

Official Statement
\$3,795,000 Principal Amount

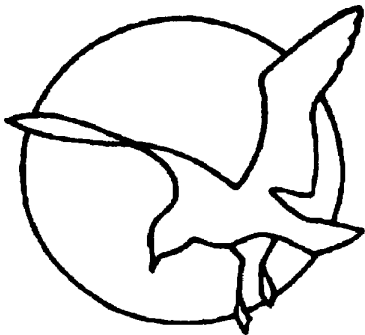
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2003 Enterprise Revenue Refunding Bonds

SOUTH COAST WATER DISTRICT

ORANGE COUNTY, CALIFORNIA



The Date of this
Official Statement
is April 3, 2003



SOUTH COAST WATER DISTRICT

BOARD OF DIRECTORS

Joel Bishop, **President**
Richard Dietmeier, **Vice President**
Robert Moore, **Director**
Richard Runge, **Director**
Sharon Street, **Director**

DISTRICT STAFF

Michael P. Dunbar, **General Manager(Secretary)**
Betty Burnett, **Director of Administration/District Counsel**
Rebecca Blackman, **Controller**

PROFESSIONAL SERVICES

Financial Advisor

DLCO Financial
Industry, California

Bond Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Trustee

BNY Western Trust Company
Los Angeles, California

Independent Accountant

Harold K. Grimshaw, CPA
Belden Hutchinson & Co, LLP
Costa Mesa, California

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Table 1
Maturities, Principal Amounts, Interest Rates
and Yields

Maturity Date (July 1)	Principal Maturing	Coupon	Reoffering yield or Price
2004	160,000	2.000 %	1.250%
2005	165,000	2.000	1.500
2006	165,000	2.000	1.850
2007	170,000	2.500	2.300
2008	175,000	3.000	2.750
2009	180,000	3.500	3.100
2010	185,000	3.500	3.400
2011	190,000	3.600	3.600
2012	200,000	4.000	3.800
2013	205,000	4.000	3.900
2014	215,000	4.000	4.050
2015	225,000	4.250	4.150
2016	230,000	4.500	4.300
2017	245,000	4.500	4.400
2018	255,000	4.500	4.500
2019	265,000	4.500	4.600
2021	565,000*	4.700	4.700

* Term Bond

This Official Statement does not constitute an offering of any security other than the Bonds specifically offered hereby and such offering is made solely by means of this Official Statement.

No dealer, broker, salesman or other person has been authorized by the District to give any information, or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer by any person to sell or the solicitation by any person of an offer to buy and there shall be no sale of the Bonds by any person in any jurisdiction in which it is unlawful for that person to make such offer, solicitation, or sale.

The information set forth herein has been obtained from sources that are believed to be reliable, but that information is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change since the date hereof in the matters which are material to the full and punctual payment of debt service on the Bonds.

In the reliance upon exemptions contained in such acts, the Bonds have not been registered under the Securities Act of 1933, nor has the Indenture of Trust been qualified under the Trust Indenture Act of 1939. The registration or qualification of the Bonds in accordance with applicable provisions of securities laws of any states in which the Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation. Neither those states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Exhibit F specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

INTRODUCTORY SUMMARY STATEMENT

This summary statement is subject in all respects to the more complete information in this Official Statement, including the Appendices hereto, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement. Definitions of certain terms used in this Official Statement are provided in APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.

Purpose

The purpose of this Official Statement, which includes all pages herein and appendices hereto, is to provide certain information concerning the South Coast Water District (the "District"), the District's water supply, treatment and distribution system, and the District's wastewater collection, treatment and disposal system (collectively, the "Enterprise"), financial information concerning the District, and the economy of the service area of the District, in connection with the sale by the District of \$3,795,000 principal amount of the South Coast Water District 2003 Enterprise Revenue Refunding Bonds (the "Bonds").

Authority for Issuance

The Bonds are being issued pursuant to the provisions of Articles 10 and 11, Chapter 3 of Part 1 of Division 2, Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law") and under an Indenture of Trust dated as of April 1, 2003 (the "Indenture"), between the District and BNY Western Trust Company, Los Angeles, California, as trustee (the "Trustee").

The Refunding

The Coastal Districts Financing Authority issued its Capital Facilities Revenue Bonds, Issue of 1993, on behalf of the District (the "1993 Bonds") to finance the acquisition of a water entitlement from the Metropolitan Water District of Southern California and the improvement of certain facilities to be used by the District for water, water reclamation and sanitation purposes. The Bonds are being issued for the purpose of providing funds which, together with other available funds, are sufficient to refund and defease the 1993 Bonds. The 1993 Bonds were dated June 1, 1993, and issued in the original principal amount of \$4,380,000. Under the refunding plan, the 1993 Bonds will be paid and redeemed in full on July 1, 2003. A portion of the proceeds of the Bonds will be used to fund a reserve for the Bonds

and to pay costs associated with the Bonds' issuance; no new facilities will be built with the proceeds of the Bonds.

The District

The South Coast Water District was established in 1932 and operates under provisions of the County Water District Law, Division 12, Section 30000 et.seq. of the California Water Code. The Board of Directors of the District consists of five members elected at large for four-year overlapping terms. The President of the Board and other officers are selected by a vote of the members of the Board. A General Manager, who serves at the pleasure of the Board, is responsible for implementing Board policy and administering District operations.

The District has a 2002/03 assessed valuation of \$6,806,050,627. The ratio of direct debt to assessed valuation is 0.10% and the ratio of total direct and overlapping tax and assessment debt to assessed valuation is .53%. Based on an estimated population of 40,000 in the District's service area, per capita direct debt is \$177 per capita total direct and overlapping tax and assessment debt is \$268 and per capita assessed valuation is \$170,151.

The District is located on the Orange County coast and primarily serves the City of Dana Point and portions of Laguna Beach. The western boundary is the Pacific Ocean and the eastern boundary runs along the coastal ridge of Niguel Hills with the City of Laguna Niguel.

Security

The Bonds are secured by a first pledge of all of the Tax Revenues and all of the Net Revenues from the Enterprise. In addition, the Bonds are secured by a pledge of all of the moneys in the Bond Service Fund and the Reserve Fund, including all amounts derived from the investment of such moneys. See "SECURITY FOR THE BONDS – Pledge of Tax Revenues and Net Revenues".

Rate Covenant

In the Indenture, the District covenants that it will fix, prescribe, revise and collect rates, fees and charges for the services

and facilities furnished by the Enterprise during each fiscal year which, taking into account allowances for contingencies, are sufficient to yield estimated Net Revenues which, together with the amount of Tax Revenues estimated by the District to be received during such Fiscal Year, are at least equal to 125% of the aggregate amount of principal of and interest on the Bonds and any Parity Obligations coming due and payable during such Fiscal Year. See "SECURITY FOR THE BONDS - Rate Covenant".

Parity Obligations

In addition to the 1993 Bonds, the District has two certificates of participation issues and one other revenue bond outstanding which are also secured by a first lien pledge of the Tax Revenues and Net Revenues. The District may issue additional obligations on parity with or subordinate to the Bonds under certain circumstances as set forth in the Indenture. See "SECURITY FOR THE BONDS – Limits on Parity Obligations".

Bond Insurance

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "Municipal Bond Insurance" and APPENDIX F-Specimen Municipal Bond Insurance Policy" herein.

Selected Essential Facts

Table 2 shows selected essential facts relating to the Bonds and the District.

**Table 2
Selected Essential Facts**

The Bonds	
Principal Amount	\$ 3,795,000
Dated Date	April 8, 2003
Rating	Aaa/AAA FSA Insured
Maturities (July 1)	2004 to 2021
Average Life	10.7 Years
Bank Qualified	Yes
Maturities subject to optional redemption	July 1, 2010 to 2021
Purpose	Refunding of 1993 Bonds
Payment Source	Tax Revenues & Enterprise Net Revenues
Obligation	Absolute and Unconditional
Coverage Covenant	1.25x
Coverage Fiscal Year 2001/02	4.13x
Service Area	Coastal area of Southern Orange County, CA
Financial and Economic Data	
Primary Customer Type	Residential
Largest Customer as Percentage of Total Sales	2.20%
2002/03 Assessed Valuation	\$6,806,050.627
Ratio direct debt to assessed value	0.10%
Ratio combined direct debt to assessed value	0.53%

**Table 3
Estimated Sources and Uses of Funds
to Refund the 1993 Bonds**

Sources of Funds	
Principal Amount of Bonds	\$3,795,000
Transfer from Prior Issue Funds	468,349
Total Sources of Funds	\$4,263,349
Uses of Funds	
1993 Escrow Deposit	\$3,798,623
Cost of Issuance ¹	158,318
Debt Service Reserve	306,408
Total Uses of Funds	\$4,263,349

1. Includes underwriter's discount, legal and rating agencies' fees, the premium for the financial guaranty insurance policy relating to the Bonds, and other costs of issuance.

THE BONDS

Sale of the Bonds

Bids for the purchase of the Bonds will be received on behalf of the District at the offices of DLCO Financial, 15625 E. Stafford Street, Suite 200, Industry, California 91744, Wednesday, March 25, 2003. The winning bidder was Stone & Youngberg LLC which bid at a true interest rate of 4.197%. The Bonds offered for sale are generally described below. Details of the terms of the sale are contained in the Official Notice of Sale.

General Description

The Bonds are being issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof. The Bonds will be dated as of the date of original delivery of the Bonds and will mature on July 1 in the years and in the respective principal amounts and bear interest at the respective rates per annum, as set forth in Table 1.

Interest on the Bonds is payable semiannually on July 1 and January 1, calculated on the basis of a 360-day year comprised of twelve 30-day months, commencing July 1, 2003 (each, an "Interest Payment Date"). Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

(a) a Bond is authenticated between an Interest Payment Date and the 15th calendar day of the month immediately preceding such Interest Payment Date (each, a "Record Date"), in which event it will bear interest from such Interest Payment Date; or

(b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the date of original delivery of the Bonds; or

(c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Bond registration books maintained by the Trustee (the "Registration Books") at the close of busi-

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

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

The Bonds will be initially issued in book-entry form as described more fully below. So long as the Bonds are held in book-entry form, payment of the principal of and interest on the Bonds, and provisions relating to the transfer and exchange of the Bonds, will be governed by the procedures established under the book-entry system. See "Book-Entry System" and APPENDIX E: Book Entry Only System below.

Bank Qualified

The Internal Revenue Code of 1986 (the "Tax Code") generally prohibits the deduction of interest on indebtedness incurred or continued by a bank or other financial institution to purchase or carry tax-exempt obligations, such as the Certificates. The Tax Code, however, contains an exception to this provision which permits an 80 per-

cent deduction for interest expense of banks and other financial institutions allocable to their investments in tax-exempt obligations to the extent they purchase obligations of certain small governmental units (i) that together with all subordinate entities thereof do not reasonably expect to issue in the aggregate more than \$10,000,000 of tax-exempt obligations (not counting private activity bonds other than qualified 501(c)(3) bonds) in a calendar year, and (ii) that designate such obligations as qualifying for the exception. The District has (i) represented that it expects that it and all subordinate entities thereof will not issue in the aggregate more than \$10,000,000 of tax-exempt obligations during calendar year 2003, and (ii) designated the Bonds as qualifying for such exception.

Optional Redemption

The Bonds maturing on or before July 1, 2009, are not subject to redemption prior to their respective stated maturities. The Bonds maturing on or after July 1, 2010, are subject to redemption in whole, or in part among maturities on such basis as specified by the District, and in any event by lot within a maturity, at the option of the District, from any available source of funds, on any date on or after July 1, 2009, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, plus a redemption premium for each Bond to be redeemed equal to 1/8 of 1% for each whole year and any remaining fraction of a whole year between the redemption date and the stated maturity date of such Bond.

Mandatory Sinking Account Redemption

The Bonds maturing July 1, 2021, constitute Term Bonds which are subject to Mandatory Sinking Account Redemption, by lot, on July 1 of each year as shown in the following table, from Mandatory Sinking Account payments made by the District at a price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium.

Mandatory Sinking Fund Redemption Date (July 1)	Principal Amount to be Redeemed
2020	\$275,000
2021 (Maturity)	290,000

Special Mandatory Redemption From Insurance and Sale Proceeds

The Bonds are also subject to redemption as a whole or in part, on any Interest Payment Date, from and to the extent of the proceeds of disposition of Enterprise properties or the proceeds of hazard insurance not used to repair or rebuild the Enterprise, which proceeds are required to be used for such purpose, at a redemption price equal to 100% of the principal amount of the Bonds plus interest accrued thereon to the date fixed for redemption, without premium.

