on behalf of the Authority.

3. INSTALLMENT CONTRACTS RECEIVABLE:

The Authority issued the \$24,735,000 Series 2005A Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds. The Authority and the Agency entered into an Installment Purchase Agreement on May 1, 2005. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency was fully received in November 2014.

The Authority issued the \$125,000,000 Series 2008A Revenue Bonds to primarily finance the cost of certain replacements and improvements of the Agency's facilities. The Authority and the Agency entered into the Installment Purchase Agreement (Replacement Projects) and the Installment Purchase Agreement (Improvement Projects) on November 1, 2007. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$125,000,000.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

3. INSTALLMENT CONTRACTS RECEIVABLE (CONTINUED):

The Authority issued the \$55,675,000 Series 2008B Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Variable Rate Revenue Bond. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2008. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$44,060,000.

The Authority issued the \$45,570,000 Series 2010A Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds. The Authority and the Agency entered into the Installment Purchase Agreement on March 1, 2010. The Agency agrees to pay the Authority installment payments in an amount sufficient to pay the principal and interest coming due on the Bonds. The balance of the receivable from the Agency at June 30, 2015, was \$30,950,000.

Installment contracts receivables at June 30, 2015 consist of the following:

2008A Installment Contract Receivable	\$ 125,000,000
2008B Installment Contract Receivable	44,060,000
2010A Installment Contract Receivable	<u>30,950,000</u>
	200,010,000
Less: Restricted Cash and Investments	<u>(2,544,713)</u>
Total Installment Contracts Receivable	<u>\$ 197,465,287</u>

4. LONG-TERM DEBT:

Changes in long-term debt for the year ended June 30, 2015, were as follows:

	<u>Balance at</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
2005A Revenue Bonds	\$ 16,200,000	\$ -	\$ (16,200,000)	\$ -	\$ -
2008A Revenue Bonds	125,000,000	-	-	125,000,000	-
2008B Variable Rate Demand Revenue Refunding Bonds	45,850,000	-	(1,790,000)	44,060,000	1,865,000
2010A Refunding Revenue Bonds	<u>34,760,000</u>	-	<u>(3,810,000)</u>	<u>30,950,000</u>	<u>3,945,000</u>
Total long-term debt	<u>\$ 221,810,000</u>	<u>\$ -</u>	<u>\$ (21,800,000)</u>	<u>\$ 200,010,000</u>	<u>\$ 5,810,000</u>

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2005A Revenue Bonds:

Pursuant to an indenture dated May 1, 2005, on May 1, 2005, the Authority issued \$24,735,000 Revenue Bonds to refund the Authority's Series 1999 Revenue Bonds, to fund a reserve fund and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2005A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

In November 2014, the Authority paid off the remaining balance of the bonds outstanding.

2008A Revenue Bonds:

Pursuant to an indenture dated November 1, 2007, on February 5, 2008, the Authority issued \$125,000,000 Revenue Bonds to (i) finance the cost of certain replacements of the Agency's wastewater facilities and certain improvements to the wastewater recycled water and non-reclaimable wastewater facilities, (ii) to refund the outstanding Chino Basin Regional Financing Authority Commercial Paper, (iii) to purchase a debt service surety bond for deposit in the Reserve Fund, (iv) to capitalize interest on a portion of the Bonds, and (v) to pay the cost of issuing the Bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to an Installment Purchase Agreement (Replacement Projects), dated as of November 1, 2007 by and between the Agency and Authority and an Installment Purchase Agreement (Improvement Projects) dated as of November 1, 2007 by and between the Authority and Agency. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The Bonds maturing through 2028 are Serial Bonds payable in annual installments ranging from \$2,620,000 to \$4,305,000 with an interest rate of 5.00%. The bonds maturing through 2033 are Term Bonds payable in annual installment ranging from \$5,495,000 to \$10,735,000 with an interest rate of 5.00 %. The bonds maturing through 2039 are Term Bonds payable in annual installments ranging from \$11,285,000 to \$13,975,000 with an interest rate of 5.00%. Principal payments are due November 1 of each year and interest payments are due semi-annually on November 1 and March 1.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2008A Revenue Bonds (Continued):

A reserve of \$11,552,479 is required by the indenture which can be funded by a surety bond. The Agency has paid the premium to purchase a bond insurance policy issued by Ambac Assurance Corporation, which further secure the payment of principal and interest on the bonds.

