



DATE: November 12, 2008

TO: Honorable Mayor and City Councilmembers
Oceanside Public Finance Authority

FROM: City Treasurer's Office

SUBJECT: **ADOPTION OF RESOLUTIONS AUTHORIZING THE EXECUTION AND DELIVERY OF DOCUMENTS RELATING TO THE SALE AND DELIVERY OF NOT TO EXCEED \$15,000,000 REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008, AND AUTHORIZING CERTAIN DOCUMENTS AND DIRECTING CERTAIN ACTIONS IN CONNECTION THEREWITH**

SYNOPSIS

Staff recommends that the City Council and Oceanside Public Finance Authority adopt resolutions authorizing the execution and delivery of documents relating to the sale and delivery of not to exceed \$15,000,000 Revenue Refunding Certificates of Participation, Series 2008, and authorizing certain documents and directing certain actions in connection therewith. The documents pertaining to the sale of the revenue refunding bonds in substantially the forms as attached will be approved as part of the resolutions: Preliminary Official Statement, Continuing Disclosure Agreement, Trust Agreement, Installment Purchase Agreement, Certificate Purchase Agreement and Certificate Purchase Agreement. The bonds proceeds will be used to refund the existing 1998 WaterReuse Variable Rate Demand Bonds.

BACKGROUND

In March 2000, City Council approved a financing plan for the construction of the San Luis Rey Wastewater Treatment Plant Interim Expansion project. The initial cost of the project was estimated at \$50 million dollars with an expected 3-year construction period. The financing plan approved included two sources of revenue to pay for the construction. The first source of revenue was obtained through the issuance of variable rate demand bonds (VDRBs) as part of a pooled financing through the California WaterReuse Authority, a joint powers authority comprised of several California water and sanitation districts. The second source of financing was a zero percent loan obtained from the State of California's Water Resources Control Board.

Due to timing issues relative to the State loan application process and the need to have funds encumbered prior to going to bid for the construction of the project, the City

issued \$55.875 million in VDRBs in June 2000 (\$50 million project fund, \$5 million reserve fund, plus cost of issuance), in order to begin construction. In March 2001, the City applied for and received a zero percent revolving fund loan from the State Water Resources Control Board in the amount of \$58,529,984. The proceeds of the loan were received following construction progress invoice submission to the State.

Initially, the State loan proceeds were to be used to pay off the VRDBs in full, redeeming the bonds as the loan proceeds were received. To date, a total of \$32 million in State loan proceeds and \$2.34 million in bond reserves have been used to redeem \$34.34 million in outstanding VRDBs. However, due to increased construction costs that exceeded the initial \$50 million approved, a portion of the State loan was used to bridge the gap in total funding. Outstanding principal as of October 31, 2008, is \$15.635 million for the VRDBs, and \$52.675 million for the State loan. \$5.25 million in bonds is currently in the redemption process, and expected to be completed prior to the end of November 2008. The principal amount remaining after the redemption will be \$10.11 million.

ANALYSIS

The City issued \$55.875 million in variable rate demand bonds in June, 2000, to assist in the financing of the San Luis Rey Wastewater Plant Interim Expansion. The bonds issued (WateReuse Finance Authority Variable Rate Demand Bonds, Series 1998) were part of a pooled financing program available through the Water Resources Financing Authority. The initial par amount of the pool was \$200 million, but now has a par outstanding of \$52.07 million due to principal payments and early redemptions. Variable rate demand bonds (VRDBs) differ from fixed-rate debt typically issued by the City. Demand bonds are a longer term-maturity security (Oceanside's bonds have a 2028 maturity date) that have an option for the bondholder to put (sell) the security back to the issuer or its agent at a predetermined price (usually par) after specified notice has been given. The interest rate on the bonds is variable and subject to a weekly reset coinciding with the weekly put option. The interest rate on the bonds has a maximum limit of 12%; however due to relatively low interest rates since issuance in 2000, the City has historically paid on average about 3.30% in interest expense. Last fiscal year, the annual average interest rate on the bonds was 2.80%. Unfortunately, the credit crisis in the financial markets has adversely affected the variable rate bond market, and in particular the pooled financing through which the City issued the bonds, and has made it necessary to refund the bonds in an extremely difficult municipal market.

While the City has benefited from several years of low interest rates provided through the issuance of the VDRBs, the outfall from the credit market crisis has essentially led to a collapse of the pooled financing program. The pool is insured by Financial Security Assurance International (FSA) which was downgraded in October by one of the major rating agencies and placed on negative credit watch by two others. The remarketing agent for the pool was Lehman Brothers, who filed for bankruptcy on September 15, 2008. The bankruptcy filing led to over 60% of the pool (\$33.675 million par) becoming bank bonds, which means that the bonds were put (sold) back to the remarketing agent

and were not able to be sold again and therefore the bank holds the bonds. When the bonds become bank bonds, the issuer has 90 days to try to remedy the bonds by either selling the bonds or buying them from the bank. If the situation is not remedied within the 90-day time frame, the bonds become term bonds, which means the maturity shortens from 20 years to 10 years and the interest rate is reset quarterly at the Prime rate plus one point (Prime is currently at 4.5%). This equates to debt service payments that are nearly double the current debt service payment with the VDRB bonds. The current rate structure for wastewater service cannot support the higher debt service payments, which would place the City in technical default, jeopardizing its tax-exempt status. The most viable solution to the City to remedy the situation is to issue refunding, fixed rate bonds.

City Council is being asked to approve the issuance of fixed-rate certificates of participation not to exceed \$15 million, at an interest rate not to exceed 8.5%. These levels are at higher-than-expected levels due to the current financial credit crisis. Municipal bond issuances have been few, as institutional buyers have exited the market due to lack of liquidity. However, the markets have slowly seen some relief as the passage of the federal Emergency Economic Stabilization Act has started to calm market investors. The not to exceed levels are maximums set to provide flexibility during the pricing of the bonds. If markets remain as they currently are, the issued par amount will likely be between \$11 and \$11.5 million, with an interest rate between 7 and 7.5%. The interest rate will also depend on the standalone credit rating to be obtained from Standard and Poor's. Staff recently presented the official statement for the bond issue to the rating agency and is awaiting the rating. Historically, the City has obtained bond insurance to receive the highest available credit rating on its bonds, however, the purchase of bond insurance is no longer beneficial. Pricing and closing of the refunding bonds is expected to take place in mid-December, prior to the existing bonds becoming term bonds.

Documents to be approved by Council will be finalized and executed during the bond pricing and closing process, with the exception of the Bond Counsel Agreement. The Preliminary Official Statement, which includes the Continuing Disclosure Agreement, will be finalized and distributed to potential investors prior to pricing the bonds. Once final pricing of the bonds is completed, the remaining documents will be finalized and executed by the appropriate parties at bond closing.

FISCAL IMPACT

Fiscal Year 2008-2009 debt service for the 1998 WateReuse Variable Rate Demand Bonds is budgeted at \$1,441,469 million (\$580,000 principal (726.669517.5603.22057) and \$861,469 interest (726.669517.5604.22057). The budget is based on a par value of \$15.635 million with interest accruing at a conservative level of 5.52%, an estimate based on a municipal bond index in 2004. Because the bonds are variable rate, the City has been paying over 200 basis points, or 2% less than the 5.52% on an annual level. In Fiscal Year 2007-2008, total debt service paid was \$1,004,941 compared to

budgeted debt service of \$1,445,604. The City is in the process of redeeming \$5.525 million of the VDRBs using remaining State loan proceeds and reserve funds, reducing the par outstanding to \$10.11 million. Based on the new outstanding par amount, annual debt service would be approximately \$850,000.

If the City did not refund the bonds, annual debt service on the term bonds would be almost double, approximately \$1.5 million dollars. By issuing fixed rate bonds, the annual debt service on the bonds would be approximately \$970,000, based on an estimated par value of \$10.78 million and a 6.80% interest rate. These are estimated amounts and subject to change based on market conditions at the time of pricing. The 2008-2009 debt service budget does not need to be adjusted to accommodate the new debt service payment amount. Budgeting for future years will be much more accurate as the debt service schedule will be fixed as compared to a variable rate. The higher debt service costs will impact sewer rates, however. The sewer rates have been calculated using 5.25% as a proxy for the variable rate interest. The anticipated rate of the new bonds is 7% and in order for the City to meet the required debt coverage levels, sewer rates will have to be increased. The Water Utilities department will be including the necessary increase as part of a proposed rate increase scheduled to be presented to Council in January 2009.

The cost of issuing the bonds is comprised of the following known fees. Additionally, there is an estimated contingency of \$150,000 to pay for such items as printing of the official statement, credit rating fees, and other incidentals.

Underwriter's Fee – Stone and Youngberg (not to exceed 1.2% of issue)	\$107,800
Bond Counsel - Stradling, Yocca, Carlson & Rauth	\$65,000
Financial Advisor – Public Financial Management	\$10,250

COMMISSION OR COMMITTEE REPORT

The Budget Committee of the Utilities Commission and the Utilities Commission have met and reviewed the proposed refunding. The refunded debt service has been incorporated into the sewer rate structure that has been approved by the Utilities Commission, and will be presented to City Council in January 2009.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

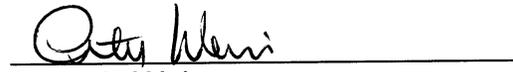
RECOMMENDATION

Staff recommends that the City Council and Oceanside Public Finance Authority adopt resolutions authorizing the execution and delivery of documents relating to the sale and delivery of not to exceed \$15,000,000 Revenue Refunding Certificates of Participation, Series 2008, and authorizing certain documents and directing certain actions in connection therewith.