Notice of Redemption

The Trustee on behalf and at the expense of the District shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Bond Insurer, the Securities Depositories and to one or more Information Services, at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon.

Such notice must state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and must require that such Bonds be then surrendered at the designated office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Manner of Redemption

Whenever provision is made for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed by lot in any manner that the Trustee in its sole discretion deems appropriate. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate Bonds that may be separately redeemed.

Partial Redemption of Bonds

If only a portion of any Bond is called for redemption, then upon surrender of such Bond the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the

District, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Effect of Redemption

From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Book-Entry System

The Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. While DTC acts as securities depository for the Bonds, all payments of principal of and interest and premium, if any, on the Bonds will be made to Cede & Co., as nominee of DTC. For information with respect to the payment and transfer of the Bonds, see APPENDIX E: Book-Entry Only System.

No Litigation

There is no litigation pending or, to the District's knowledge, threatened in any way to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture or any proceedings of the

District with respect thereto. In the opinion of the District and its counsel, there are no lawsuits or claims pending against the District which will materially affect the District's finances so as to impair the ability to pay principal of and interest on the Bonds when due.

Tax Opinion

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above. A copy of Bond Counsel's proposed opinion, including its opinion as to the tax status of the Bonds, is attached to this Official Statement as APPENDIX C.

**Table 4
Debt Service Payments**

Date	Principal	Interest	Semiannual Total	Fiscal Total
7/01/2003		\$33,340.06	\$33,340.06	\$33,340.06
1/01/2004		72,303.75	72,303.75	
7/01/2004	\$160,000	72,303.75	232,303.75	304,607.50
1/01/2005		70,703.75	70,703.75	
7/01/2005	165,000	70,703.75	235,703.75	306,407.50
1/01/2006		69,053.75	69,053.75	
7/01/2006	165,000	69,053.75	234,053.75	303,107.50
1/01/2007		67,403.75	67,403.75	
7/01/2007	170,000	67,403.75	237,403.75	304,807.50
1/01/2008		65,278.75	65,278.75	
7/01/2008	175,000	65,278.75	240,278.75	305,557.50
1/01/2009		62,653.75	62,653.75	
7/01/2009	180,000	62,653.75	242,653.75	305,307.50
1/01/2010		59,503.75	59,503.75	
7/01/2010	185,000	59,503.75	244,503.75	304,007.50
1/01/2011		56,266.25	56,266.25	
7/01/2011	190,000	56,266.25	246,266.25	302,532.50
1/01/2012		52,846.25	52,846.25	
7/01/2012	200,000	52,846.25	252,846.25	305,692.50
1/01/2013		48,846.25	48,846.25	
7/01/2013	205,000	48,846.25	253,846.25	302,692.50
1/01/2014		44,746.25	44,746.25	
7/01/2014	215,000	44,746.25	259,746.25	304,492.50
1/01/2015		40,446.25	40,446.25	
7/01/2015	225,000	40,446.25	265,446.25	305,892.50
1/01/2016		35,665.00	35,665.00	
7/01/2016	230,000	35,665.00	265,665.00	301,330.00
1/01/2017		30,490.00	30,490.00	
7/01/2017	245,000	30,490.00	275,490.00	305,980.00
1/01/2018		24,977.50	24,977.50	
7/01/2018	255,000	24,977.50	279,977.50	304,955.00
1/01/2019		19,240.00	19,240.00	
7/01/2019	265,000	19,240.00	284,240.00	303,480.00
1/01/2020		13,277.50	13,277.50	
7/01/2020	275,000	13,277.50	288,277.50	301,555.00
1/01/2021		6,815.00	6,815.00	
7/01/2021	290,000	6,815.00	296,815.00	303,630.00
Total	\$3,795,000	\$1,714,375.06	\$5,509,375.06	\$5,509,375.06

SECURITY FOR THE BONDS

Pledge of Tax Revenues and Net Revenues

The Bonds are secured by a first pledge of all of the Tax Revenues and all of the Net Revenues of the District. In addition, the Bonds are secured by a pledge of all of the moneys in the Bond Service Fund and the Reserve Fund which are established under the Indenture, including all amounts derived from the investment of such moneys. The Bonds and any Parity Obligations are equally secured by a pledge, charge and lien upon the Tax Revenues and the Net Revenues and such moneys without priority for series, issue, number or date and the payment of the interest on and principal of the Bonds shall be and are secured by an exclusive pledge, charge and lien upon the Tax Revenues, the Net Revenues and such moneys. So long as any of the Bonds are outstanding, the Tax Revenues, the Net Revenues and such moneys may not be used for any other purpose; except as expressly permitted by the Indenture.

The Net Revenues which are pledged to the Bonds are defined generally to be all Gross Revenues received by the District from the operation of the District's water supply, treatment and distribution system, and the District's wastewater collection, treatment and disposal system (collectively, "the Enterprise"), less all Operation and Maintenance Costs paid by the District for maintaining and operating the Enterprise. For the complete definition of these and other terms, see APPENDIX B – Summary of Certain Provisions of the Indenture.

Flow of Funds

The District has previously established the General Fund, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. The District shall deposit all Tax Revenues and Gross Revenues in the General Fund promptly upon the receipt thereof, and shall apply amounts in the General Fund solely for the uses and purposes set forth

in the Indenture and for the uses and purposes set forth in the documents authorizing the issuance of any Parity Obligations.

It is the intention of the District that the Bonds will be payable entirely from the Tax Revenues, and that all of the Tax Revenues received in any Fiscal Year will be applied to the payment of the principal of and interest on the Bonds before any Net Revenues are applied for such purpose.

The District is required to withdraw amounts on deposit in the General Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(i) **Bond Service Fund.** On or before the 3rd Business Day preceding each Interest Payment Date, the District will withdraw from the General Fund and pay to the Trustee for deposit into the Bond Service Fund (which the Trustee will establish and hold in trust under the Indenture) an amount which, together with other available amounts then on deposit in the Bond Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date, including the principal amount of the Term Bonds subject to mandatory sinking fund redemption on such Interest Payment Date.

(ii) **Reserve Fund.** If the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement, the Trustee will promptly notify the District of such fact and the District will promptly (i) withdraw the amount of such insufficiency from available Tax Revenues (first) and Net Revenues (second) on deposit in the General Fund, and (ii) transfer such amount to the Trustee for deposit in the Reserve Fund. No deposit need be made in the Reserve Fund so long as the balance therein at least equals the Reserve Requirement. If the amount on deposit in the Reserve Fund exceeds the Reserve Requirement, the Trustee will transfer such excess amount to the Bond Service Fund. See "Reserve Fund" below.

(iii) **Redemption Fund.** If the District elects to redeem outstanding Bonds, the District will transfer to the Trustee for deposit into the Redemption Fund (which the Trustee will thereupon establish and hold in trust under the Indenture) an amount at least equal to the redemption price of the Bonds, excluding accrued in-

terest, which is payable from the Bond Service Fund. In addition, the District will transfer or cause to be transferred to the Trustee all amounts required to redeem any Bonds which are subject to redemption under the Indenture, when and as such amounts become available. The Trustee is required to apply amounts in the Redemption Fund solely for the purpose of paying the redemption price of Bonds to be redeemed under the Indenture. Following any such redemption of the Bonds, any moneys remaining in the Redemption Fund will be transferred by the Trustee to the District for deposit into the General Fund.

The District covenants under the Indenture to manage, conserve and apply moneys in the General Fund in such a manner that all of the foregoing deposits will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing under the Indenture, the District may at any time use and apply moneys in the General Fund for any one or more of the purposes relating to the Enterprise. All moneys in the General Fund may be invested by the District from time to time in any securities in which the District may legally invest funds subject to its control.

Reserve Fund

In order to further secure the payment of principal of and interest on the Bonds, a portion of the Bond proceeds will be deposited into the Reserve Fund in an amount equal to the Reserve Requirement. The "Reserve Requirement" is defined in the Indenture to mean an amount equal to the maximum amount of principal of and interest on the Bonds coming due and payable in the current or any future Bond Year.

If the amounts on deposit in the Bond Service Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the Bonds then coming due, the Trustee is required under the Indenture to withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Service Fund. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the District.

As described above, if at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the District is required to pay from Tax Revenues to the Trustee the amount of such deficiency as provided in the Indenture. Any amounts on deposit in the

Reserve Fund at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Service Fund.

Rate Covenant

The District will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

- (i) all Operation and Maintenance Costs estimated by the District to become due and payable in the Fiscal Year;
- (ii) The principal of and interest on the Bonds and any Parity Obligations as they come due and payable during the Fiscal Year, without preference or priority;
- (iii) all payments coming due and payable during the Fiscal Year and required for compliance with the Indenture and the documents authorizing any Parity Obligations; and
- (iv) all payments required to meet any other obligations of the District which are charges, liens, encumbrances upon or payable from the Gross Revenues during the Fiscal Year.

In addition to the covenants set forth immediately above, the District will fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which, taking into account allowances for contingencies, are sufficient to yield estimated Net Revenues which, together with the amount of Tax Revenues estimated by the District to be received during such Fiscal Year, are at least equal to 125% of the aggregate amount of principal of and interest on the Bonds and any Parity Obligations coming due and payable during such Fiscal Year.

Limits on Parity Obligations

The District may issue its bonds, notes or other obligations which are secured by a pledge of and lien on the Tax Revenues and the Net Revenues on a parity the pledge and lien which secures the Bonds (the "Parity Obligations") in such principal amount as it determines, subject to the following conditions precedent:

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

(b) The Tax Revenues and the Net Revenues (excluding Development Impact Fees), calculated in accordance with sound accounting principles, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent 12 month period selected by the District, in either case verified by a certificate or opinion of an Independent Accountant or Financial Consultant employed by the District, plus (at the option of the District) certain Additional Revenues, must be at least equal to 125% of the amount of Maximum Annual Debt Service; and

(c) Interest on the Parity Obligations may be payable only on January 1 and July 1, and principal thereof may be payable only on July 1 in any year in which principal is payable and

(d) There must be established from the proceeds of the Parity Obligations a reserve fund for the security of the Parity Obligations, in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the District with respect to the Parity Obligations during any Fiscal Year, or (ii) the maximum amount then permitted under the Internal Revenue Code. Such amount may be maintained in the form of a surety bond, letter of credit or other credit instrument, provided that the maintenance of such reserve fund in such form does not adversely affect any rating then assigned to the Bonds. Any reserve established for Parity Obligations will only secure those Parity Obligations, and the Bond owners will have no interest in such reserve.

Net Proceeds of Insurance

The District will at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Enterprise. If any useful part of the Enterprise is dam-

aged or destroyed, such part must be restored to usable condition. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise must be used to repair or rebuild such damaged or destroyed portion of the Enterprise, and to the extent not so applied, must be applied on a pro rata basis to redeem the Bonds and any Parity Obligations in accordance with the Indenture and the documents authorizing such Parity Obligations, respectively. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Trustee and the Owners of the Bonds.

All amounts collected from insurance against accident to or destruction of any portion of the Enterprise constitute Gross Revenues and must be used to repair, rebuild or replace such damaged or destroyed portion of the Enterprise or otherwise as permitted by the Indenture.