The balance outstanding at June 30, 2015 was \$125,000,000.

Future debt service principal and interest payments owed on the 2008A Revenue Bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ -	\$ 6,250,000	\$ 6,250,000
2017	-	6,250,000	6,250,000
2018	-	6,250,000	6,250,000
2019	-	6,250,000	6,250,000
2020	-	6,250,000	6,250,000
2021 - 2025	5,465,000	30,982,375	36,447,375
2026 - 2030	23,585,000	27,194,875	50,779,875
2031 - 2035	44,715,000	19,134,625	63,849,625
2036 - 2039	<u>51,235,000</u>	<u>5,283,375</u>	<u>56,518,375</u>
Totals	<u>\$ 125,000,000</u>	<u>\$ 113,845,250</u>	<u>\$ 238,845,250</u>

2008B Variable Rate Demand Revenue Refunding Bonds:

Pursuant to an indenture dated March 1, 2008, on March 1, 2008, the Authority issued \$55,675,000 Variable Rate Demand Revenue Refunding Bonds to refund the Authority's Series 2002A Revenue Bonds, to fund the reserve requirement and pay the costs of issuing the bonds.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2008B Installment Purchase Agreement and payments received by the Authority from the Agency pursuant to a Financing Agreement and a Recharge Facilities Agreement both dated as of June 1, 2002. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2032 are Serial Bonds payable in annual installments ranging from \$1,865,000 to \$3,480,000 with a variable interest rate no higher than 12.00% per annum. Principal payments are due June 1 of each year with interest payments due monthly.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2008B Variable Rate Demand Revenue Refunding Bonds (Continued):

A reserve of \$2,130,836 is required to be set aside to further secure the payment of principal and interest on the bonds. The actual reserve amount was \$2,130,836.

The balance outstanding at June 30, 2015 was \$44,060,000.

Future debt service principal and interest payments on the 2008B Variable Rate Demand Revenue Refunding Bonds using variable interest rate of 0.2%, the rate in effect as of June 30, 2015, are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,865,000	\$ 88,120	\$ 1,953,120
2017	1,910,000	84,390	1,994,390
2018	2,015,000	80,570	2,095,570
2019	2,095,000	76,540	2,171,540
2020	2,180,000	72,350	2,252,350
2021 - 2025	12,255,000	292,840	12,547,840
2026 - 2030	14,910,000	160,090	15,070,090
2031 - 2032	6,830,000	20,620	6,850,620
Totals	<u>\$ 44,060,000</u>	<u>\$ 875,520</u>	<u>\$ 44,935,520</u>

2010A Refunding Revenue Bonds:

Pursuant to an indenture dated March 1, 2010, on July 15, 2010, the Authority issued \$45,570,000 Refunding Revenue Bonds to refund the Authority's Series 1994 Revenue Bonds and pay costs of issuance.

The bonds are payable solely from Revenues and from certain other amounts on deposit in funds and accounts under the indenture. Revenues consist primarily of Installment Payments received by the Authority from the Agency pursuant to the 2010A Installment Purchase Agreement. The obligation of the Agency to make Installment Payments is a special obligation of the Agency payable solely from the Net Revenues of the Agency.

The bonds maturing through 2022 are Serial Bonds payable in annual installments ranging from \$3,945,000 to \$5,075,000 with interest rates from 2.00% to 5.00%. Principal payments are due August 1 each year with semi-annual interest payments due August 1 and February 1.

CHINO BASIN REGIONAL FINANCING AUTHORITY

NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2015

4. LONG-TERM DEBT (CONTINUED):

2010A Refunding Revenue Bonds (Continued):

The balance outstanding on June 30, 2015 was \$30,950,000.

Future debt service principal and interest payments owed on the 2010A Refunding Revenue Bonds are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 3,945,000	\$ 1,346,450	\$ 5,291,450
2017	4,105,000	1,185,450	5,290,450
2018	4,165,000	1,020,050	5,185,050
2019	4,285,000	829,625	5,114,625
2020	4,620,000	607,000	5,227,000
2021 - 2022	<u>9,830,000</u>	<u>499,500</u>	<u>10,329,500</u>
Totals	<u>\$ 30,950,000</u>	<u>\$ 5,488,075</u>	<u>\$ 36,438,075</u>

5. SUBSEQUENT EVENTS:

The Authority has evaluated events subsequent to June 30, 2015 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2015, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.