PREPARED BY:


Michele C. Lund, CCMT
Treasury Manager

SUBMITTED BY:


Peter A. Weiss
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Deputy City Manager
Rosemary R. Jones, City Treasurer
Teri Ferro, Director of Financial Services
Lonnie Thibodeaux, Water Utilities Director
Attachments/Exhibits



1. Resolution of the City Council Of The City Of Oceanside authorizing the execution and delivery of documents relating to the sale and delivery of not to exceed \$15,000,000 Revenue Refunding Certificates of Participation, Series 2008, and authorizing certain documents and directing certain actions in connection therewith
2. Resolution of the Board of Directors of the Oceanside Public Financing Authority approving an Installment Purchase Agreement with the City of Oceanside and certain other documents in connection with the execution and delivery of the Revenue Refunding Certificates of Participation, Series 2008, in a principal amount not to exceed \$15,000,000
3. Preliminary Official Statement
4. Continuing Disclosure Agreement between the District and The Bank of New York Trust Company as Dissemination Agent (Attached as Appendix E to the Preliminary Official Statement)
5. Installment Purchase Agreement between the City of Oceanside and the Oceanside Public Finance Authority
6. Trust Agreement between the Oceanside Public Finance Authority, the City of Oceanside and The Bank of New York Mellon Trust Company, N.A., as Trustee

7. Certificate Purchase Contract for City of Oceanside Revenue Refunding Certificates of Participation, Series 2008
8. Bond Counsel Agreement between the City of Oceanside and Stradling, Carlson, Yocca & Rauth

1 RESOLUTION NO. _____

2 RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
3 OCEANSIDE AUTHORIZING THE EXECUTION AND
4 DELIVERY OF DOCUMENTS RELATING TO THE SALE AND
5 DELIVERY OF NOT TO EXCEED \$15,000,000 REVENUE
6 REFUNDING CERTIFICATES OF PARTICIPATION, SERIES
7 2008, AND AUTHORIZING CERTAIN DOCUMENTS AND
8 DIRECTING CERTAIN ACTIONS IN CONNECTION
9 THEREWITH

10 WHEREAS, the City of Oceanside (the "City") is a municipal corporation duly organized
11 and existing under and pursuant to the Constitution and laws of the State of California (the
12 "State"); and

13 WHEREAS, the City and the Watreuse Finance Authority, a joint exercise of powers
14 agency duly organized and existing under the laws of the State of California (the "Watreuse
15 Authority") have heretofore entered into an Installment Purchase Contract, dated as of April 1,
16 2000 (the "2000 Installment Purchase Contract"), in order to finance certain improvements to the
17 City's sewer system (the "2000 Project"); and

18 WHEREAS, the City desires to prepay the 2000 Installment Purchase Contract; and

19 WHEREAS, the City wishes to enter into the Installment Purchase Agreement described
20 below and other agreements described herein and authorize the sale of the Revenue Refunding
21 Certificates of Participation, Series 2008 (the "Certificates") under the Trust Agreement
22 described below in order to refinance the 2000 Project, and

23 WHEREAS, the City wishes to authorize the sale of the Certificates pursuant to the terms
24 of a Preliminary Official Statement described below; and

25 WHEREAS, on the date of adoption of this Resolution, the City Council has conducted a
26 public hearing regarding the refinancing of the 2000 Project in accordance with the provisions of
27 the Marks-Roos Local Bond Pooling Act of 1985 (the "Act"); and

28 WHEREAS, all acts, conditions and things required by the Constitution and laws of the
State to exist, to have happened and to have been performed precedent to and in connection with
the consummation of the financing authorized hereby do exist, have happened and have been
performed in regular and due time, form and manner as required by law, and the City is now duly
authorized and empowered, pursuant to each and every requirement of law, to consummate such
financing for the purpose, in the manner and upon the terms herein provided;

1 NOW, THEREFORE, the City Council of the City of Oceanside does resolve as follows:

2 SECTION 1. Findings. The City Council hereby specifically finds and declares that
3 each of the statements, findings and determinations of the City set forth in the above recitals and
4 in the preambles of the documents approved herein are true and correct and that the refinancing
5 of the 2000 Project will result in significant public benefits for the residents of the City. The
6 City Council hereby further finds and determines that there are significant public benefits to the
7 citizens of the City of the type described in Section 6586(a) of the Act by having the Oceanside
8 Public Financing Authority (the "Authority") assist the City with respect to the refinancing of the
9 2000 Project through the execution and delivery of the Certificates, in that the execution and
10 delivery of the Certificates and related transactions will result in demonstrable savings in
11 effective interest rate to the City and the corresponding rates and charges for sewer service
12 provided by the City.

13 SECTION 2. Authorization of Certificates. The City Council hereby expresses its
14 intention of refinancing the 2000 Project through the preparation, sale and delivery of
15 Certificates in an amount not to exceed \$15,000,000.

16 SECTION 3. Installment Purchase Agreement. The form of the Installment Purchase
17 Agreement between the City and the Authority (the "Installment Purchase Agreement"),
18 presented to this meeting and on file with the City Clerk (the "Clerk"), is hereby approved. Each
19 of the Mayor of the City (the "Mayor"), the City Manager of the City (the "City Manager") and
20 the Director of Financial Services of the City (the "Director of Financial Services"), the City
21 Treasurer, or their designees (collectively, the "Authorized Officers"), is hereby authorized and
22 directed, for and in the name and on behalf of the City, to execute and deliver to the Authority
23 the Installment Purchase Agreement in substantially said form, with such changes therein as the
24 Authorized Officer or Officers executing the Installment Purchase Agreement may require or
25 approve, such approval to be conclusively evidenced by the execution and delivery thereof by
26 one or more of the Authorized Officers.

27 SECTION 4. Appointment. The Bank of New York Mellon Trust Company, N.A. is
28 appointed trustee (the "Trustee") under the Trust Agreement (defined below).

SECTION 5. Trust Agreement. The form of the Trust Agreement (the "Trust
Agreement") among the City, the Authority and the Trustee, presented to this meeting and on file
with the Clerk, is hereby approved. Each of the Authorized Officers is hereby authorized and
directed, for and in the name and on behalf of the City, to execute and deliver to the Authority

1 and the Trustee the Trust Agreement in substantially said form, with such changes therein as the
2 Authorized Officer or Officers executing the Trust Agreement may require or approve, such
3 approval to be conclusively evidenced by the execution and delivery thereof by one or more of
4 the Authorized Officers.

5 SECTION 6. Assignment Agreement. The Assignment Agreement between the Trustee
6 and the Authority (the "Assignment Agreement") in the form on file with the Clerk is hereby
7 approved for execution and delivery by the Authority.

8 SECTION 7. Approval of Purchase Agreement. The form of the Certificate Purchase
9 Agreement (the "Purchase Agreement") by and among the City, the Authority and Stone &
10 Youngberg LLC (the "Underwriter") presented to this meeting and on file with the Clerk and the
11 sale of the Certificates to the Underwriter pursuant thereto upon the terms and conditions set
12 forth therein is hereby approved, and subject to such approval and subject to the provisions
13 hereof, the Authorized Officers are each hereby authorized and directed to evidence the City's
14 acceptance of the offers made by the Purchase Agreement by executing and delivering the
15 Purchase Agreement in said form with such changes therein as the Authorized Officer or
16 Officers executing the same may approve and such matters as are authorized by this Resolution,
17 such approval to be conclusively evidenced by the execution and delivery thereof by any one of
18 the Authorized Officers.

19 SECTION 8. City Manager, Director of Financial Services and City Treasurer to
20 Establish Final Terms of Issuance. The City Manager, the Director of Financial Services, the
21 City Treasurer and their designees are each authorized, on behalf of the City, to establish and
22 determine (i) the final principal amount of the Certificates, not to exceed \$15,000,000; (ii) the
23 final interest rates on various maturities of the Certificates, not to exceed a total interest cost of
24 8.50% per annum for the Certificates as a whole; and (iii) the Underwriter's discount for the
25 purchase of the Certificates, not to exceed 1.20% of the principal amount of the Certificates.

26 SECTION 9. Bond Insurance. The City Manager, the Director of Financial Services and
27 their designees are hereby authorized to (i) execute a commitment for financial guaranty
28 insurance from a municipal bond insurer (the "Insurer"), (ii) to finalize the form of such policy
with the Insurer, and (iii) if it is determined that the policy will result in interest rate savings for
the City, to pay the insurance premium of such policy from the proceeds of the issuance and sale
of the Certificates.

1 SECTION 10. Preliminary Official Statement. The form of the Preliminary Official
2 Statement, presented to this meeting and on file with the Clerk, is hereby approved. The City
3 Manager, the Director of Financial Services and their designees are hereby authorized to make
4 such changes to the Preliminary Official Statement as are necessary to make it final as of its date
5 and are authorized and directed to execute and deliver a certificate deeming the Preliminary
6 Official Statement final as of its date in accordance with Rule 15c2-12 promulgated under the
7 Securities Exchange Act of 1934. Each of the Authorized Officers is hereby authorized and
8 directed to execute, approve and deliver the final Official Statement in the form of the
9 Preliminary Official Statement with such changes, insertions and omissions as the Authorized
10 Officer or Officers executing said document may require or approve, such approval to be
11 conclusively evidenced by the execution and delivery thereof by one or more of the Authorized
12 Officers.