Debt Service Requirements

Table 4 shows the estimated debt service payable on the Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2002 Financial Security's total **policyholders'** surplus and contingency reserves were approximately \$1,728,433,000 and its total unearned premium reserve was approximately \$972,390,000 in accordance with statutory accounting principles. At September 30, 2002, Financial Security's total shareholder's equity was approximately \$1,928,564,000 and its total net unearned premium reserve was approximately \$814,684,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement

THE REFUNDING PLAN

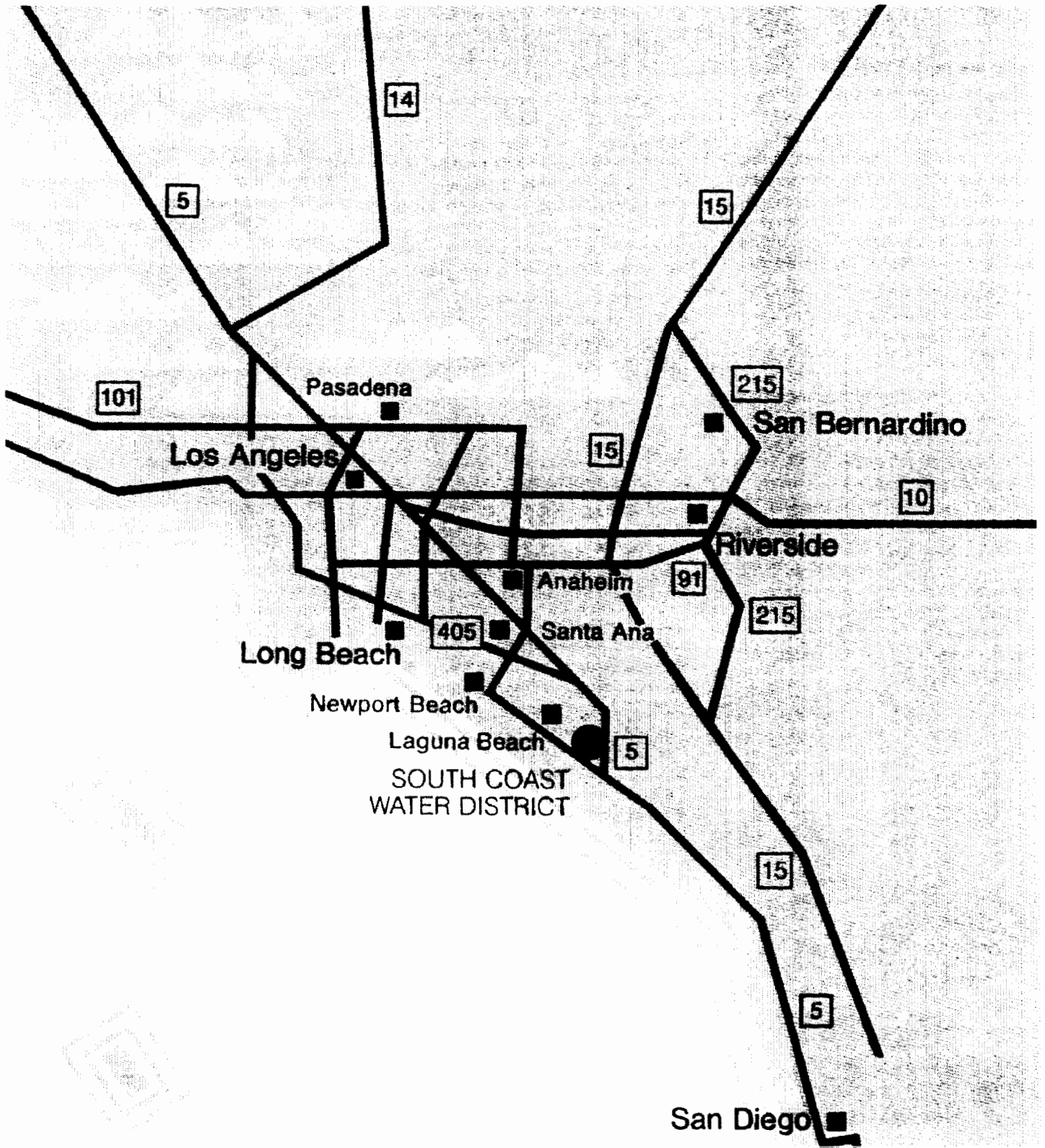
Description

That portion of the proceeds from the sale of the Bonds not set aside in the Reserve Fund or used to pay costs of issuance of the Bonds, will be deposited into an Escrow Fund (the "Escrow Fund"), which will be established with BNY Western Trust Company, as escrow bank (the "Escrow Bank") under an Escrow Deposit and Trust Agreement with the District and the Coastal Districts Financing Authority (the "Escrow Agreement"). Moneys in the Escrow Fund, including amounts transferred from available funds which are currently held for the 1993 Bonds, will be used exclusively to pay the principal of and interest and redemption premium on the 1993 Bonds.

Pursuant to the terms of the Escrow Agreement, an amount required to pay 100% of the principal of and interest and redemption premium on the 1993 Bonds coming due on July 1, 2003, will be initially deposited into the Escrow Fund. Such amount will be invested in a U.S. government securities money market fund of the Escrow Bank through July 1, 2003. Under the Escrow Agreement, the District irrevocably elects to redeem all of the 1993 Bonds on July 1, 2003. As a result of the investment and application of funds under the Escrow Agreement, the 1993 Bonds will be defeased in full upon the issuance of the Bonds, and will be payable solely from amounts held for that purpose under the Escrow Agreement.

Verification

Grant Thornton, of Minneapolis, Minnesota, independent public accountants, upon delivery of the Bonds, will deliver a report on the mathematical accuracy of certain computations contained in schedules provided to them relating to the sufficiency of monies and securities deposited into the Escrow Fund to pay, when due, the principal, interest and redemption premium on the 1993 Bonds to be refunded. The report of Grant Thornton will include the statement that the scope of its engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it, and that it has no obligation to update its report because of events occurring, or data or information coming to its attention, subsequent to the date of its report.



Vicinity map showing South Coast Water District location in relation to major Southern California communities. (not drawn to scale. For general location purposes only.)

RISK FACTORS

The following information should be considered by prospective investors in evaluating the Bonds. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

Revenues; Rate Covenant

Revenues are dependent upon the demand for water services, which can be affected by population factors, more stringent treatment standards, regulations, or problems with the District's water collection, treatment and disposal facilities. There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in the demand for water services could require an increase in rates or charges in order to comply with the rate covenant. The District's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Bonds, and may be subject to the restrictions discussed below under "Proposition 218."

District Expenses

There can be no assurance that expenses of the District will be consistent with the levels contemplated in this Official Statement. Changes in technology, changes in quality standards, increases in the cost of operation or other expenses could require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture. Such rate increases could drive down demand for water and related services or otherwise increase the possibility of nonpayment of the Bonds.

California has recently experienced adverse conditions with regard to the cost of electricity throughout most of the State. The situation has resulted in the filing of bankruptcy by Pacific Gas & Electric ("PG&E"), the primary power supplier for northern California, and increased electricity billings for most users of electricity in California. The short and long-range impact of these developments are unknown, but the cost and availability of electricity has the potential to significantly affect economic development throughout the State. The cost of electricity has not adversely affected the operation or financial condition of the District's Enterprise, although the District cannot predict the potential impacts of any future energy cost increases.

Insurance

The Indenture obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Enterprise in the event of damage or destruction to such portion of the Enterprise. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Enterprise. Significant damage to the Enterprise could cause the District to be unable to generate sufficient Net Revenues to pay principal of and interest on the Bonds.

Limitations on Remedies Available to Bond Owners

The ability of the District to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the District, and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Proposition 218" below. Furthermore, any remedies available to the Owners of the Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on Bond owners' remedies contained in the Indenture, the rights and obligations under the Bonds and the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or

hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Natural Disasters

From time to time, the District is subject to natural calamities that may adversely affect economic activity in the District which therefore may have a negative impact on District finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Enterprise, or that the District would have insurance or other resources available to make repairs to the Enterprise, possibly impacting Net Revenues.

The District, like most regions in California, is an area of significant seismic activity, and therefore, is subject to potentially destructive earthquakes. The casualty and liability insurance may not cover losses due to earthquake. The Indenture requires the District to obtain and maintain insurance with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character, and does not specifically require the District to procure earthquake insurance. If there were to be an occurrence of severe seismic activity in the District, there could be substantial damage to and interference with the District's Enterprise, which could impact the receipt of Net Revenues.

Loss of Tax-Exemption

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District in violation of its

covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Proposition 218

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Over the past 18 years, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including the initiative approved as Proposition 218 in the general election held on November 5, 1996. Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the District. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Bonds.

On November 5, 1996, California voters approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain voting requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments will be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge may be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except (a) the ad valorem property tax imposed under Article XIII and Article XIII A of the California Constitution, (b) any special tax receiving a two-thirds vote under the California Constitution, and (c) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 provides voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for Water, Wastewater, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings and, except for fees and charges for Water, Wastewater and refuse collection services, majority vote approval at an election by the owners of properties subject thereto.

Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal and state constitutional principles relating to the impairment of contracts. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval on or after January 1, 1995, and prior to the effective date of Proposition 218 may continue to be imposed only if approved by a majority vote of the voters in an election held by November, 1998. The District did not impose, extend or increase any general tax within the January 1, 1995 to November 6, 1996, time period.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. Based on advice from the District Counsel and in reliance on a published opinion of the California Attorney General, the District has taken the position that Proposition 218 does not apply to rates and charges for the Enterprise, since such rates and charges are not "property-related fees and charges" within the meaning of Proposition 218. No assurances can be given that such position, if challenged, would be upheld by the California courts. Therefore, the District cannot predict whether Proposition 218 will ultimately apply to the rates and charges levied for the Enterprise, or the impact which Proposition 218 might have on the financial condition of the Enterprise if it were held to be applicable to it.

Environmental Regulation

The kind and degree of water service and wastewater service which is effected through the Enterprise is regulated, to a large extent, by the federal government and the State of California. If the federal government, acting through the Environmental Protection Agency or additional legislation, or the State should impose stricter treatment standards upon the Enterprise, its expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which federal or State regulation will take with respect to water and wastewater treatment standards.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Table 5
South Coast Water District
Summary of Revenue and Expenses

	Audited 1999	Audited 2000	Audited 2001	Unaudited 2002	Budget 2003
Operating Revenue Line					
Water Sales	\$7,798,136	\$8,072,153	\$7,834,193	\$8,621,748	\$10,716,000 1
Sewer Service Charges	5,042,228	4,760,336	5,018,432	5,758,538	6,611,000 2
Misc. Services	481,688	196,894	279,567	300,052	312,000
Recreation Facilities	132,514	134,600	143,391	156,847	174,000 4
Total	13,454,566	13,163,983	13,275,583	14,837,185	17,813,000
Operating Expenses					
Source of Supply	4,013,031	4,138,247	4,124,205	3,708,845	3,833,000
Reclaimed Water	475,535	495,582	408,203	347,444	617,000
Pumping Expense	368,254	392,531	446,363	368,846	423,000
Treatment Plant	1,465,721	1,711,806	2,598,597	2,910,898	2,561,000
Transmission & Distribution.	833,106	808,773	1,002,133	854,339	1,268,000
Collection & Disposal	499,471	476,073	480,661	494,408	872,000
Recreation. Facilities	109,749	106,125	126,501	122,778	126,000
General & Administrative	3,675,196	3,596,050	3,920,006	4,449,324	5,647,000
Depreciation & Amortization	2,467,731	3,037,433	3,026,438	3,140,000	3,012,000
Organizational Expense	330,168				
Total	14,237,962	14,762,620	16,133,107	16,396,882	18,359,000
Operating Income (Loss)	(783,396)	(1,598,637)	(2,857,524)	(1,559,697)	(546,000)
Non-Operating Revenue					
Taxes & Assessments	3,379,984	3,692,330	3,423,800	3,081,644	3,259,000
Interest	1,857,370	2,585,630	3,991,318	1,453,200	1,327,000
Gain (Loss) on Sale of Assets	-	401,539	603,581	24,803	450,000
O.C.I.P. Recoveries		1,199,899			
Other	1,183	-	7,323	5,940	12,000
TCMWD Distribution		3,886,052			
Total Non Operating Revenue	5,238,537	11,765,450	8,026,022	4,565,587	5,048,000
Non-Operating Expense					
Interest	1,278,360	1,368,536	1,170,664	1,195,577	1,154,000
Bond Service Fees	51,026	56,556	49,247	68,783	60,000
Loss On Debt Refunding			618,997		-
Other					
Total Non-Operating Expense	1,329,386	1,425,092	1,838,908	1,264,360	1,214,000
Net Non-Operating Income	3,909,151	10,340,358	6,187,114	3,301,227	3,834,000
Net Income	\$3,125,755	\$8,741,721	\$3,329,590	\$1,741,530	\$3,288,000

Source: Annual Audited Financial Statements, the District.

DISTRICT ORGANIZATION, OPERATION AND FINANCIAL INFORMATION

General

The South Coast Water District (the "District") was established in 1932 and operates under the provisions of the County Water District Law, Division 12, Section 30000 et. seq. of the California Water Code. The District is located in the coastal area of southern Orange County, approximately 50 miles south of Los Angeles and 60 miles north of San Diego. The District is primarily residential in character with the majority of constituents residing in the communities known as "South Laguna," "Monarch Bay", "Monarch Terrace", "Monarch Beach", "Niguel Shores", and "Dana Point". The District serves a small number of customers in San Juan Capistrano and in north San Clemente as well. The customer base is made up of 12,270 water connections and 14,612 wastewater connections. The District also provides recycled water to 165 customers, which represents 133.31 million gallons of recycled water sold per annum.

Organization

Beginning in 1994, the District actively pursued reorganization with adjacent special districts. In June 1997, the District agreed to detach 431 residential connections in the communities of Laguna Sur and Monarch Point to the Moulton Niguel Water District. The District continues to provide wastewater collection to these communities. In June 1998, the District filed an application for reorganization with the Local Agency Formation Commission to dissolve Dana Point Sanitary District and consolidate it and the Capistrano Beach Water District and the Laguna Beach County Water District with South Coast Water District. In October 1998, the Orange County Board of Supervisors approved the dissolution of the Dana Point Sanitary District and the consolidation of the Capistrano Beach Water District with South Coast Water District. The consolidation became effective January 1, 1999.

As part of the terms and conditions of the consolidation, the District detached the South Laguna service area to the City of Laguna Beach, effective July 1, 1999. Pursuant to an agreement between the City of Laguna Beach and the District, the District continues to operate and maintain the potable water, recycled water and wastewater collection systems within the South Laguna community as part of the South Coast Water service area. The agreement between the City of Laguna Beach and the District does allow the City to assume operation and ownership of approximately 30% of the remaining shared assets allocated to or within the South Laguna Area; however, all debt issued prior to the time of the City assuming operations and ownership would remain an obligation of the South Laguna area. The District contracts with the City of San Juan Capistrano to provide water service to approximately 1,000 connections in the eastern portion of the City of Dana Point. The District is also under contract to operate the Joint Regional Water Supply System, which provides wholesale water to nine (9) major retail water customers, including the South Coast Water District.

With this reorganization completed, the District began its operations as a consolidated district with budgeting and accounting being provided for five financial zones: South Coast Water, providing both water and sewer, Dana Point Sewer, Capistrano Beach Water and Capistrano Beach Sewer. The boundaries of the South Coast Service Area (the "SCSA") is similar to the boundaries of the District as existed in 1993 when the 1993 Bonds, which are being refunded by the Bonds, were originally issued. However, the security for the Bonds is the pledge of taxes and revenues collected from the larger, consolidated, District comprised of all five financial service areas or financial zones.

The District was officially reorganized under a Certificate of Completion issued by the Executive Officer of the Orange County Local Agency Formation Commission, dated December 31, 1998 (the "Consolidation Order"). The terms and conditions set forth in the Consolidation Order established five "financial zones" covering each of the five service areas of the former districts, and required the District to operate and account for each financial zone as a separate accounting unit and maintain the assets and reserves of each financial zone for the benefit of the lands and inhabitants thereof and for satisfying bond obligations for a minimum of 7 years. Under the

Consolidation Order each financial zone was to remain solely liable for all debts, liabilities, and obligations of the agency from which it was formed.

As required by the Consolidation Order, the District has maintained separate accounting for the five financial zones for the current and past three fiscal years. The goal of the District is to achieve a fully integrated financial operation for the District as a whole, and to that end it has also maintained consolidated accounting records and has sought to identify the basis for an equitable and accurate assessment of the financial condition of each of the respective services areas. In order to normalize the consolidated District and avoid the confusion and financial disruptions which have attended the maintenance of separate accounting for the five financial zones, the District Board has resolved to establish an equitably determined recognition of assets and allocation of liabilities across the service areas. The advanced schedule will allow for implementation of a simplified rate structure reflecting consolidated budgeting and accounting beginning in fiscal year 2003/2004. Although this financial consolidation will be accomplished before the 7-year period set forth in the Consolidation Order, the District has discussed this step with the Executive Officer of the Orange County Local Agency Formation Commission, and the District believes the Commission would not oppose this action.

Under applicable California law and also under the Consolidation Order, the consolidated District is liable for payment of all principal, interest, and any other amounts due on account of the outstanding bonds, revenue bonds, contracts or obligations of the prior districts with which it has been consolidated. For this reason, and also in anticipation of the financial consolidation which the District intends to implement, the Bonds are secured by a pledge of and lien on the entire Tax Revenues and Net Revenues from the consolidated District. In the opinion of Bond Counsel and District Counsel, the District is permitted to pledge the entire Tax Revenues and Net Revenues from its consolidated operation.

Management and Staff

As a result of the District's reorganization, the governing board of the reorganized District originally consisted of an eleven member interim Board. Four Board members were from the consolidated Capistrano Beach Water District, three from the dissolved Dana Point Sanitary District and four from the pre-consolidated South Coast Water District. Since

November 2000, seven directors are elected based on geographic voter division. Beginning November 2002, the Board of Directors has reduced again the size of the Board to five elected directors, who serve at-large.

The general manager of the District serves at the pleasure of the Board and is responsible for the District's administrative and operational activities. Mr. Michael P. Dunbar became General Manager of the District on July 1, 1992. Mr. Dunbar is a registered civil engineer and served as Assistant General Manager/Chief Engineer for the District since 1987.

Approximately 68 full-time employees serve the district and its areas of contract operations. There are no formal labor organizations representing these employees. All full-time employees of the District are covered under the Public Employees' Retirement System (PERS) of the State of California, a defined benefit plan. All pension costs are funded by monthly contributions made by the District.

Summary of Historical Revenues and Expenses

Table 5 summarizes the District's revenues, expenses and fund balances from 1998/99 through 2000/01 based upon audits of the District and unaudited information for 2001/02. A copy of the District's 2000/01 audit is included as Appendix A to this Official Statement. The annual audit for 1998/99 was the first audit of the consolidated District.

Debt Service Coverage

Table 6 shows the historical debt service coverage for fiscal years 1998/99 through 2001/02 and projected debt service coverage for the current fiscal year using debt service from the 1993 Bonds.

Water and Wastewater Rates

Water Rates

Water rates are based upon meter size. This is implemented either through a separate charge or a minimum consumption allowance. The separate charge ranges from \$12.00 for a 3/4 inch meter to \$484.32 for a 6 inch meter. This is the bi-monthly rate. The minimum consumption rate allowance ranges from 500 cubic feet for a 3/4 inch meter to 30,000 cubic feet for a 6 inch meter. In addition, there is a unit commodity charge of \$2.70 per 100 cubic feet of potable water consumed, and a unit commodity charge of \$2.16 per 100 cubic feet of recycled water consumed. The District provides water, recycled water and sewer service to the area. It also provides recreational services to the general public on certain District properties. Table 7 summarizes growth of water and sanitary system connections from 1999 through 2002.

Table 6
South Coast Water District
Debt Service Coverage

	Audited 1999	Audited 2000	Audited 2001	Unaudited 2002	Budget 2003
Gross Revenues					
Water Sales	\$7,798,136	\$8,072,153	\$7,834,193	\$8,621,748	\$10,716,0
Sewer Service Charges	5,042,228	4,760,336	5,018,432	5,758,538	6,611,000
Misc. Services	481,688	196,894	279,567	300,052	312,000
Recreation Facilities	132,514	134,600	143,391	156,847	174,000
Interest	1,729,188	2,452,255	3,791,281	1,347,732	1,267,000
Total	15,183,754	15,616,238	17,066,864	16,184,917	19,080,000
Operations & Maintenance					
Source of Supply	4,013,031	4,138,247	4,124,205	3,708,845	3,833,000
Reclaimed Water	475,535	495,582	408,203	347,444	617,000
Pumping Expense	368,254	392,531	446,363	368,846	423,000
Treatment Plant	1,465,721	1,711,806	2,598,597	2,910,898	2,561,000
Transmission & Distribution.	833,106	808,773	1,002,133	854,339	1,268,000
Collection & Disposal	499,471	476,073	480,661	494,408	872,000
Recreation. Facilities	109,749	106,125	126,501	122,778	126,000
General & Administrative	3,675,196	3,596,050	3,920,006	4,449,324	5,647,000
Organizational Expense	330,168				
Total	11,770,231	11,725,187	13,106,669	13,256,882	15,347,000
Net Revenues	3,413,523	3,891,051	3,960,195	2,928,035	3,733,000
Tax Revenues	1,942,388	2,322,330	2,634,517	2,187,519	2,539,000
Pledged Revenues	\$5,355,911	\$6,213,381	\$6,594,712	\$5,115,554	\$6,272,000
Debt Service					
1993 Bonds	318,130	319,080	319,520	319,620	319,370
Dana Point Revenue Bonds	202,435	198,160	198,885	199,375	199,660
Capistrano Water COPs	205,401	410,803	568,163	567,635	571,598
Capistrano Wastewater COPs	71,054	142,108	151,943	151,603	151,248
Total	\$797,020	\$1,070,151	\$1,238,511	\$1,238,233	\$1,241,876
Coverage Ratio	6.72 x	5.81 x	5.32 x	4.13 x	5.05 x

Source: Annual Audited Financial Statements, the District.

**Table 7
Growth of Water and Sanitary
System Connections**

Year	Water Connections	Sanitary Connections
1999	11,807	14,447
2000	11,939	14,046
2001	11,968	14,067
2002	12,270	14,108

Source: The District.

**Table 8
South Coast Water District
Top Ten Water Customers in 2001/02**

Customer	Water Sales	%T(1)
The Links at Monarch Beach	\$264,770	3.1%
County of Orange	174,715	2.0%
Niguel Shores Community Association	149,238	1.7%
St. Regis Hotel	144,983	1.7%
Niguel Beach Terrace	134,736	1.6%
Ritz Carlton	117,511	1.4%
Seascape Homeowners Association	94,381	1.1%
State of California	93,706	1.1%
Monarch Hills Condo Association	85,634	1.0%
City of Dana Point	77,849	0.9%
Total	\$1,337,523	15.5%

1. Based on total sales of \$ 8,621,748.

Source: The District.

Wastewater Rates

Residential rates (whether a single-family unit, a multiple dwelling unit, or a mobile home) by service area are: South Coast \$33.00 per month, Dana Point \$18.00 per month and Capistrano Beach \$40.00 (single family) / \$39.00 (2 to 3 connections) / \$36.00 (5 or more connections) per month. Special rates apply to hotels and motels, office buildings, schools, churches, markets, restaurants, laundries, hospitals and other special businesses.

Billing Procedure

The District bills water charges on a bi-monthly bill for all service areas. The bills must be paid within 25 days from the billing date, or a 10% collection charge is added. If bills are not paid by the 53th day after the billing date, water service is discontinued. After a delinquent bill is paid in full, service is restored. The district applies a reconnection charge ranging from \$25 (business hours) to \$50 (after hours), depending upon specific circumstances. Sewer Service charges for all service areas are billed via the property tax statements. Exceptions to this method include certain commercial accounts in the CBSA that have their minimum annual usage billed on the property tax statements and those charges based on flow being billed on a bimonthly basis. In the Dana Point Service Area the exception is the Dana Point Harbor which receives a monthly billing based on square footage and land use and in the SCSA those commercial accounts that are billed based on flow receive a monthly bill.

Table 8 shows the ten largest water users and the ten largest sanitary customers for 2001/02 in the District in terms of dollar amounts billed

Ad Valorem Property Taxes

The District receives a portion of its revenue from property taxes, which are defined to be the "Tax Revenues" which secure the Bonds. In California, property that is subject to ad valorem taxes is classified as "secured" or "unsecured". The secured classification includes property on which any property tax levied becomes a lien on that property. A tax levied on unsecured property does not become a lien against the taxed unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax that becomes a lien on secured property has priority over all other liens, arising pursuant to State law, on the secured property, regardless of the time of the creation of the other liens.

Table 9 summarizes District assessed valuation growth from 1998/99 through 2002/03 and Table 10 shows the secured assessed valuations for 2002/03 of the twenty largest holdings in the District. The District expects one major project, the Treasure Island Resort Development, to come onto the tax rolls during the next year. This development, renamed, Montage, will consist of 265 hotel rooms with several restaurants. In addition, the development will include 27 luxuries, multi-bedroom condominiums.

Secured and unsecured property is entered on separate parts of the assessment roll maintained by the county assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee. The exclusive means of enforcing the payment of delinquent taxes in respect of property on the

secured roll, is the sale of the property securing the taxes to the State for the amount of taxes that are delinquent.

A 10% penalty is added to delinquent taxes that have been levied in respect of property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the county tax collector. A 10% penalty also attaches to delinquent taxes with respect to property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date.

The valuation of property is determined as of January 1 each year and installments of taxes levied upon secured property become delinquent on the following December 10 and April 10. Taxes on unsecured property are due when billed and become delinquent August 31, and such taxes are levied at the prior fiscal year's secured tax rate.

Legislation enacted in 1983, SB 813, provides for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction. Previously, statutes enabled the reassessment with respect to such changes only as of the next January 1 tax lien date following the change.

Collection of taxes based on supplemental assessments occurs throughout the year. Taxes due are prorated according to the amount of time remaining in the tax year, with the exception of tax bills dated March 1 through May 31, which will be calculated on the basis of the remainder of the current fiscal year and the full twelve months of the next fiscal year.