13 SECTION 11. Continuing Disclosure Agreement. The form of the Continuing
14 Disclosure Agreement between the City and the Trustee, acting as dissemination agent (the
15 “Continuing Disclosure Agreement”), presented to this meeting and on file with the Clerk, is
16 hereby approved. Each of the Authorized Officers is hereby authorized and directed, for and in
17 the name and on behalf of the City, to execute and deliver to the Trustee the Continuing
18 Disclosure Agreement in substantially said form, with such changes therein as such Authorized
19 Officer or Officers executing such document may require or approve, such approval to be
20 conclusively evidenced by the execution and delivery thereof.

21 SECTION 12. Attestations. The Clerk or persons as may have been designated by the
22 City Manager are hereby authorized and directed to attest the signature of the Authorized
23 Officers designated herein to execute any documents described herein, and to affix and attest the
24 seal of the City, as may be required or appropriate in connection with the execution and delivery
25 of the Purchase Agreement, the Installment Purchase Agreement, the Trust Agreement, the
26 Continuing Disclosure Agreement and the Official Statement.

27 SECTION 13. Professional Services. The City Manager and the Director of Financial
28 Services are each authorized to execute contracts with Stradling Yocca Carlson & Rauth, a
Professional Corporation, to act as Bond Counsel to the City and Public Financial Management
to act as Financial Advisor, which contracts shall be in substantially the form on file with the
Clerk, together with such changes as may be approved by the City Manager and the Director of

1 Financial Services, the City Attorney, or their designee, which changes shall be deemed
2 approved by the execution and delivery of such contracts by any one of such officers.

3 SECTION 14. Other Actions. The Authorized Officers are each hereby authorized and
4 directed, jointly and severally, to do any and all things and to execute and deliver any and all
5 documents which each may deem necessary or advisable (including, but not limited to, consents
6 or amendments to the 2000 Installment Purchase Contract, a debt service surety bond, or other
7 form of credit enhancement and entering into an escrow agreement for the prepayment of the
8 2000 Installment Purchase Contract) in order to consummate the sale, execution and delivery of
9 the Certificates, the prepayment of the 2000 Installment Purchase Contract and otherwise to
10 carry out, give effect to and comply with the terms and intent of this Resolution, the Certificates,
11 the Installment Purchase Agreement, the Trust Agreement, the Continuing Disclosure
12 Agreement, the Preliminary Official Statement, and the Official Statement. Such actions
13 heretofore taken by such officers or designees are hereby ratified, confirmed and approved.

14 SECTION 15. Effect. This Resolution shall take effect immediately upon its passage.

15 PASSED AND ADOPTED by the City Council of the City of Oceanside, California, this
16 _____ day of _____ 2008, by the following vote:

17 AYES:

18 NAYS:

19 ABSENT:

20 ABSTAIN:

21 _____
22 MAYOR OF THE CITY OF OCEANSIDE

23 ATTEST:

24 APPROVED AS TO FORM:

25 _____
26 City Clerk

27 
28 _____
City Attorney

1 RESOLUTION NO. _____

2 RESOLUTION OF THE BOARD OF DIRECTORS OF THE
3 OCEANSIDE PUBLIC FINANCING AUTHORITY APPROVING
4 AN INSTALLMENT PURCHASE AGREEMENT WITH THE
5 CITY OF OCEANSIDE AND CERTAIN OTHER DOCUMENTS
6 IN CONNECTION WITH THE EXECUTION AND DELIVERY
7 OF THE REVENUE REFUNDING CERTIFICATES OF
8 PARTICIPATION, SERIES 2008 IN A PRINCIPAL AMOUNT
9 NOT TO EXCEED \$15,000,000

10 WHEREAS, the Oceanside Public Financing Authority is a joint exercise of powers
11 authority duly organized and existing under the laws of the State of California (the "Authority")
12 with the authority to assist in financing and refinancing the acquisition, construction, installation
13 and equipping of certain capital improvements on behalf of the City of Oceanside (the "City");
14 and

15 WHEREAS, the City and the Watereuse Finance Authority, a joint exercise of powers
16 agency duly organized and existing under the laws of the State of California (the "Watereuse
17 Authority") have heretofore entered into a Installment Purchase Contract, dated as of April 1,
18 2000 (the "2000 Installment Purchase Contract"), in order to finance certain improvements to the
19 City's sewer system (the "2000 Project"); and

20 WHEREAS, in order to prepay the 2000 Installment Purchase Contract, the Authority
21 and the City have determined that it would be in the best interests of the Authority, the City and
22 residents of the City to authorize the preparation, sale and delivery of the Revenue Refunding
23 Certificates of Participation, Series 2008, in an aggregate principal amount not to exceed
24 \$15,000,000 (the "Certificates"), which Certificates evidence fractional interests in certain
25 installment payments to be made pursuant to the Installment Purchase Agreement (as defined
26 below); and

27 WHEREAS, in order to facilitate the execution and delivery of the Certificates, the City
28 and the Authority desire to enter into a Certificate Purchase Agreement by and among the
Authority, the City and Stone & Youngberg LLC (the "Purchase Agreement") and an Installment
Purchase Agreement between the City and the Authority (the "Installment Purchase Agreement")
and a Trust Agreement among The Bank of New York Mellon Trust Company, N.A. (the
"Trustee"), the City and the Authority (the "Trust Agreement"); and, the forms of which have

1 been presented to this Board of Directors at the meeting at which this Resolution is being
2 adopted; and

3 WHEREAS, the Authority desires to assign its right to receive installment payments from
4 the City pursuant to the Installment Purchase Agreement to the Trustee pursuant to an
5 Assignment Agreement between the Authority and the Trustee (the "Assignment Agreement"),
6 the form of which has been presented to this Board of Directors at the meeting at which this
7 Resolution is being adopted; and

8 WHEREAS, the Certificates are to be offered to investors pursuant to the terms of a
9 Preliminary Official Statement (the "Preliminary Official Statement"), the form of which has
10 been presented to this Board of Directors at the meeting at which this Resolution is being
11 adopted;

12 NOW, THEREFORE, the Board of Directors of the Oceanside Public Financing
13 Authority does hereby resolve as follows:

14 SECTION 1. Certificates. This Board of Directors hereby authorizes the preparation,
15 sale and delivery of the Certificates in an aggregate principal amount not to exceed \$15,000,000
16 in accordance with the terms and provisions of the Trust Agreement. The purposes for which the
17 proceeds of the sale of the Certificates shall be expended are to refinance the 2000 Project, to
18 purchase a reserve fund surety bond or to fund a reserve fund, and to pay the costs of the sale and
19 delivery of the Certificates including the premium on a financial guaranty insurance policy for
20 the Certificates. The Authority authorizes the distribution of the Preliminary Official Statement
21 to investors following the execution by the City of a certificate deeming the Preliminary Official
22 Statement final as of its date for purposes of Rule 15c2-12 adopted by the Securities and
23 Exchange Commission.

24 SECTION 2. Certificate Documents. The Purchase Agreement, the Installment
25 Purchase Agreement, the Trust Agreement and the Assignment Agreement (the "Agreements")
26 presented at this meeting are approved. Each of the Chairman, Vice Chairman, Executive
27 Director, Treasurer and Secretary of the Authority, or the Chairman's designee, are authorized
28 and directed to execute and deliver the Agreements. The Agreements shall be executed in
substantially the forms hereby approved, with such additions thereto and changes therein as are
recommended or approved by counsel to the Authority and approved by one or more of the
foregoing officers of the Authority authorized to execute the documents, such approval to be

1 conclusively evidenced by the execution and delivery thereof by one or more of the officers
2 listed above.

3 SECTION 3. Establishment of Final Terms of Issuance. The City Manager of the City,
4 the Director of Financial Services of the City, the City Treasurer and their designees are each
5 authorized to establish and determine (i) the final principal amount of the Certificates, not to
6 exceed \$15,000,000; (ii) the final interest rates on various maturities of the Certificates, not to
7 exceed a total interest cost of 8.50% per annum for the Certificates as a whole; and (iii) the
8 Underwriter's discount for the purchase of the Certificates, not to exceed 1.20% of the principal
amount of the Certificates.

9 SECTION 4. Other Actions. The Chairman, Vice Chairman, Executive Director,
10 Treasurer, Secretary and other officers of the Authority are authorized and directed, jointly and
11 severally, to do any and all things and to execute and deliver any and all documents which they
12 may deem necessary or advisable in order to consummate the sale and delivery of the
13 Certificates, and the execution of the Agreements and otherwise effectuate the purposes of this
Resolution, and such actions previously taken by such officers are hereby ratified and confirmed.