Taxes on the supplemental bill are due on the date mailed and become delinquent as follows: (a) If the bill is mailed during the months of July through October, the first installment becomes delinquent at 5 p.m. on December 10 of the same year. The second installment becomes delinquent at 5 p.m. on April 10 of the next year; and (b) If the bill is mailed during the months of November through June, the first installment becomes delinquent at 5 p.m. on the last day of the month following the month in which the bill was mailed. The second installment becomes delinquent at 5 p.m.

on the last day of the fourth calendar month following the date the first installment would have become delinquent.

If the taxes due are not paid on or before the date and time they become delinquent, a penalty of 10 percent is added.

Water Supply

All of the millions of gallons of water needed to supply the District come from the Colorado River and from Northern California. Water from these two sources is treated, filtered and blended for distribution to southern Orange County. The District purchases this water from the Metropolitan Water District through the wholesale agency of Municipal Water District of Orange County.

Water purchased from these agencies is carried into the distribution network through several large transmission mains. Due to the District's hilly terrain, much of the water must be pumped and stored in reservoirs to maintain constant pressure. The District's total water storage capacity of approximately 40.9 million gallons is maintained in 15 reservoirs. Water is moved to upper elevations through approximately 147 miles of local mains using a system of 9 pump stations.

As an additional safeguard to assure the water supply, the District maintains a series of "interconnections" with neighboring water districts which can be activated in an emergency.

The District is planning on rehabilitating several of its reservoirs over the next two years. This will complete the interior replacement costing of all of its reservoirs. These are estimated to cost \$850,000. The District will be sharing in several point projects with the City of San Juan Capistrano. One is a groundwater recovery project, estimated at \$5,000,000. The other is a 4.0 million gallon reservoir of which the District will own 2.0 million gallons of capacity. This project is estimated to cost \$2,500,000.

Water Quality

The Environmental Protection Agency (EPA) and the California Department of Health Services (DHS) are the agencies responsible for establishing drinking water quality standards. To ensure that tap water is safe to drink, EPA and DHS prescribe regulations that limit the amount

of certain contaminants in water provided by public water systems. The District vigilantly safeguards its water supply and the water delivered to its customers meets the standards required by the state and federal regulatory agencies. In some cases, the District goes beyond what is required to monitor for additional contaminants that have known health risks.

Water Security

As part of its normal operating procedures, the District has routinely monitored its reservoirs and sample stations and has conducted frequent water sampling and quality testing. In the aftermath of the September 11th terrorist attack and the growing concerns regarding security and the potential threat of contamination, the District has added additional security measures to those already in existence. These include the coordination with local law enforcement for the increased monitoring of District facilities and the coordination of emergency procedures with other regional water agencies.

Wastewater Facilities

South Coast Water District collects and pumps wastewater through miles of sewer mains using a series of "lift stations." Collected wastewater is pumped to one of two treatment plants. The Coastal Treatment Plant is located in Aliso Canyon and treats wastewater collected from the northern part of the District. The JP Latham Treatment Plant is located by the mouth of the San Juan Creek and treats wastewater collected from the southern part of the District.

The District is planning to rehabilitate sev-

eral sewer lift stations and force mains over the next several years with an estimated cost of over \$2,000,000. In addition, the District is planning to rehabilitate its tunneled sewer pipeline at an estimated cost of \$5,100,000.

These plants are owned and operated by the South Orange County Wastewater Authority (SOCWA). The District is a member of this agency.

Direct and Overlapping Debt

Table 11 shows a statement of direct and overlapping debt of the District. The ratios are based upon 2002/03 assessed valuations of the respective taxing jurisdictions, and outstanding debt is calculated as of April 1, 2003. For the purposes of this table, the 1993 Bonds are assumed to be outstanding.

The ratio of direct debt to assessed valuation equals 0.10% and the ratio of direct and overlapping debt to assessed value equals 0.53%. Per capita direct debt is \$ 177 per capita while direct and overlapping debt is \$ 268 and per capita based on an assessed valuation of \$ 6,806,050,627 and an estimated population of the service area of 40,000.

Government Spending Limitation

On November 6, 1979, the California voters, by initiative, approved a constitutional amendment that added Article XIII B entitled "Government Spending Limitation" to the California Constitution. The initiative was commonly known as the "Gann Initiative".

Article XIII B imposes an annual "appropriations limit" upon the State and each local government. The appropriations limit restricts spending of certain moneys that are "appropriations subject to limitations". "Appropriations subject to limitations" include the "proceeds of taxes" levied by or for the State or the local government. The "appropriations limit" is based on certain expenditures in fiscal year 1978/79 adjusted annually to reflect changes in the consumer price index and population of the local government.

The California Legislature has adopted several statutes in implementation of Article XIII B, including Chapter 1205, Statutes of 1980, which contains procedures for a local government to establish an "appropriations limit" for a given fiscal year. Chapter 1205 also contains a limitation upon the period within which any person may commence an action attacking the "appropriations limit" so established. Pursuant to the authorizations contained in Chapter 1205, the District adopted a resolution establishing an appropriations limit for the fiscal year 2002/03 of

\$24,625,572. Based upon the 2002/03 budget, the limit is satisfied by more than \$24,147,500. The period for the commencement of any action attacking the appropriations limit (60 days) established by the Board has expired.

Investment Policy

The District is required to comply with Government Code Section 53600 et seq. and in doing so has established an investment policy that states its three primary goals: 1) To assure compliance with all Federal, State and Local laws governing the investment of monies, 2) To protect the principal monies entrusted to the organization and 3) To generate the maximum amount of investment income within the parameters of the Statement of Investment Policy. The primary objectives of the policy are to provide safety, liquidity, yield, and market-average rates of return. The District's Statement of Investment Policy for Fiscal Year 2002/2003 was approved by the Board of Directors in August 2002.

**Table 9
South Coast Water District
Assessed Valuations**

	Local Secured	Utility	Unsecured	Total	Percentage Change
1998-99	\$4,479,705,271	\$3,286,870	\$195,518,935	\$4,678,511,076	
1999-00	5,016,655,752	3,455,484	190,864,361	5,210,975,597	11.38%
2000-01	5,399,518,238	3,499,320	184,081,691	5,587,099,249	7.22%
2001-02	6,060,552,386	3,541,347	202,972,213	6,258,065,946	12.01%
2002-03	6,581,857,254	3,329,184	220,864,189	6,806,050,627	8.76%

Source: The District.

**Table 10
South Coast Water District
Top 20 Secured Taxpayers, 2002-03**

Property Owner	2002-03 Primary Land Use	Assessed Valuation	% of Total (1)
CPH Monarch Golf, Hotel, Beach and Resort /			
CPH Dana Point	Golf Resort	\$336,706,306	5.12%
SHC Laguna Niguel 1 LLC	Hotel	193,646,762	2.94
Lloyds Bank California	Residential Properties	147,538,390	2.24
Five Star Resort LLC	Mobile Home Park	76,524,544	1.16
Headlands Reserve LLC	Vacant Coastal Properties	64,657,157	0.98
Connecticut General Life Insurance Co.	Hotel	37,496,721	0.57
Residential Realty Fund	Residential Properties	20,902,190	0.32
Felcor Suites Ltd.	Hotel	18,347,177	0.28
Theresa C. Morrison/William J. Cagney Trust	Shopping Center	14,893,728	0.23
Stoneridge Investors Ltd.	Apartments	14,280,000	0.22
ST Apartments	Apartments	11,313,960	0.17
Mariner Drive Apartments LLC	Apartments	10,545,855	0.16
Roy K. Sakioka	Commercial Buildings	10,171,249	0.15
Duane R. Roberts	Residential	9,742,583	0.15
Steven F. Udvar-Hazy	Residential	9,186,275	0.14
Aliso Creek Shopping Center Inc.	Shopping Center	9,028,101	0.14
James R. Mellor	Residential	8,808,019	0.13
Mary Silver	Residential	8,621,699	0.13
Fountain Senior Properties of California	Assisted Living	8,521,145	0.13
SND LP	Commercial	8,394,251	0.13
		\$1,019,326,112	15.49%

(1) 2002-03 Local Secured Assessed Valuation: \$6,581,857,254

Source: California Municipal Statistics

INFORMATION REGARDING THE LOCAL ECONOMY

The following information regarding the District and the surrounding area is presented as general background data. The Bonds are payable solely from the sources described herein (see "SECURITY FOR THE BONDS").

Location

The South Coast Water District is located along the coast of the Pacific Ocean in southern Orange County, approximately 50 miles south of downtown Los Angeles and approximately 60 miles north of San Diego. State Highway I and State Highway 133, which connects to the Santa Ana and San Diego Freeways, provide District residents convenient access to major employment centers in Orange, Los Angeles, and San Diego Counties. Driving time to the Cities of Santa Ana, Newport Beach, Costa Mesa, Anaheim and Fullerton averages approximately 45 minutes.

The John Wayne Airport, 15 miles from the District, provides domestic air travel by more than ten carriers and serves approximately 8.4 million passengers annually. An extensive \$300 million expansion was completed in 1990 and the airport now accommodates over seventy-three daily departures by the major airlines. Metrolink interurban train service carries passengers to six counties in Southern California. The eighty-seven mile section between San Diego County and downtown Los Angeles, serving Orange County, is the fastest growing route on the system.

Economic Base

Employment Trends

Growth within the District and its vicinity has been generated in the main by the continuing urbanization and economic development of Orange County. Starting in the early 1950's, the County's economy, once agriculturally oriented, began a sus-

tained period of steady economic growth and diversification. Initially the County's manufacturing base centered in highly technical and specialized defense-oriented industries; however, in recent years, substantial expansion has taken place in civilian-oriented industries such as medical research and manufacturing, machinery, metals, rubber and plastics, paper products, and electronics. This has helped the County to evolve into an important diversified manufacturing center that serves regional, national and international markets. Table 12 shows the average annual labor force and unemployment level over the period 1995 through 2002. The seasonally unadjusted unemployment rate for Orange County was 2.5% in 2000, 3.2% in 2001 and 3.7% in 2002.

However, these rates are consistently well below the respective unemployment rates for California as a whole. According to the State Employment Development Department, while the unemployment rate as of December 2002 was an estimated 3.7% for Orange County (third lowest County in the State) versus 5.8% for Los Angeles County, 5.7% for Riverside County, 5.1% for San Bernardino County, 4.0% for San Diego County and 6.3% for entire State of California. Moreover, the unemployment rate for Orange County is pushed upward by cities such as Anaheim and Santa Ana. Cities in and around the District have consistently lower unemployment rates than the County average: Dana Point, 2.4%; Laguna Beach, 1.1%; Laguna Niguel, 1.8%, all as of December 2002 and all seasonally unadjusted.

Table 13 presents the current distribution of employment by industry prepared by the State of California's Employment Development Department. The distribution of wage and salary employment for 2001 indicates that over 16 percent of all wage and salary workers are in manufacturing, 31 percent in the services, 24 percent in wholesale and retail trade, 11 percent in government and 8 percent in finance, insurance and real estate. Between 1995 and 2000 wage and salary workers grew by 21%. Most of these job gains were in the financial, insurance and

real-estate sector with 26% growth followed by the service sector with 24% growth. Manufacturing, which had been losing jobs in the early 1990s, has rebounded and has grown by 14% since 1995.

Largest District Employers

The Ritz-Carlton Resort, situated in Dana point, opened a 393-resort hotel in the District in August 1984 on a 17.5-acre site located between State Highway 1 and the Pacific Ocean. The hotel includes three dining rooms and nine meeting and banquet rooms, which can accommodate groups up to 600 persons. Guest amenities include approximately two miles of sandy beach, swimming and tennis facilities, access to an 18-hole golf course, and a fitness center. The facility has earned the AAA 5-Diamond award. The Ritz-Carlton group maintains luxury hotels in 20 cities in the United States as well as several locations world wide.

The Ritz Carlton, Dana Point, was developed at a cost of more than \$100 million. The facility employs approximately 800 persons and has an annual payroll in excess of \$15 million. Since its opening the hotel has had a high occupancy rate, and daily rates range from \$188 to \$2,000. The hotel pays the District approximately \$31,000 per month for water and wastewater service. The hotel has a 2002/03 assessed valuation of \$193,646,762.

In June 2001, the St. Regis Resort, Dana Point, opened a 400-room resort hotel that is situated on 172 acres overlooking the Pacific Ocean in the District. The hotel includes several dining options in its seven restaurants and lounges, 30,000 sq. ft. of indoor meeting space which includes: 2 ballrooms and 10 meeting rooms, 60,000 sq. ft. of outdoor meeting space and a full service business center. Guest amenities include an 18-hole oceanfront championship golf course, landscaped nature trails leading to a 6.1-acre pristine beach and exclusive access to a private beach club, a tennis club with 6 hard and lighted 2 clay courts, a luxury spa, three swimming pools, a fitness center with an on-site trainer and a Kids Club. The St. Regis Hotel has earned the AAA 5-Diamond rating.

The St. Regis Resort was developed at a cost of more than \$240 million. The facility employees approximately 970 persons and has an annual payroll in excess of \$30 million. The hotels daily rates range from \$375 to \$5,500.

The hotel pays the District approximately \$29,000 per month for water and wastewater services. The hotel has a 2002-03 assessed valuation of \$325,965,177. South Coast Medical Center, the second largest employer in the South Coast area, is located on the Coast Highway in Laguna Beach. It is served by a staff of about 350 physicians and surgeons who practice in the area, and employs on a full or part time basis approximately 600 people. Erected as a community owned enterprise on a 22 acre site in 1959, it has been expanded from a 75 bed facility to a present licensed capacity of 268 beds, representing a replacement value in excess of \$65 million. In addition to acute general care, the hospital also offers around-the-clock emergency and outpatient services.

As the District is primarily residential, other employers are relatively small retail enterprises and professional offices. The main employment base for District residents is in Orange County and Los Angeles County.

Largest County Employers

Orange County is home to several Fortune 500 companies. Major publicly traded employers with headquarters in Orange County include such diversified firms as Rockwell, Fluor Corporation, Bergen Brunswig, FHP International and Western Digital. The Walt Disney Company in central Orange County employs approximately 12,200 employees. Other companies with at least 3,000 local employees include St. Joseph Health System, PepsiCo, Ralphs Grocery Company, Pacific Telesis, Dayton-Hudson, Marriott, Toshiba and Knott's Berry Farm.

Land Use, Property Valuation and Recent Construction Activity

The District is principally residential in character with most residents living in the communities of South Laguna, Three Arch Bay, Monarch Bay, Monarch Terrace, Niguel Shores, and a portion of the Dana Point area. These communities are now all included in the Cities of Laguna Beach and Dana Point. Dana Point incorporated in 1989, and the City of Laguna Beach annexed the community of South Laguna in 1999.

The District continues to experience economic growth. Development of the Dana Point Headlands is proceeding with plan review by the City of Dana Point. Opening in February 2003, the Montage Resort & Spa will feature 262 guest rooms, 37 beach bungalow-style rooms

and 28 private residences. Situated on 30-lushly landscaped acres the resort features three restaurants, a 20,000-square-foot indoor/outdoor oceanfront spa, a full-service salon, a lap pool, a fitness room, a yoga/aerobics studio and spa boutique.

The Montage guest amenities include four white sand beaches, 30 acres of lush landscaping, a park overlooking the Pacific Ocean, three swimming pools and 14,500 sq. ft. of indoor meeting space which includes: two dividable ballrooms, three meeting rooms and four outdoor function lawns.

The facility will employ approximately 550 full and part-time persons. The hotel has a mid-construction 2002-03 assessed valuation of \$76,524,544.

Table 9, on page 11 of this Official Statement, shows a five year history of growth in assessed value in the District. Assessed value in the District has consistently grown faster than that of the County. Significant new investment is taking place in Orange County, a large portion of which is associated with the Tourism industry. Disney is expanding its holdings with the centerpiece being a new \$1.4 billion, 55 acre theme park called Disney's California Adventure. The theme park and related hotel complex, which will be adjacent to Disneyland, are expected to generate an estimated 5,000 new local jobs. A \$150 million expansion of the Anaheim Convention Center, already the 6th largest in the country, is commencing construction. The current plan calls for increasing the center's size by 40% to 1.4 million square feet.

Population

Current District population is estimated at 40,000 and is not anticipated to grow by any significant amount. Data obtained for the City of Laguna Beach indicates a

2000 population of 25,300 representing 9.2% growth since 1990. Data for the newly incorporated City of Dana Point shows a 2000 population of 38,800 representing 19.1% growth since 1990. As discussed earlier, the District serves portions all of Dana Point and part of Laguna Beach. The District service area was initially determined by the geographic characteristics of the area and the economics of providing water and sanitary service. Approximately 65% of County households own the residence they live in, 20% reside in apartments and 15% rent single-family homes. There are approximately 820,000 households in the County.

As the District is located on the coast, housing values are greater than values for similar sized structures in inland areas of the County. No specific demographic data has been compiled for the District, but housing values and income levels are well in excess of the median figures.

Community Amenities

Residents of Orange County are offered an excellent quality of life with numerous recreational amenities and major metropolitan cultural centers, as well as the nearby mountains, desert, ocean, 42 miles of beautiful beaches and a temperate year round climate. Numerous tourist attractions, including Disneyland and Knott's Berry Farm, draw 40 million visitors each year. Professional sports teams include Major League Baseball's Anaheim Angels and the National Hockey League's Anaheim Mighty Ducks. The Performing Arts Center complex offers opera, ballet and symphonies of international stature.

Table 11
SOUTH COAST WATER DISTRICT
Statement of Direct and Overlapping Debt

2002-03 Assessed Valuation: \$6,806,050,627

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 4/1/03
Orange County Teeter Plan Obligations	2.802	\$3,486,389
Metropolitan Water District	0.602	3,616,545
Capistrano Unified School District School Facilities Improvement District No. 1	19.311	12,521,239
Laguna Beach Unified School District	19.25	4,085,813
South Coast Water District	100	7,065,000
City of Laguna Beach	24.073	2,864,687
City 1915 Act Bonds	3.642	1,034,596
Orange County Assessment District No. 94-1	15.947	1,141,008
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$35,815,277
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Orange County General Fund Obligations	2.802	\$27,621,387
Orange County Pension Obligations	2.802	3,384,045
Orange County Board of Education Certificates of Participation	2.802	560,400
Orange County Transit District Authority	2.802	173,024
Municipal Water District of Orange County Water Facilities Corporation	3.401	1,628,569
South Orange County Community College District Certificates of Participation	6.947	3,035,144
Capistrano Unified School District Certificates of Participation	13.797	5,753,349
City of Laguna Beach General Fund Obligations	24.073	696,913
City of San Clemente Certificates of Participation	2.909	97,015
Capistrano Bay Park and Recreation District Certificates of Participation	78.861	3,032,205
Dana Point Sanitary District General Fund Obligations	85.756	1,496,442
Moulton-Niguel Water District Certificates of Participation	1.972	714,559
South Coast Water District General Fund Obligations	100	3,645,000 (1)
Orange County Fire Authority	5.501	1,394,504
TOTAL GROSS OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$53,232,556
Less: Orange County Transit District Authority (80% self-supporting)		138,419
MWDOC Water Facilities Corporation (100% self-supporting)		1,628,569
TOTAL NET OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$51,465,568
GROSS COMBINED TOTAL DEBT		\$89,047,833 (2)
NET COMBINED TOTAL DEBT		\$87,280,845

(1) Excludes refunding issue to be sold.

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

Ratios to 2002-03 Assessed Valuation:

Direct Debt (\$7,065,000) 0.10%
 Combined Direct Debt (\$10,710,000) 0.16%
 Total Direct and Overlapping Tax and Assessment Debt 0.53%
 Gross Combined Total Debt 1.31%
 Net Combined Total Debt 1.28%

Source: California Municipal Statistics.

Table 12
Labor Force, Employment and Unemployment
Annual Averages
1995 Through 2002

Year and Areas	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
1995				
Orange County	1,331,040	1,263,340	67,700	5.1%
California	15,412,210	14,202,850	1,209,360	7.8%
United States	132,301,080	124,899,670	7,401,410	5.6%
1996				
Orange County	1,344,890	1,289,740	55,150	4.1%
California	15,568,620	14,444,380	1,124,240	7.2%
United States	133,943,330	126,707,500	7,235,830	5.4%
1997				
Orange County	1,373,730	1,328,380	45,350	3.3%
California	15,971,800	14,965,530	1,006,270	6.3%
United States	136,296,830	129,557,920	6,738,910	4.9%
1998				
Orange County	1,481,800	1,439,800	42,000	2.8%
California	16,588,100	15,712,000	876,100	5.3%
United States	137,673,000	131,463,000	6,210,000	4.5%
1999				
Orange County	1,508,400	1,465,400	43,000	2.9%
California	16,588,300	15,726,300	861,900	5.2%
United States	139,368,000	133,488,000	5,880,000	4.2%
2000				
Orange County	1,513,000	1,474,600	38,400	2.5%
California	17,090,800	16,245,000	845,200	4.9%
United States	140,863,000	135,208,000	5,655,000	4.0%
2001				
Orange County	1,548,600	1,498,800	49,800	3.2%
California	17,444,200	16,434,600	1,009,600	5.8%
United States	141,912,000	134,235,000	7,677,000	5.4%
2002				
Orange County	1,559,700	1,502,100	57,600	3.7%
California	17,564,500	16,402,000	1,162,500	6.3%
United States	142,298,000	134,232,000	8,066,000	5.7%

Source: Employment Development Department, State of California.

Table 13
Wage and Salary Employment by Industry
Orange County
(in thousands)

Employment Type	1996	1997	1998	1999	2000	2001
Agriculture	6.7	6.9	6.6	7.4	7.6	7.1
Mining	0.9	0.9	0.9	0.7	0.6	0.6
Construction	52.5	58.1	65.5	73.4	77.6	80.4
Manufacturing	211.2	222.4	231.7	228.9	230.5	225.2
Transportation	42.8	44.4	46.3	48.1	50.9	52.3
Trade	298.6	309.9	322.5	331.6	339.7	348.9
FIRE	86.9	92.9	100.4	105.2	105.8	111.8
Services	361.7	372.2	395.6	415.8	437.1	448.3
Government	129.7	132.7	136.4	141.4	146.6	150.9
Total	1,191.0	1,240.4	1,305.9	1,352.5	1,396.4	1,425.5
% Growth		4.1%	5.3%	3.6%	3.2%	2.1%

Source: Employment Development Department, State of California.



Wastewater is given tertiary treatment at the District's Advanced Water Treatment facility prior to use for irrigation and other non-domestic purposes.



Overhead view off the Coastal Treatment Plant and Advanced Water Treatment Facility.

APPENDIX A

**SOUTH COAST WATER DISTRICT
Laguna Beach, California**

**Financial Statements
and
Independent Auditors' Reports**

For the year ended June 30, 2001



South Coast Water District

Laguna Beach, California

*Financial Statements and
Independent Auditors' Reports*

For the years ended June 30, 2001 and 2000

C&L
Caporicci, Cropper & Larson, LLP
Certified Public Accountants

10. POST-EMPLOYMENT BENEFITS, Continued

and have participated in PERS as well as receiving service retirement benefits pursuant to PERS plan requirements. The District pays 100% of the plan premium for employee coverage from the date of retirement until the employee is eligible to receive Medicare benefits. Thereafter, Medicare supplement insurance is provided at the District's expense.

During the years ended June 30, 2001 and 2000, the District paid \$111,128 and \$71,812, respectively in post-employment health care benefits.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. In an effort to manage its risk exposure, the District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling self-insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2001, as a member of the Authority, the District participated in the insurance programs as follows:

- **Property Loss** - The District retains risk of loss up to \$1,000 (deductible amount); the Authority is self-insured up to \$50,000 and insurance coverage has been purchased to cover losses ranging from \$50,000 to \$100,000,000.
- **Auto and General Liability** - Insured up to \$20,000,000 per occurrence with no deductible; the Authority is self-insured up to \$500,000 and excess insurance has been purchased to cover losses ranging from \$500,000 to \$20,000,000.
- **Public Officials' Errors and Omissions** - The Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$20,000,000.
- **Liability Insurance (Underground Storage Tank Pollution)** - Insured up to \$1,000,000 with \$10,000 deductible; the Authority is self-insured up to \$500,000 and excess insurance coverage has been purchased to cover losses ranging from \$500,000 to \$1,000,000.
- **Fidelity Policy** - The District has purchased insurance coverage for losses up to \$100,000 with a \$1,000 deductible.
- **Workers' Compensation** - The District retains the risk per occurrence of \$250,000 for loss sustained by the employer (District) because of liability imposed on the employer (District) by the Workers' Compensation Act, with excess insurance to \$5,000,000 above the self-insured retention of \$250,000.