14 SECTION 5. Effect. This Resolution shall take effect from and after its date of
15 adoption.

16 PASSED AND ADOPTED by the Board of Directors of the Oceanside Public Financing
17 Authority, California, this ____ day of _____, 2008, by the following vote:

18 AYES:

19 NAYS:

20 ABSENT:

21 ABSTAIN:

22 _____
CHAIRMAN OF THE OCEANSIDE
23 PUBLIC FINANCING AUTHORITY

24 ATTEST:

25 APPROVED AS TO FORM:

26 _____
27 Secretary

28 _____
City Attorney



ATTACHMENT 3

NEW ISSUE—BOOK-ENTRY ONLY

RATINGS: S&P “__”
(See “RATINGS” herein)

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER __, 2008

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, the portion of each Installment Payment constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Installment Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See “TAX MATTERS” herein with respect to tax consequences with respect to the Certificates.

§ _____*
CITY OF OCEANSIDE

REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

Dated: Date of Delivery

Due: May 1, as shown below

The City of Oceanside Revenue Refunding Certificates of Participation, Series 2008 (the “Certificates”) are being issued: (i) to prepay all outstanding obligations of the City under the Installment Purchase Contract, dated as of April 1, 2000, by and between the City and WasteReuse Finance Authority (the “2000 Installment Purchase Contract”), in the aggregate principal amount of \$ _____; (ii) to provide for a reserve fund; and (iii) to pay certain costs of issuance. Proceeds from the 2000 Installment Purchase Contract financed the cost of the expansion of and certain capital improvements to the City’s San Luis Rey Wastewater Treatment Plant.

The Certificates are executed and delivered in fully registered form and when executed and delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Purchasers of Certificates will not receive certificates representing their beneficial ownership in the Certificates but will receive credit balances on the books of their respective nominees. The Certificates will not be transferable or exchangeable except for transfer to another nominee of The Depository Trust Company or as otherwise described herein. Interest with respect to the Certificates, is payable on May 1, 2009 and semiannually thereafter on each May 1 and November 1. Interest and principal will be paid by Bank of New York Mellon Trust Company, N.A., as Trustee, to Cede & Co., and such interest and principal payments and premium, if any, are to be disbursed to the beneficial owners of the Certificates through their nominees. See the caption “THE CERTIFICATES—DTC and Book Entry Only System.”

The Certificates are subject to optional and mandatory prepayment as more fully described herein. See the caption “THE CERTIFICATES.”

The Certificates evidence undivided interests in Installment Payments payable by the City under an Installment Purchase Agreement with the Oceanside Public Financing Authority. The City’s obligation to make the Series 2008 Installment Payments is a special obligation of the City payable solely from Net Revenues of the Sewer System. The City has covenanted in the Installment Purchase Agreement not to incur any obligations payable from Net Revenues prior to the Series 2008 Installment Payments or, except as described herein, on a parity therewith. Upon payment in full of the City’s obligations under the 2000 Installment Purchase Contract, the City will have outstanding the following obligations, which are payable from Net Revenues on a parity with the Series 2008 Installment Payments: (i) two loans from the State Water Resources Control Board; and (ii) an Installment Purchase Agreement related to the City of Oceanside Revenue Certificates of Participation (1993 Wastewater System Refunding Project) Series 2003. See the caption “THE SEWER SYSTEM—Outstanding Indebtedness.”

The obligation of the City to make the Series 2008 Installment Payments is an irrevocable obligation of the City payable solely from Net Revenues of the Sewer System, but does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make the Series 2008 Installment Payments under the Installment Purchase Agreement does not constitute a debt of the City, the Authority, the State or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

MATURITY SCHEDULE
(See Inside Cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Certificates are offered when, as and if delivered and received by the Underwriter, subject to the approval of the validity of the Installment Purchase Agreement and the Trust Agreement by Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for City and Authority by the City Attorney, and for the Trustee by its counsel. It is anticipated that the Certificates will be available for delivery through the facilities of The Depository Trust Company in New York, New York on or about December __, 2008.

STONE & YOUNGBERG

Dated: December __, 2008.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

\$ _____ *

CITY OF OCEANSIDE

REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

MATURITY SCHEDULE

Base CUSIP[†] _____

<i>Maturity (May 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP</i>	<i>Maturity (May 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP</i>
2009	\$	%	%		2019	\$	%	%	
2010					2020				
2011					2021				
2012					2022				
2013					2023				
2014					2024				
2015					2025				
2016					2026				
2017					2027				
2018					2028				

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. Copyright© 1999-2008 Standard & Poor's, a Division of the McGraw Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the City nor the Underwriter takes any responsibility for the accuracy of such numbers.

**CITY OF OCEANSIDE
COUNTY OF SAN DIEGO, CALIFORNIA**

CITY COUNCIL AND OCEANSIDE PUBLIC FINANCING AUTHORITY

Jim Wood, *Mayor and Chair*
Rocky Chavez, *Deputy Mayor and Vice Chair*
Esther C. Sanchez, *Council Member and Authority Member*
Jack Feller, *Council Member and Authority Member*
Jerome M. Kern, *Council Member and Authority Member*

CITY OFFICIALS

Peter A. Weiss, *City Manager*
Teri Ferro, *Director of Financial Services*
Lonnie Thibodeaux, *Water Utilities Director*
John P. Mullen, *City Attorney*
Barbara Riegel-Wayne, *City Clerk*
Rosemary Jones, *City Treasurer*
Michele Lund, *Treasury Manager*

SPECIAL COUNSEL

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

TRUSTEE

Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

FINANCIAL ADVISOR

Public Financial Management, Inc.
Newport Beach, California

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement:

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

The information and expression of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "THE SEWER SYSTEM."

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

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

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

The City maintains a website; however, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Certificates to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this summary and not otherwise defined have the meaning given them in APPENDIX B—“DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS” hereto.

Purpose. The proceeds of the Certificates will be used: (i) to prepay all outstanding obligations of the City under the Installment Purchase Contract, dated as of April 1, 2000, by and between the City and WaterReuse Finance Authority (the “2000 Installment Purchase Contract”), in the aggregate principal amount of \$ _____; (ii) to provide for a reserve fund; and (iii) to pay certain costs of issuance. Proceeds from the 2000 Installment Purchase Contract financed the cost of the expansion of and certain capital improvements to the City’s San Luis Rey Wastewater Treatment Plant. See the caption “THE REFUNDING PLAN” herein.

Security for the Certificates. Each Certificate represents an undivided interest of the Owner thereof in 2008 Installment Payments to be made by the City pursuant to an Installment Purchase Agreement with the Authority. The Series 2008 Installment Payments are scheduled to be sufficient to pay the principal of and interest due with respect to the Certificates. The City’s obligation to make Series 2008 Installment Payments is a special obligation of the City payable solely from Net Revenues of the City’s Sewer System.

THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2008 INSTALLMENT PAYMENTS IS AN IRREVOCABLE OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES BUT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2008 INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Rate Covenant. The City has covenanted in the Installment Purchase Agreement to fix, prescribe, revise and collect rates and charges for the Sewer Service which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to 115% of the Debt Service for such Fiscal Year.

Outstanding Parity Obligations. Upon payment in full of the City’s obligations under the 2000 Installment Purchase Agreement, the City will have outstanding the following obligations which are payable from Net Revenues on a parity with the Series 2008 Installment Payments: (i) two loans from the State Water Resources Control Board; and (ii) an Installment Purchase Agreement dated as of March 1, 2003 by and between the City and the Authority related to the City of Oceanside Revenue Certificates of Participation (1993 Wastewater System Refunding Project) Series 2003.

Senior and Additional Parity Obligations. The City has covenanted in the Installment Purchase Agreement that it will not, so long as any Certificates are Outstanding, issue or incur any obligations secured by a pledge of Revenues and payable from Net Revenues prior or superior to the Series 2008 Installment Payments. The City may incur additional indebtedness payable from Net Revenues on a parity with Series 2008 Installment Payments subject to meeting the conditions described herein. See “SECURITY FOR THE CERTIFICATES — Limitations on Parity and Superior Obligations.”

Reserve Fund. A Reserve Fund will be established under the Trust Agreement as security for the Certificates in an amount equal to \$ _____. Concurrently with the execution and delivery of the Certificates, the Trustee is to establish, maintain and hold in trust in the Reserve Fund the Series 2008 Reserve Fund Requirement, which will be funded from the proceeds of the Certificates. Moneys in the Reserve Fund will be

used and withdrawn solely for the purpose of paying principal and interest evidenced by the Certificates in the event moneys held by the Trustee are insufficient therefor, and for making the final payments of principal and interest evidenced by the Certificates.

The City. The City is located in San Diego County, approximately 90 miles south of Los Angeles and 30 miles north of the City of San Diego. The City comprises approximately 42 square miles.

The Sewer System. The City's Sewer System provides sewer treatment services to the entire area within the City, and a portion of the Rainbow Municipal Water District. The City currently provides sewer service to approximately 41,145 residential, commercial and industrial connections within the City of Oceanside and 2,049 connections within Rainbow Municipal Water District ("RMWD"). The City bills RMWD annually for service and flow charges.

Continuing Disclosure. The City has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than the March 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on the last day of June) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2008, and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. See the caption "CONTINUING DISCLOSURE" herein and APPENDIX E—"FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto.

§ _____ *

CITY OF OCEANSIDE
REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

INTRODUCTION

This Official Statement, including the cover page, inside cover page and all appendices hereto, provides certain information concerning the City of Oceanside Revenue Refunding Certificates of Participation, Series 2008 (the “Certificates”), in the aggregate principal amount of \$_____.^{*} These Certificates are being issued: (i) to prepay all outstanding obligations of the City under the Installment Purchase Contract, dated as of April 1, 2000, by and between the City and Waste Reuse Finance Authority (the “2000 Installment Purchase Contract”), in the aggregate principal amount of \$_____; (ii) to provide for a reserve fund; and (iii) to pay certain costs of issuance.

All descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Certain capitalized terms used herein shall have the meaning given such terms in APPENDIX B—“DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS” hereto.

The Certificates evidence undivided interests of the registered owners thereof (the “Owners”) in installment payments (the “Series 2008 Installment Payments”) to be made by the City pursuant to an Installment Purchase Agreement, dated as of December 1, 2008 (the “Installment Purchase Agreement”), by and between the City and Oceanside Public Financing Authority (the “Authority”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2008 (the “Trust Agreement”), by and among the City, the Authority and Bank of New York Mellon Trust Company, N.A. (the “Trustee”). Pursuant to an Assignment Agreement, dated as of December 1, 2008, by and between the Authority and the Trustee (the “Assignment Agreement”), the Authority has assigned to the Trustee for the benefit of the Owners of the Certificates substantially all its rights, title and interest in the Installment Purchase Agreement, including its right to receive Series 2008 Installment Payments payable under the Installment Purchase Agreement and its rights to enforce payment by the City of such Series 2008 Installment Payments when due.

The City’s obligation to make the Series 2008 Installment Payments is a special obligation of the City payable solely from the Net Revenues of the City’s Sewer System, consisting generally of all Revenues derived from the ownership and operation of the Sewer System remaining after payment of Operation and Maintenance Expenses of the Sewer System. Under no circumstances is the City required to advance any moneys derived from any source of income other than the Net Revenues to pay Series 2008 Installment Payments nor shall any other funds or property of the City be liable for the payment of the Series 2008 Installment Payments.

The obligation of the City to make the Series 2008 Installment Payments from the Net Revenues is absolute and unconditional, and until such time as the Series 2008 Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the City will have no right to discontinue or suspend any Series 2008 Installment Payments required to be made by it when due, whether or not the Sewer System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

^{*} Preliminary, subject to change.

THE REFUNDING PLAN

The Certificates are being issued to provide a portion of the moneys to prepay the 2000 Installment Purchase Contract in the aggregate principal amount of \$ _____ which will in turn cause a redemption of approximately \$ _____ aggregate principal amount of certain Variable Rate Demand Bonds, Series 1998 (WateReuse Variable Rate Finance Program) (the "WateReuse Bonds"), which are currently owned by the liquidity provider for the WateReuse Bonds, on or about December __, 2008. Proceeds from the 2000 Installment Purchase Agreement were used by the City to finance the expansion of and certain other capital improvements to the City's San Luis Rey Wastewater Treatment Plant (the "2000 Project").

All of the City's obligations under the 2000 Installment Purchase Contract, including the pledge and lien on the Revenues of the Sewer System which secure the City's payment obligations under the 2000 Installment Purchase Contract, will be fully discharged upon the issuance of the Certificates.

ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated sources and uses of the proceeds of the Certificates:

Sources	
Certificate Proceeds	\$
Net Original Issue Premium	
Total Sources.....	<u>\$</u>
Uses	
Escrow Fund ⁽¹⁾	\$
Reserve Fund.....	
Costs of Issuance ⁽²⁾	
Total Uses.....	<u>\$</u>

⁽¹⁾ To be transferred by the Trustee to the WateReuse Finance Authority to prepay the 2000 Installment Purchase Contract.
⁽²⁾ Includes legal and financing costs; printing costs; fees of rating agencies; initial fees of the Trustee; advertising costs; Underwriter's Discount and other miscellaneous delivery costs.

THE CERTIFICATES

General Provisions

The Certificates will be executed and delivered in the aggregate principal amount of \$ _____,* will be dated the Date of Delivery, will represent interest from such date at the rates per annum set forth on the cover page hereof, payable semiannually on May 1 and November 1 in each year, commencing May 1, 2009 (each, an "Interest Payment Date"), and will mature on the dates and in the amounts set forth on the inside cover page hereof. Interest on the Certificates will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

DTC and Book-Entry Only System

The information in this section and APPENDIX D concerning The Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from DTC, and the City, the Authority and the Trustee take no responsibility for the accuracy thereof. See APPENDIX D—"DTC AND BOOK-ENTRY ONLY SYSTEM" hereto for a further description of DTC and its book-entry system. Capitalized terms used under this caption and not otherwise defined shall have the respective meanings given to such terms in APPENDIX D.

* Preliminary, subject to change.

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

The City and the Trustee cannot and do not give any assurances that DTC Direct Participants or DTC Indirect Participants will distribute to the Beneficial Owners: (i) payments of interest with respect to the Certificates; (ii) certificates representing an ownership interest in or other confirmation of ownership interests in the Certificates; or (iii) prepayment or other notices sent to DTC or Cede & Co., its nominee, as registered owner of the Certificates, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will service and act in the manner described herein.

Optional Prepayment

The Certificates with stated maturities on or after May 1, 20__, are subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by the City in a written request provided to the Trustee and by lot within each maturity, in integral multiples of \$5,000, on any date on or after May 1, 20__, from optional prepayments of the Series 2008 Installment Payments made by the City pursuant to the Installment Purchase Agreement, at a prepayment price equal to the principal amount of such Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Mandatory Prepayment From Insurance and Condemnation Proceeds

The Certificates are subject to mandatory prepayment prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the City in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Trust Agreement and the Installment Purchase Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notice of Prepayment

When prepayment is authorized or required, the Trustee will give notice to the Owners of the Certificates designated for prepayment. Such notice will state the date of notice, the prepayment date, the place or places of prepayment and the prepayment price, will designate the maturities, CUSIP numbers, if any, and, if less than all Certificates of any such maturity are to be prepaid, the serial numbers of the Certificates of such maturity to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment, and in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice will also state that on said date there will become due and payable on each of said Certificates the prepayment price thereof or of said specified portion of the principal represented thereby in the case of a Certificate to be prepaid in part only, together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and will require that such Certificate be then surrendered to the Trustee.

Notice of such prepayment will be mailed, first-class postage prepaid, not more than 60 days nor less than 30 days prior to said prepayment date, to the respective Owners of any Certificates designated for

prepayment at their addresses appearing on the Certificate registration books. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

Form of Certificates and Payments Upon Abandonment of Book-Entry Only System

In the event the book-entry only system described above is abandoned or terminated, the Certificates will be executed and delivered in fully registered form in the denomination of \$5,000 each or any integral multiple thereof. Payment of interest with respect to all Certificates will be made by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the respective registered owners (the "Owners") of record as of the close of business on the fifteenth day of the calendar month prior to each Interest Payment Date (each, a "Record Date") at the addresses shown on the registration books required to be kept by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date except in each case, that, if and to the extent that there is a default in the payment of the interest due on such Interest Payment Date, such defaulted interest will be paid to the Owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee. Payment of principal and prepayment price with respect to all Certificates will be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California.

Interest with respect to any Certificate will be payable from the Interest Payment Date next preceding the date of execution thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest will be payable from such Interest Payment Date, or unless such date shall be on or before the first Record Date, in which case interest shall be payable from the Closing Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Certificates is in default, Certificates executed in exchange for Certificates surrendered for transfer or exchange will represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from the Closing Date.

SERIES 2008 INSTALLMENT PAYMENTS

On April 29 and October 30 of each year (or if such day is not a Business Day then on the next preceding Business Day) commencing on April 29, 2009 (each, an "Installment Payment Date"), the City will pay to the Trustee an amount equal to the 2008 Installment Payment coming due on such Installment Payment Date. Any moneys on deposit in the Certificate Payment Fund on each Installment Payment Date (other than amounts required for the payment of past due principal or interest with respect to any Certificates not presented for payment) will be credited to the payment of the Series 2008 Installment Payments due and payable on such date. The Trust Agreement requires that the Trustee deposit such payments in the Certificate Payment Fund for application to make principal and interest payments due with respect to the Certificates. Additionally, the City has outstanding the following obligations which are payable from Net Revenues on a parity with the Series 2008 Installment Payments: (i) two loans from the State Water Resources Control Board; and (ii) an Installment Purchase Agreement dated as of March 1, 2003 (the "2003 Installment Purchase Agreement") by

and between the City and the Authority relating to City of Oceanside Revenue Certificates of Participation (1993 Wastewater System Refunding Project) Series 2003. See “THE SEWER SYSTEM—Outstanding Indebtedness” herein.

Set forth below is a table of the annual Series 2008 Installment Payments, the Series 2003 Installment Payments and the State Loan payments. Upon the prepayment of the 2000 Installment Purchase Contract, the City has no other outstanding contracts or Bonds secured by a pledge of Revenues or payable from Net Revenues other than as set forth in the table below.