12. PRIOR PERIOD RESTATEMENT

In prior years, the District had recorded property taxes and assessment revenue as of the levy date. In accordance with GASB Statement No. 33, to properly recognize property taxes and assessment revenue when the property was liened (January 1), the amounts for the year ended June 30, 2000 were restated as follows:

	As Previously Reported	Adjustments	As Restated
Taxes and interest receivable - restricted	\$ 213,189	\$ 802,309	\$ 1,015,498
Taxes and interest receivable - current unrestricted	622,000	2,198,603	2,820,603
Retained earnings - designated for bond interest redemption	1,771,484	802,309	2,573,793
Retained earnings - undesignated	42,027,433	2,198,603	44,226,036
Taxes and assessments - nonoperating revenue	3,692,300	(466,939)	3,225,361



Offices located in
Bay Area
Orange County
Sacramento

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors of the
South Coast Water District
Laguna Beach, California

We have audited the financial statements of South Coast Water District as of and for the year ended June 30, 2001, and have issued our report thereon, dated March 20, 2002. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Coast Water District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Coast Water District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Capricci, Cropper & Larson, LLP

Costa Mesa, California
March 20, 2002

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of the provisions of the Indenture not otherwise summarized in the text of this Official Statement. Such summary is not intended to be definitive, and reference is made to the complete Indenture for the actual terms thereof.

Definitions

As used in this Summary, the following terms have the following meanings. In addition, terms defined elsewhere in this Official Statement and not otherwise defined in this Summary have the meanings given them in this Official Statement.

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

- (a) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12 month period selected by the District, were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36 month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the District.
- (b) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive 12 month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12 month period, all as shown by the certificate or opinion of an Independent Accountant or Financial Consultant employed by the District.

“Authority” means the Coastal Districts Financing Authority, a joint powers authority duly organized and existing under the laws of the State of California.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

"Bond Insurance Policy" means the municipal bond insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, its successors and assigns, as issuer of the Bond Insurance Policy.

"Bond Year" means any twelve-month period commencing on July 2 in a year and ending on the next succeeding July 1, both dates inclusive; except that the first Bond Year commences on the Closing Date and ends on July 1, 2004.

"Closing Date" means April 8, 2003, being the date of delivery of the Bonds to the original purchaser of the Bonds.

"Enterprise" means, collectively:

- (a) the entire water treatment, production, storage and distribution system owned or operated by the District, including but not limited to all facilities, properties and improvements at any time owned or operated by the District for the collection, treatment and supply of water within the service area of the District, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District; and
- (b) the entire wastewater collection, treatment and disposal system owned or operated by the District, including but not limited to all facilities, properties and improvements at any time owned or operated by the District for the collection, treatment and disposal of wastewater within the service area of the District, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

The Enterprise does not include any property which the District determines is not essential to the purposes described in the foregoing clauses (a) or (b), including but not limited to property declared by the District to be surplus.

"Federal Securities" means any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), for which the full faith and credit of the United States of America are pledged.

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

“General Fund” means the existing fund by that name established and held by the District with respect to the Enterprise.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited to investment earnings thereon; but excluding (a) connection charges, (b) Tax Revenues, (c) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District levied for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Enterprise, and (d) any taxes levied for the sole purpose of providing for payment of principal and interest on any voter-approved indebtedness incurred by the District, which taxes would not otherwise be subject to levy but for the issuance of such indebtedness.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Fiscal Year:

- (a) the principal amount of the Bonds coming due and payable by their terms in such Fiscal Year, including the principal amount of the Term Bonds which are subject to mandatory sinking fund redemption in such Fiscal Year; and
- (b) the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of the Bonds which would be Outstanding in such Fiscal Year if such Bonds are retired as scheduled; the amount of interest which would be due during such Fiscal Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Fiscal Year if such Parity Obligations are retired as scheduled.

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

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

“1993 Bonds” means the \$4,380,000 aggregate principal amount of Coastal Districts Financing Authority South Coast Water District Capital Facilities Revenue Bonds, Issue of 1993 issued by the Authority under the Indenture of Trust dated as of April 1, 1993, between the Authority and First Interstate Bank of California, as trustee.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, including but not limited to (a) costs of acquisition of water to be supplied by the Enterprise, (b) costs of electricity and other forms of energy supplied to the Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Enterprise; but in all cases excluding (i) debt service payable on obligations incurred by the District with respect to the Enterprise, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) amortization of intangibles or other bookkeeping entries of a similar nature, and (iv) costs and expenses

which are treated by the District as capital expenditures, including but not limited to the purchase of water not required for current consumption.

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

- (a) Federal Securities;
- (b) Federal Housing Administration debentures.
- (c) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - Federal Home Loan Mortgage Corporation
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - Senior Debt obligations
 - Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
 - Federal Home Loan Banks
Consolidated debt obligations
 - Federal National Mortgage Association
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - Student Loan Marketing Association
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
 - Financing Corporation
Debt obligations
 - Resolution Funding Corporation
Debt obligations
- (d) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank, including the Trustee or its affiliates, the short-term obligations of which are rated "A-1" or better by S&P.
- (e) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks, including the Trustee or its affiliates, which have capital and surplus of at least \$5 million.
- (f) Commercial paper (having original maturities of not more than 270 days) rated "A-1+" by S&P and "Prime-1" by Moody's.
- (g) Money market funds rated "AAM" or "AAM-G" by S&P, or better, including funds for which the Trustee or its affiliates or subsidiaries provide investment or other advisory services.

- (h) "State Obligations", which means:
 - (i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
 - (ii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (i) above and rated "A-1+" by S&P and "Prime-1" by Moody's.
 - (iii) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (i) above and rated "AA" or better by S&P and "Aa" or better by Moody's.
- (i) Pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's meeting the following requirements:
 - (i) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - (ii) the municipal obligations are secured by cash or Federal Securities described in clause (a) of the definition thereof ("United States Treasury Obligations") which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
 - (iii) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");
 - (iv) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
 - (v) no substitution of a United States Treasury Obligations shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
 - (vi) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(j) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:

- (i) interest payments are to be made to the Trustee at the times and in amounts as necessary to pay amounts due with respect to the Bonds;
- (ii) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the District and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- (iii) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof, or in the case of a bank, that the obligation of the bank to make payments under the agreement ranks pari passu with the obligations of the bank to its other depositors and its other unsecured and unsubordinated creditors;
- (iv) the District and the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the District, the Trustee and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the District, the Trustee and the Bond Insurer;
- (v) the investment agreement shall provide that if during its term
 - (a) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and
 - (b) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the District or the Trustee

(who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the District or Trustee.

- (vi) The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the holder of the Collateral is in possession);
 - (vii) the investment agreement must provide that if during its term (a) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the District or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate, and (b) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the District or Trustee, as appropriate.
- (l) Repurchase which meet the following standards and criteria:
- (i) The agreement must be with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or whose parent company (which guarantees the provider) has, long-term debt rated at least "A" by S&P and Moody's, which falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Bond Insurer, provided that:
 - (A) The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach and without regard to the rating of the provider);
 - (B) The Trustee or a third party acting solely as agent therefor or for the Issuer (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
 - (C) The agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of

the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);

- (D) All other requirements of S&P in respect of repurchase agreements shall be met.
- (E) The agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

(m) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California.

(n) Any other investments approved in writing by the Bond Insurer.

"Reserve Requirement" means an amount equal to the maximum amount of principal of and interest on the Bonds coming due and payable in the current or any future Bond Year including the principal of any Term Bonds required to be redeemed in such Bond Year by operation of mandatory sinking fund redemption.

"S&P" means Standard & Poor's Corporation, of New York, New York, and its successors.

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

"Tax Revenues" means all ad valorem taxes levied upon certain taxable property in the District by the Board of Supervisors of Orange County, and allocated to the District pursuant to the provisions of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code of the State of California, including all payments, subventions and reimbursements, if any, to the District specifically attributable to taxes lost by reason of tax exemptions and tax rate limitations; but excluding any taxes levied for the sole purpose of providing for payment of principal and interest on any voter-approved indebtedness incurred by the District, which taxes would not otherwise be subject to levy but for the issuance of such indebtedness.

"Term Bonds" means the Bonds maturing on July 1, 2021.

Establishment of Funds and Accounts; Flow of Funds

Costs of Issuance Fund. The Trustee will establish the Costs of Issuance Fund under the Indenture, into which a portion of the proceeds of the Bonds will be deposited on the Closing Date. The Trustee will disburse moneys in the Costs of Issuance Fund from time to time to pay Costs of Issuance upon submission of requisitions of the District. On July 1, 2003, the Trustee will transfer any amounts remaining in the Costs of Issuance Fund to the Interest Account to be applied to pay a portion of the interest next coming due and payable on the Bonds.

General Fund. The District has previously established the General Fund, which it will continue to hold and maintain for the purposes and uses set forth in the Indenture. The District shall deposit all Tax Revenues and Gross Revenues in the General Fund promptly upon the receipt thereof, and shall apply amounts in the General Fund solely for the uses and purposes set forth in the Indenture and for the uses and purposes set forth in the documents authorizing the issuance of any Parity Obligations. It is the intention of the District that all of the Tax Revenues received in any Fiscal Year will be applied to the payment of the principal of and interest on the Bonds before any Net Revenues are applied for such purpose.

The District will manage, conserve and apply moneys in the General Fund in such a manner that all deposits required to be made under the Indenture and under the documents authorizing the issuance of any Parity Obligations will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the District may at any time use and apply moneys in the General Fund for any one or more of the following purposes:

- the payment of the Operation and Maintenance Costs of the Enterprise,
- the acquisition and construction of extensions and improvements to the Enterprise;
- the redemption of any of the Bonds which are then subject to redemption or the purchase from time to time in the open market of any Outstanding Bonds whether or not then subject to redemption (irrespective of the maturity or number of such Bonds) at prices and in such manner, either at public or private sale, or otherwise, as the District in its discretion may determine; or
- any other lawful purpose of the District relating to the Enterprise.

Bond Service Fund. On or before the 3rd Business Day preceding each Interest Payment Date, the District is required to withdraw from the General Fund and pay to the Trustee for deposit into the Bond Service Fund (which the Trustee will establish and hold in trust under the Indenture) an amount which, together with other available amounts then on deposit in the Bond Service Fund, is at least equal to the aggregate amount of principal of and interest coming due and payable on the Bonds on such Interest Payment Date, including the aggregate principal amount of the Term Bonds required to be redeemed on such Interest Payment Date under the mandatory sinking fund redemption provisions of the Indenture.

The Trustee will apply amounts in the Bond Service Fund solely for the purpose of (i) paying the interest on the outstanding Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed under the Indenture), (ii) paying the principal of the Bonds at the maturity thereof, and (iii) paying the redemption price of the Term Bonds upon the mandatory sinking fund redemption thereof. Upon the payment of all outstanding Bonds, the Trustee will transfer any moneys remaining in the Bond Service Fund to the District for deposit into the General Fund.

Reserve Fund. If the amount on deposit in the Reserve Fund at any time falls below the Reserve Requirement due to a withdrawal of funds therefrom, or if the amount on deposit in the Reserve Fund falls below the Reserve Requirement on any annual valuation date due to a decline in the market value of Permitted Investments credited thereto, the Trustee will promptly notify the District of such fact and the District is required to promptly (i) withdraw the amount of such insufficiency from available Tax Revenues (first) and Net Revenues (second) on deposit in the General Fund, and (ii) transfer such amount to the Trustee for deposit in the Reserve Fund. No deposit need be made in the Reserve Fund so long as the balance therein at least equals the Reserve Requirement. If the amount on deposit in the Reserve Fund exceeds the Reserve Requirement, the Trustee will transfer such excess amount to the Bond Service Fund.

If the amounts on deposit in the Bond Service Fund on any Interest Payment Date are insufficient to pay the principal of and interest on the Bonds then coming due, including the principal amount of Term Bonds required to be redeemed by operation of mandatory sinking fund redemption, the Trustee will withdraw the amount of such insufficiency from the Reserve Fund and transfer it to the Bond Service Fund. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the District.

Redemption Fund. If the District elects to redeem outstanding Bonds under the optional redemption provisions of the Indenture, the District will transfer to the Trustee for deposit into the Redemption Fund an amount at least equal to the redemption price of the Bonds, excluding accrued interest, which is payable from the Bond Service Fund. In addition, the District will transfer or cause to be transferred to the Trustee all amounts required to redeem any Bonds which are subject to redemption from the proceeds of any sale, eminent domain proceedings or insurance awards with respect to the Enterprise, as described above in this Official Statement. The Trustee will apply amounts in the Redemption Fund solely for the purpose of paying the redemption price of Bonds, other than the mandatory sinking fund redemption of Term Bonds (which is payable from the Bond Service Fund).