<i>Annual Period Ending June 30,</i>	<i>Series 2008 Installment Payments*</i>			<i>Series 2003 Installment Payments</i>	<i>1993 State Loan Payments</i>	<i>2000 State Loan Payments</i>	<i>Total Debt Service</i>
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>				
2009	\$			\$	\$	\$	\$
2010		\$	\$				
2011							
2012							
2013							
2014							
2015							
2016							
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
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2027							
2028							

SECURITY FOR THE CERTIFICATES

Each Certificate represents an undivided interest in Series 2008 Installment Payments to be made by the City under the Installment Purchase Agreement. Pursuant to the Assignment Agreement, the Authority has assigned to the Trustee for the benefit of the Owners of the Certificates substantially all of its right, title and interest in the Installment Purchase Agreement, including its right to receive Series 2008 Installment Payments thereunder and its rights as may be necessary to enforce payment of the Series 2008 Installment Payments when due or otherwise protect the interests of the Owners of the Certificates under the Installment Purchase Agreement.

Pledge of Revenues

All Revenues and all amounts on deposit in the Revenue Fund, which the City agrees to establish and hold under the Installment Purchase Agreement, are irrevocably pledged to the payment of the Series 2008 Installment Payments as provided in the Installment Purchase Agreement and the Revenues will not be used for any other purpose while any of the Series 2008 Installment Payments remain unpaid except as described below. Under the terms of the Installment Purchase Agreement, Revenues are applied first pay Operation and Maintenance Costs. The Series 2008 Installment Payments are payable solely from Net Revenues. The pledge of Revenues constitutes a first and exclusive lien thereon and, subject to application of amounts on deposit therein as permitted in the Installment Purchase Agreement, on the Revenue Fund and the other funds and

* Preliminary, subject to change.

accounts created under the Installment Purchase Agreement for the payment of the Series 2008 Installment Payments and all other Contracts and Bonds in accordance with the terms of the Installment Purchase Agreement and the Trust Agreement, including but not limited to the 1993 State Loan, the 2000 State Loan and the 2003 Installment Purchase Agreement.

Revenues include all amounts derived by the City from the collection, treatment and disposal of wastewater, all stand-by or wastewater availability charges related to the Sewer System and all connection charges and development fees collected by the City and including investment earnings on all such amounts and the City's Sewer Fund reserves, all as more particularly described in the definition of Revenues in APPENDIX B hereto. Revenues do not include certain other moneys, as more particularly excluded in the definition of Revenues in APPENDIX B hereto. See APPENDIX B—"DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS."

Moneys in the Revenue Fund will be used and applied by the City as provided in the Installment Purchase Agreement. The City has covenanted, from the moneys in the Revenue Fund, to pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. Thereafter, all remaining moneys in the Revenue Fund will be used and applied to pay Debt Service, including the Series 2008 Installment Payments, Series 2003 Installment Payments, payments with respect to State Loans and any other Contracts or Bonds secured on a parity with the Series 2008 Installment Payments, then to replenish all reserve funds established for the Certificates and such Bonds or Contracts, including the Reserve Fund, and thereafter for any purpose permitted by law.

Limited Liability

Notwithstanding anything contained in the Installment Purchase Agreement, the City shall not be required to advance any moneys derived from any source of income other than the Revenues, the Revenue Fund and the other funds provided in the Installment Purchase Agreement for the payment of amounts due under the Installment Purchase Agreement or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2008 INSTALLMENT PAYMENTS IS AN IRREVOCABLE OBLIGATION OF THE CITY PAYABLE SOLELY FROM NET REVENUES BUT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE CITY TO MAKE THE SERIES 2008 INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE CITY, THE AUTHORITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Series 2008 Installment Payments are payable only from Net Revenues and are not secured by, and the Certificate Owner has no security interest in or mortgage on, the San Luis Rey Wastewater Treatment Plant, or the Sewer System or any other assets of the City. Default by the City will not result in loss of the San Luis Rey Wastewater Treatment Plant or the Sewer System or any other assets of the City. Should the City default, the Trustee, as assignee of the Authority, may declare the entire principal amount of the unpaid Series 2008 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, and by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, compel the City to perform and carry out its duties under the law and the agreements and covenants required to be performed by it contained in the Installment Purchase Agreement or by suit in equity enjoin any acts or things which are unlawful or violate the

rights of the Authority. See APPENDIX B—"DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS—Events of Default and Remedies of the Authority."

Rate Covenant

The City has covenanted in the Installment Purchase Agreement to fix, prescribe, revise and collect rates, fees and charges for the Sewer Service which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred fifteen per cent (115%) of the Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the rate covenant.

Limitations on Parity and Superior Obligations

Obligations Superior to Installment Payments. The City has covenanted in the Installment Purchase Agreement that it will not, so long as any Certificates are Outstanding, issue or incur any obligations secured by a pledge of Revenues and payable from Net Revenues prior or superior to the Installment Payments.

Obligations on a Parity with the Installment Payments. The City may at any time execute any Contract or issue any Bonds, as the case may be, which are secured by Net Revenues on a parity with the Installment Payments in accordance with the Installment Purchase Agreement, provided:

(a) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, shall have produced a sum equal to at least one hundred fifteen per cent (115%) of the Debt Service for such twelve month period; and

(b) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Sewer Service approved and in effect as of the date of calculation, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, shall have produced a sum equal to at least one hundred fifteen per cent (115%) of the Debt Service for such twelve month period plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period assuming such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such twelve month period; and

(c) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate of the City Manager on file with the City, including (after giving effect to the completion of all such uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Sewer Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the City Manager on file with the City, shall produce a sum equal to at least one hundred fifteen per cent (115%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment

provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects.

Reserve Fund

A Reserve Fund is established by the Trust Agreement and is required to be funded in an amount equal to the initial Series 2008 Reserve Requirement of \$_____. The "Series 2008 Reserve Requirement" means as of any date of calculation an amount equal to the least of (i) the maximum Series 2008 Installment Payments due in the then current or any future fiscal years; (ii) 125% of the average annual Series 2008 Installment Payments then payable under the Installment Purchase Agreement (exclusive of any Series 2008 Installment Payments that have been discharged pursuant to the Installment Purchase Agreement); and (iii) 10% of the aggregate initial amount of the Series 2008 Installment Payments.

The City may substitute a policy of insurance, letter of credit or surety bond (the "Funding Instrument") for moneys on deposit in the Reserve Fund in order to meeting the Series 2008 Reserve Requirement; provided that:

(a) The obligation to reimburse for any draws upon the Funding Instrument shall be subordinate to the payment of the Installment Payments. The right of the provider of the Funding Instrument to reimbursement for any draws on the Funding Instrument from amounts paid by the City for deposit in the Reserve Fund shall be senior to cash replenishment of the Reserve Fund, which shall be senior to payment to the provider of the Funding Instrument of any interest on amounts advanced under the Funding Instrument.

(b) The provider of any Funding Instrument will be rated at the time of its delivery "AAA" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. or any successor thereto and "Aaa" by Moody's Investor Service, Inc. or any successor thereto, or any equivalent rating then in effect.

THE SEWER SYSTEM

The Sewer System

The City's Sewer System consists of the La Salina Wastewater Treatment Plant, which has a capacity of 5.5 million gallons per day ("MGD") and the San Luis Rey Wastewater Treatment Plant, which has a capacity of 13.7 MGD, [34] lift stations, approximately 450 miles of sewer mains and a 1.6 mile ocean outfall line. Total capacity of the Sewer System is 19.2 MGD, with a current average daily flow of 13.4 MGD.

The Sewer System requirements are served by a network of gravity mains, sewer lift stations and force mains that collect raw sewage and deliver it to the wastewater treatment plants for treatment. Both wastewater treatment plants currently provide secondary treatment utilizing the active sludge process. Effluent from the San Luis Rey Wastewater Treatment Plant flows through a 24 inch concrete reinforced steel force main to a point where it joins effluent from the La Salina Wastewater Treatment Plant. The combined flow of the treated secondary effluent is then transported via a 36 inch concrete steel force main to the ocean via a 1.6 mile outfall line.

Additionally, the City has a flow sharing agreement with the City of Vista that allows each city to share flows for certain portions of their respective service areas that are better served by the other city. The flow sharing agreement provides for compensation in the event of differential flows; however, payments made by either city pursuant to this agreement have been historically de minimis.

Environmental Compliance

The present discharge requirements for the treatment plants are established by the State of California (the "State") Regional Water Quality Control Board, San Diego Region (the "Regional Board"), which

administers and enforces all federal and State discharge requirements. The Regional Board administers regulations promulgated under the National Pollutant Discharge Elimination System by the United States Environmental Protection Agency (the "EPA") and Division 7 of the California Water Code and regulations adopted thereunder. The City's present discharge permit (Waste Discharge Order No. R9-2005-0136, NPDES Permit No. CA 0107433) (the "Order") was adopted on August 10, 2005 and expires on August 10, 2010.

The sewer department of the City is responsible for satisfying federally and State-mandated discharge requirements. The requirements include schedules for monitoring operations to assure discharge compliance and protection of the City's water supply. The Regional Board frequently inspects the City's treated wastewater to ensure compliance with the Order. There are currently no pending actions by the Regional Board with respect to the City's wastewater.

Service Area

The City's Sewer System provides sewer treatment services to the entire area within the City, and a portion of the Rainbow Municipal Water District. The City currently provides sewer service to approximately 41,145 residential, commercial and industrial connections within the City of Oceanside and 2,049 connections within Rainbow Municipal Water District ("RMWD"). The City bills RMWD annually for service and flow charges.