Covenants of the District

In addition to the covenants made by the District under the Indenture which are described elsewhere in this Official Statement, the District makes the following covenants for the benefit of the Bond owners:

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

Sale or Eminent Domain of Enterprise. The District covenants that the Enterprise will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise dispose of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the principal of or interest on the Bonds or any Parity Obligations, or would materially adversely affect its ability to comply with the terms of the Indenture or the documents authorizing the issuance of any Parity Obligations. The District may not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Tax Revenues and Net Revenues to pay the Bonds and any Parity Obligations, or which otherwise would impair the rights of the Bond Owners with respect to the Tax Revenues and the Net Revenues. If any substantial part of the Enterprise is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied on a pro rata basis to redeem the Bonds and any Parity Obligations in accordance with the Indenture and the documents authorizing such Parity Obligations, respectively.

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, must either (a) be used for the acquisition or construction of improvements to the Enterprise, or (b) be applied on a pro rata basis to redeem the Bonds and any Parity Obligations in accordance with the Indenture and the documents authorizing such Parity Obligations, respectively.

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

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

Tax Covenants. The District will not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of any of the Bonds which would cause any of the Bonds to be "arbitrage bonds" or "private activity bonds" within the meaning of the Tax Code. The District agrees to comply with all provisions of the Tax Code relating to the rebate to the United States of America of excess investment earnings derived from the Bond proceeds.

Amendment of Indenture

The Indenture may be modified or amended at any time by a supplemental indenture with the written consents of the Bond Insurer and the Owners of a majority in aggregate principal amount of the Bonds then outstanding. No such modification or amendment may:

- (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the District to pay the principal thereof, or interest thereon, or any premium payable on

the redemption thereof, at the time and place and at the rate and in the currency provided therein, without the written consent of the Owner of such Bond, or

- (ii) permit the creation by the District of any mortgage, pledge or lien upon the Tax Revenues or the Net Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as expressly permitted by the Indenture), or reduce the percentage of Bonds required for the affirmative vote or written consent to an amendment or modification, or
- (iii) modify any of the rights or obligations of the Trustee without its written consent.

The Indenture and the rights and obligations of the District and of the Owners of the Bonds may also be modified or amended at any time, without the consent of any Owners of the Bonds, but only for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the District contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the District;
- (ii) to cure any ambiguity, or to cure, correct or supplement any defective provision contained in the Indenture, or in any other respect whatsoever as the District deems necessary or desirable, provided under any circumstances that such modifications or amendments do not materially adversely affect the interests of the Owners in the opinion of Bond Counsel filed with the District and the Trustee, provided that any amendment under this subsection (ii) must have the prior written consent of the Bond Insurer;
- (iii) to provide for the issuance of Parity Obligations, and to provide the terms and conditions under which such Parity Obligations may be issued, including but not limited to the establishment of special funds and accounts relating thereto and any other provisions relating solely thereto;
- (iv) to amend any provision to assure the exclusion from gross income of interest on the Bonds for federal income tax purposes under the Tax Code, in the opinion of Bond Counsel filed with the District and the Trustee.

Events of Default and Remedies

Events of Default. Each of the following events constitutes an Event of Default under the Indenture:

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

- (b) Failure to pay any installment of interest on the Bonds when due.
- (c) Failure by the District to **observe** and perform any of the other covenants, agreements or **conditions** on its part contained in the Indenture or in the Bonds, if such failure has continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, has been given to the District by the Trustee or the Bond Insurer; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30 day period, such failure does not constitute an Event of Default if the District institutes corrective action within such 30 day period and thereafter diligently and in good faith cures the failure in a reasonable period of time not to exceed 60 days from the occurrence of such failure.
- (d) The District commences a **voluntary** case under Title 11 of the United States Code or any **substitute** or successor statute.
- (e) The occurrence and continuation of an event of default under and as defined in any Supplemental Indenture authorizing the issuance of Parity Obligations.

For purposes of determining whether any event of default has occurred under and as described in the preceding clauses (a) or (b), no effect shall be given to payments made by the Bond Insurer under the Bond Insurance Policy.

Remedies. If an Event of Default occurs and is continuing, the Trustee may with the prior written consent of the Bond Insurer, and at the written direction of the Bond Insurer or (with prior written consent of the Bond Insurer) at the written direction of the Owners of a majority in aggregate principal amount of the Bonds then outstanding the Trustee must, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same will become immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and (b) exercise any other remedies available to the Trustee and the Bond Owners in law or at equity to enforce the rights of the Bond Owners under the Indenture.

Notice to Bond Owners. Immediately upon becoming aware of the occurrence of an Event of Default, the Trustee is required to give notice of such Event of Default to the District and to the Bond Insurer by telephone confirmed in writing. Such notice shall also state whether the principal of the Bonds has been declared to be or have immediately become due and payable. With respect to any Event of Default described in clauses (a) or (b) above the Trustee shall, and with respect to any Event of Default described in clause (c) above the Trustee in its sole discretion may, also give such notice to the Owners in the same manner as provided in the Indenture for notices of redemption of the Bonds, which shall include the statement that interest on the Bonds shall cease to accrue from and after the date, if any, on which the Trustee declares the Bonds to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest on the Bonds is actually paid on such date).

Application of Funds Upon Acceleration. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture will be applied by the Trustee as follows and in the following order:

- (a) *First*, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law and to the payment of any amounts owed to the Bond Insurer.
- (b) *Second*, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.
- (c) *Third*, to the Bond Insurer for any amounts due and owing to the Bond Insurer as a result of its indemnification of the Trustee for payment of the costs and expenses of the Trustee in declaring such Event of Default and in carrying out the remedies granted under the Indenture.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own discretion, with the consent or at the direction of the Bond Insurer, or upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action. The Trustee may not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the outstanding Bonds opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

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

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

- the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name;
- said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and
- the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Rights of Bond Insurer

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Bond Insurer is entitled to control and direct the enforcement of all rights and remedies granted thereunder to the Bond Owners, or to the Trustee for the benefit of the Bond Owners, including but not limited to the right to approve all waivers of any Events of Default. The rights so granted to the Bond Insurer will be deemed terminated and will not be exercisable by the Bond Insurer during any period during which the Bond Insurer is in default under the Bond Insurance Policy.

The Bond Insurer will be deemed to be the Owner of all Bonds insured under the Insurance Policy for the following purposes and during the following times: (a) at all times for the purpose of the execution and delivery of a supplemental agreement relating to any amendment, change or modification of the Indenture; (b) at all times with respect to the initiation by the Bond Owners of any action to be taken under the Indenture by the Trustee at the request of such Owners, which under the Indenture requires the written approval or consent of or permits initiation by the Owners of a specified principal amount of Bonds then outstanding; and (c) following the occurrence of an Event of Default for all other purposes.

To the extent the Indenture confers upon or gives to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized as being a third-party beneficiary under the Indenture and may enforce any such right, remedy or claim conferred, given or granted under the Indenture.

Defeasance of Bonds

The District has the right to pay and discharge the entire indebtedness on any Bonds in any one or more of the following ways:

- by paying or causing to be paid the principal of and interest on such Bonds, as and when the same become due and payable;
- by irrevocably depositing with the Trustee or an escrow bank, in trust, at or before maturity, an amount of cash which, together with the available amounts then on deposit in the funds and accounts established under the Indenture, in the opinion or report of an

independent accountant is fully sufficient to pay such Bonds, including all principal, interest and redemption premium, if any;

- by irrevocably depositing with the Trustee or an escrow bank, in trust, Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in any of the funds and accounts established under the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premium, if any) at or before maturity; or
- by purchasing such Bonds prior to maturity and tendering such Bonds to the Trustee for cancellation;

Upon such action, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Tax Revenues and Net Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the District under the Indenture with respect to such Bonds will cease and terminate.

Notwithstanding the foregoing provisions, in the event that the principal of and interest and redemption premium on the Bonds are paid by the Bond Insurer pursuant to the Bond Insurance Policy, the obligations of the Trustee and the District will continue in full force and effect and the Bond Insurer will be fully subrogated to the rights of all Owners of the Bonds so paid.

APPENDIX C
FORM OF
BOND COUNSEL OPINION

April 8, 2003

Board of Directors
South Coast Water District
31592 West Street
Laguna Beach, California 92651-6907

OPINION: \$3,795,000 South Coast Water District
2003 Enterprise Revenue Refunding Bonds

Members of the Board of Directors:

We have acted as bond counsel to the South Coast Water District (the "District") in connection with the issuance by the District of \$3,795,000 aggregate principal amount of bonds of the District designated the "South Coast Water District 2003 Enterprise Revenue Refunding Bonds" (the "Bonds"), under the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 of said Code (the "Bond Law"), under an Indenture of Trust dated as of April 1, 2003 (the "Indenture"), between the District and BNY Western Trust Company, as trustee, and under a resolution of the Board of Directors of the District adopted on February 20, 2003. We have examined the Bond Law, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The District is a county water district organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the District and are legal, valid and binding obligations of the District, payable solely from the sources provided therefor in the Indenture.

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

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

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The Bonds are "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986 (the "Tax Code") and, in the case of certain financial institutions (within the meaning of Section 265(b)(5) of the Tax Code), a deduction is allowed for eighty percent (80%) of that portion of such financial institutions' interest expense allocable to interest payable with respect to the Bonds. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Indenture to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

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

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

Respectfully submitted,

Jones Hall,
A Professional Law Corporation

APPENDIX D

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the South Coast Water District (the "District") in connection with the issuance of the \$3,795,000 aggregate principal amount of South Coast Water District 2003 Enterprise Revenue Refunding Bonds (the "Bonds"). The Bonds are being issued under an Indenture of Trust dated as of April 1, 2003 (the "Indenture") between the District and BNY Western Trust Company, as trustee (the "Trustee"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms have the following meanings:

"*Annual Report*" means any Annual Report provided by the District under, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Dissemination Agent*" means the District or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*National Repository*" means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. As of the date of this Disclosure Certificate, the following is a complete list of all the National Repositories:

Bloomberg Municipal Repository

100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
Email: Munis@Bloomberg.com

FT Interactive Data

Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
Email: NRMSIR@FTID.com

DPC Data Inc.

One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

Standard & Poor's J. J. Kenny Repository

55 Wastewater Street, 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” means each National Repository and each State Repository.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” means any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (which currently would be March 31 based upon the District’s current June 30 fiscal year), commencing with the report due by March 31, 2004, for the 2003-03 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the District shall send a notice to the Municipal Securities Rulemaking Board and the appropriate State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

- (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided under this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The District’s Annual Report shall contain or incorporate by reference the following:

- (a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental

Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed under Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

- (b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following:
 - (i) information concerning any revision in the adopted rates and charges which are generally imposed by the District upon users within the service area of the Wastewater System;
 - (ii) total Tax Revenues and Net Revenues received by the District during the preceding fiscal year and the amount by which such Tax Revenues and Net Revenues provide coverage for the payments of debt service coming due in such fiscal year with respect to the Bonds and any other Parity Obligations; and
 - (iii) for any customer whose total billings in the preceding fiscal year represent 10% or more the Gross Revenues of the Wastewater Enterprise, (1) the total amount of Gross Revenues derived from such customer and (2) the percent of total Gross Revenues represented by such customer for such fiscal year.
- (c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

- (a) Under the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:
 - (1) Principal and interest payment delinquencies.
 - (2) on-payment related defaults.
 - (3) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders.
- (8) Contingent or unscheduled bond calls.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities.
- (11) Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the

primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended under the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination

Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: April 8, 2003

SOUTH COAST WATER DISTRICT

By _____
General Manager

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. “Direct Participants” include securities brokers and dealers, banks, trust companies, clearing companies, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC’s records. The ownership interest of each Beneficial Owner is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Prepayment notices will be sent to Cede & Co. If less than all of the Bonds 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. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date.

The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

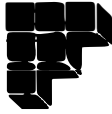
Principal and interest payments with respect to the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City 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.

The City and the Trustee cannot and do not give any assurances that DTC will distribute to Participants, or that Participants or others will distribute payments of principal or interest with respect to the Bonds paid to DTC or its nominee as the registered Owner, or any prepayment or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Trustee are not responsible or liable for the failure of DTC or any Participants to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments with respect to the Bonds to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the Participants and the Beneficial Owners is based on information provided by DTC. Accordingly, the City takes no responsibility for the accuracy thereof.

APPENDIX F
INSURANCE

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**FINANCIAL
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise), to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL
SECURITY
ASSURANCE®**

**ENDORSEMENT NO. 1 TO
MUNICIPAL BOND
INSURANCE POLICY
(California Insurance
Guaranty Association)**

ISSUER:

BONDS:

Policy No.

Effective Date

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 560NY (CA 1/91)

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