Sewer System Insurance

The City is a member of the San Diego Pooled Insurance Program Authority ("SANDPIPA") which provides general liability insurance. As a member, the City carries a self-insured retention of \$250,000 and is insured through SANDPIPA from \$250,000 to \$2,000,000. In addition, SANDPIPA has purchased excess insurance coverage from \$2,000,000 to \$28,000,000 for all of its members, including the City. There have been no significant changes in insurance coverage during the current year and settlements have not exceeded coverage in each of the past three fiscal years.

SANDPIPA is a joint powers agency of twelve cities located within San Diego County. Each city has equal representation on the Board of Directors, which consists of a city staff member (and an alternate) appointed by each City Council. The Board of Directors has total responsibility for all actions of SANDPIPA.

The Board of Directors elects three members (including a President and Vice-President) to the Executive Committee, which has the responsibility for overseeing all operations of SANDPIPA, including preparation and submission of the annual operating budget to the Board of Directors for its approval and modification, if deemed necessary.

Annual premiums and assessments are approved by the Board of Directors and are adjusted each year based on each member's share of:

- Incurred losses
- Such losses and other expenses as a proportion of all members' such losses
- The contribution to reserves, including reserves for incurred-but-not-reported (IBNR) losses
- Costs to purchase excess insurance
- Costs to purchase any additional coverage

Detailed financial information may be obtained from SANDPIPA.

If and when SANDPIPA is dissolved, the remaining assets, after all premium and assessments have been paid and final disposition of all claims has been determined, will be distributed to members proportionate to each city's cash contributions made during the life of SANDPIPA. Until dissolution, however, no city has identifiable equity in SANDPIPA.

Defined Benefit Pension Plan

[Need most recent PERS Report] *Pension Plan Description.* The City contributes to the California Public Employees Retirement System (“CalPERS”), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. Benefit provisions and all other requirements are established by State statute and City ordinance.

Funding Policy. All permanent employees of the City are eligible to participate in the Public Employees’ Retirement Fund (the “PERS Fund”) of CalPERS. Benefits vest after 5 years of service. Safety (fire and police) employees who retire at or after age 50 are entitled to an annual retirement benefit payable monthly for life in an amount equal to the number of years worked multiplied by three percent (3%) of their average salary during the highest-paid one-year period. Miscellaneous employees who retire at or after age 55 are entitled to an annual retirement benefit payable monthly for life in an amount equal to the number of years worked multiplied by two percent (2%) of their average salary during the highest-paid 1-year period.

The required employee contribution to the program totals nine percent (9%) for safety employees and seven percent (7%) for miscellaneous employees. The City employer makes the contributions required of City employees on their behalf and for their account. The City’s payroll for employees covered by the program Fiscal Year 200_-0_ was \$_____ and the City’s payments to CalPERS amounted to \$[5,243,020] for Fiscal Year 200[6-07]. The City employer is required to contribute at actuarially determined rates. The rates for Fiscal Year 200[6-07] were [8.492]% and [18.221]% of annual covered payroll for the miscellaneous and safety employees, respectively. [What is Wastewater’s share?]

Natural Disasters

The City, like much of the State, may be subject to unpredictable seismic activity, fires, flood or other natural disasters. If there were to be a natural disaster in the City there could be substantial damage to and interference with the operations of the Sewer System which could result in a reduction of Net Revenues. According to recent geotechnical reports, the City is not within an Alquist-Priolo Earthquake Fault Zone. Under the terms of the Installment Purchase Agreement the City is not required to maintain earthquake insurance. Damage to the Sewer System has the potential to adversely affect the payment of the Series 2008 Installment Payments and the Certificates.

Employee Relations

A total of [126] Water Utilities Department employees operate and maintain the City’s water and sewer systems. The Water Utilities Department has never experienced a strike, slow down or work stoppage. The Oceanside City Employees Association represents [371] full-time and [14] part-time non-management employees as a collective bargaining unit.

Outstanding Indebtedness

The City has incurred certain obligations that are payable from Net Revenues on a parity with the Installment Payments.

Parity Obligations.

1993 State Loan. On _____, 1993, the City entered into State Revolving Fund Local Match Loan Program Contract No. 00-829-550-0, Local Match Loan No. _____ (the “1993 State Loan”) with the State Water Resources Control Board to fund upgrades to the San Luis Rey wastewater treatment plant. The 1993 State Loan is currently outstanding in the aggregate principal amount of \$_____ and

matures in November 2015. Annual debt service on the 1993 State Loan is approximately \$658,191. Pursuant to the terms of the 1993 State Loan, the City's obligation to pay debt service on the 1993 State Loan will be payable from Net Revenues on a parity with the Installment Purchase Agreement.

2000 State Loan. On November 30, 2000, the City entered into State Revolving Fund Local Match Loan Program Contract No. 00-829-550-0, Local Match Loan No. C-06-4161-110 (the "2000 State Loan") with the State Water Resources Control Board to fund the expansion of the San Luis Rey Wastewater Treatment Plant. The 2000 State Loan is for a not to exceed amount of \$58,529,984, of which \$ _____ was outstanding, as of _____, 2008. [The City anticipates that the remaining \$ _____ will be disbursed to the City by _____, 20__.] [Have all moneys been disbursed?] A portion of the proceeds from the 2000 State Loan were used to prepay the City's obligation to make installment payments pursuant to the 200 Installment Purchase Contract. The 2000 State Loan matures on May 1, 2024. Annual debt service on the 2000 State Loan will be approximately \$2,926,391. Pursuant to the terms of the 2000 State Loan, the City's obligation to pay debt service on the 2000 State Loan will be payable from Net Revenues on a parity with the Installment Purchase Agreement.

2003 Installment Purchase Contract. The City has entered into an Installment Purchase Contract (the "2003 Installment Purchase Contract") dated as of March 1, 2003, by and between the City and the Authority. The City's obligation to make installment payments under the 2003 Installment Purchase Contract is currently outstanding in the aggregate principal amount of \$8,725,000. The proceeds of the 2003 Installment Purchase Contract refunded earlier certificates that refinanced the cost of certain capital improvements to the City's La Salina wastewater treatment plant.

Historic Sewer System Usage

The City records the volume of wastewater treated by the Sewer System.

The following table summarizes the volume of wastewater treated for the five most recent Fiscal Years. The City reports that daily average flow has not increased in proportion to the increase in service connections due to lower average flow from new connections and industrial flow.

HISTORIC SEWER SYSTEM USAGE

<i>Fiscal Year Ended June 30</i>	<i>Daily Average Flow (MGD)</i>	<i>Increase</i>
2004	12.6 ⁽¹⁾	-2.3 %
2005	13.5	7.1
2006	13.2	-2.2
2007	13.2	0.0
2008	13.4	1.5

⁽¹⁾ Construction of certain improvements to the San Luis Rey wastewater treatment plant caused anomalies in daily average flow.

Source: City.

Historic Sewer System Service Connections

The following table presents a summary of service connections within the City of Oceanside to the Sewer System for the five most recent Fiscal Years. Additionally, the City provides sewer service to approximately 2,049 connections within Rainbow Municipal Water District.

HISTORIC SEWER SYSTEM SERVICE CONNECTIONS

<i>Fiscal Year Ended June 30</i>	<i>Service Connections</i>	<i>Increase</i>
2004	38,747	1.0 %
2005	40,520	4.4
2006	40,838	0.8
2007	41,066	0.9
2008	41,145	0.2

Source: City.

Historic Sewer System Service and Flow Charge Revenues

The following table shows annual service and flow charge revenues of the Sewer System for the five most recent Fiscal Years.

HISTORIC SEWER SYSTEM SERVICE AND FLOW CHARGE REVENUES

<i>Fiscal Year Ended June 30</i>	<i>Service and Flow Charge Revenues</i>	<i>Increase (Decrease)</i>
2004	\$17,745,209	2.2%
2005	18,238,269	2.8
2006	18,465,119	1.2
2007	20,872,690	13.0
2008	23,753,604	13.8

Source: City.

Largest Users

The following table sets forth the ten largest users of the Sewer System as of June 30, 2007 as determined by annual payments. These ten largest users of the Sewer System accounted for approximately 4.1% of all Sewer System service and flow charge revenues received in Fiscal Year 2007-08.

HISTORIC SEWER SYSTEM LARGEST USERS

<i>User</i>	<i>Type of Account</i>	<i>Annual Payment</i>
Hydranautics	Industrial manufacturer	\$ 254,874.36
Genetech	Pharmaceutical manufacturer	208,225.45
Tri-City Hospital	Hospital	108,217.58
Aimco-Island Club	Multi-family complex	83,043.83
Southridge #8778	Multi-family complex	74,119.43
Mission Park Corp	Manufactured home park	56,588.28
Mission Linen Supply	Industrial	51,366.73
LA #8 HOA	Multi-family complex	50,508.10
Legacy Sunterra Apt Partners	Multi-family complex	50,310.03
JMS Acquisitions, LLC	Multi-family complex	<u>40,550.94</u>
	Total	<u>\$ 977,804.73</u>

Source: City.

Sewer System Rates and Charges

General. The City is not subject by statute to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City currently sets Sewer System service charges to recover operating expenses for the Sewer System with capital improvements and debt service payments being funded from system buy-in fees, development fees and service charges. The City staff annually determines the adequacy of the Sewer System service charge structure after full consideration of expected operations, maintenance and capital costs. Sewer System service charges are then approved annually by the City Council after review by the Budget Committee, the Water/Sewer Committee and the City's Utility Commission.

Any increases in Sewer System service charges are subject to a notice, public hearing and protest process as described under the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES—Proposition 218." There can be no assurance that increases will be approved by the City Council.

The City has separated its customer base into a variety of classes based on use. Rates charged to each class of customer vary.

Sewer Charges. The City's sewer service charges are billed on a user charge basis. The current schedule of Sewer System rates for users of the City's Sewer System, described below and in effect since October 20, 2007, is set forth below:

SEWER CHARGES

Sewer Monthly Service Charge (\$/month)

<i>Meter Size</i>	<i>Service Charge</i>	<i>Meter Size</i>	<i>Service Charge</i>
5/8" & 3/4"	\$ 14.42	4"	\$ 289.84
1"	31.63	6"	576.75
1-1/2"	60.32	8"	921.03
2"	94.75	10"	1,322.69
3"	175.08		

All single-family residential customers are charged the 5/8" service charge regardless of meter size.

Sewer Flow Commodity Charge

<i>Residential</i>	<i>Flow Charge</i>
1. Single Family Low Use (0 – 5 units)	\$ 8.06
Medium Use (6 – 10 units)	17.37
High Use (11+ units)	33.91
2. Master-Metered Single Family (per residential unit)	13.62
3. Manufactured Home (per residential unit)	9.31
4. Multi-Family (per unit of estimated sewer flow)	2.19
Non-Residential (per unit of estimated sewer flow)	
Motels/RV Parks/Churches	\$ 2.19
General Commercial	2.19
Medium Strength	2.48
Medium-High Strength	3.55
High Strength	4.24
Schools	2.19

Source: City.

The chart below sets forth a comparison of the City's current monthly rates and charges for the Sewer System for a single family residential user to those of nearby communities: [UPDATE.]

<i>Community</i>	<i>Monthly Residential Rate</i>
City of Del Mar	\$ 109.90
Rainbow Municipal Water District	59.63
Rancho Santa Fe (Santa Fe Irrigation District)	57.33
City of Poway	50.13
Encinitas (San Dieguito Water District)	47.58
City of San Diego	41.54
La Mesa (Helix Water District)	40.72
Ramona	39.58
City of Vista	37.65
El Cajon (Helix Water District)	37.51
City of Oceanside (proposed)	36.73
Chula Vista (Otay Water District)	34.30
City of Oceanside (current)	31.79
San Marcos (Vallecitos Water District)	27.70
Carlsbad	16.20

Source: City.

Sewer System Buy-in Fees. The City imposes upon new sewer service connections a one-time sewer system buy-in fee. The buy-in fees are based on meter size. Effective October 20, 2007, the City levies the following sewer system buy-in fee:

<i>Meter Size</i>	<i>Buy-In Fee</i>
Residential Single Family:	
Regardless of meter size	\$ 6,035
Multi-Family and Non-Residential:	
5/8" & 3/4"	6,035
1"	15,088
1½"	30,175
2"	48,280
3"	90,525
4"	150,875
6"	301,750
8"	482,800
10"	694,025

In the Fiscal Year ended June 30, 2008, 5.1% of the Revenues of the Sewer System were buy-in fees. The City's buy-in fees are reviewed annually and revised as necessary to pay for the capital costs of constructing public wastewater collection, treatment and disposal facilities for the future.

Collection Procedures

The City currently has a combined bill for water, sewer and sanitation services. Presently, the utility billing division has twenty (20) billing cycles. Each account is billed monthly. Pursuant to City ordinance, all accounts that remain unpaid on the twenty-fifth day following the due date of such bill shall incur a penalty of 10% of the amount due for water and sewer charges. A delinquent notice with ten (10) additional days to pay is generated to those accounts. A lockoff notice is then generated allowing another forty-eight (48) hours for payment of the delinquent bill. Under the ordinance, accounts that remain unpaid are to have their services discontinued and service is not to be reconnected without full payment of the bill and a reinstatement fee. [Discuss how Rainbow is billed.]

Future Sewer System Improvements

[UPDATE] Future sewer system improvements include: improvements to the Buena Vista Lift Station and Force Main, including a new lift station and replacement of the existing force main; construction of 3,250 feet of 42-inch pipeline and associated manholes from Oceanside Boulevard and El Camino Real to Mesa and Garrison as called for in the wastewater system master plan; upsizing portions of the trunk sewer line from College and Haymar to the existing Buena Vista Sewer Lift Station; acquisition and construction of an Oceanside Boulevard sewer lift station; security upgrades for the Sewer System; updating the Wastewater Master/Financial Plan; sewer line replacement in Areas 1, 4, 5, 6 and 13; and replacement of Myers/Tait Street sewer line. The anticipated costs of these improvements is \$29,580,000 through 2009. The City anticipates financing these Costs through Revenues and additional loans from the State Water Resources Control Board. The City anticipates completion of the improvements by 2009. [Please send us current CIP Budget]

Projected Service Connections

The City currently estimates that service connections to the Sewer System for the current and next four Fiscal Years will be as follows: [Is 2009 # correct? As of 2008, 41,145?]

PROJECTED SEWER CONNECTIONS

<i>Fiscal Year Ending June 30</i>	<i>Service Connections</i>	<i>Increase</i>
2009	41,490	1.1%
2010	41,665	0.2
2011	41,880	0.5
2012	42,096	0.5
2013	42,311	0.5

Source: City.

Projected Sewer System Usage

The City currently estimates that Sewer System usage for the current and next four Fiscal Years will be as follows: [Discuss]

PROJECTED SEWER SYSTEM USAGE

<i>Fiscal Year Ending June 30</i>	<i>Daily Average Flow (MGD)</i>	<i>Increase</i>
2009	13.4	0.0%
2010	13.4	0.0
2011	13.4	0.0
2012	13.4	0.0
2013	13.4	0.0

Source: City.

Projected Sewer Service Charge Revenues

The following table projects annual service charge revenues of the Sewer System for the current and next four Fiscal Years. The projected increase in service and flow charge revenues in Fiscal Year 2008-09 is based on budgeted numbers for Fiscal Year 2008-09 and the anticipated approval by the City Council of a rate increase as described in the following sentence. The City Council has duly noticed a public hearing to be held on January __, 2009 to consider a proposed Sewer System rate increase of approximately 17.45% effective March 1, 2009 and 4% annual increase effective January 1 in each of Fiscal Years 2009-2010 and 2010-2011. Any increases in Sewer System rates are subject to a notice, public hearing and protest process as described under the caption “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES— Proposition 218.” There can be no assurance that the proposed increases will be approved by the City Council in the anticipated amount, or at all.

PROJECTED SEWER SYSTEM SERVICE AND FLOW CHARGE REVENUES

<i>Fiscal Year Ending June 30</i>	<i>Service & Flow Charge Revenues</i>	<i>Increase</i>
2009	\$27,273,458	14.8%
2010	30,815,610	13.0
2011	32,213,658	4.5
2012	33,674,247	4.5
2013	35,200,141	4.5

Source: City.

SEWER SYSTEM FINANCIAL INFORMATION

Financial Statements

A copy of the most recent audited financial statements of the City for the Fiscal Year ending June 30, 2007, prepared by Diehl, Evans & Company, LLP are included as APPENDIX A hereto (the "Financial Statements"). The Financial Statements have been prepared on a combined basis and include the Sewer Fund and the Water Fund. The obligation of the City to make Series 2008 Installment Payments under the Installment Purchase Agreement is limited to Net Revenues of the Sewer System and the City is not obligated to apply any other revenues to make such Series 2008 Installment Payments.

The summary operating results contained under the caption "SEWER SYSTEM FINANCIAL INFORMATION—Historic Operating Results and Debt Service Coverage" are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

The auditor's letter concludes that the audited financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oceanside, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City approved the audited financial statements of the City for the Fiscal Year ending June 30, 2007 on November 23, 2007.

Historic Operating Results and Debt Service Coverage

The following table is a summary of operating results of the Sewer System of the City for the last five Fiscal Years.

SEWER SYSTEM HISTORIC OPERATING RESULTS FISCAL YEAR ENDED JUNE 30

	2004	2005	2006	2007	2008 ⁽¹⁾
REVENUES					
Service charges	\$ 18,960,473	\$ 18,238,269	\$ 18,465,119	\$ 20,872,690	\$ 23,753,604
System buy-in fees	3,239,506	1,551,743	2,258,043	2,268,834	1,213,464
Other ⁽²⁾	<u>438,914</u>	<u>658,071</u>	<u>694,716</u>	<u>1,029,314</u>	<u>300,625</u>
TOTAL REVENUES	\$ 22,638,893	\$ 20,448,083	\$ 21,417,878	\$ 24,170,838	\$ 25,267,693
OPERATION AND MAINTENANCE COSTS ⁽³⁾	\$ 15,114,039	\$ 16,938,175 ⁽⁴⁾	\$ 18,100,012	\$ 18,306,541	\$ 19,669,913
NET REVENUES	\$ 7,524,854	\$ 3,509,908	\$ 3,317,866	\$ 5,864,297	\$ 5,597,780
PARITY DEBT SERVICE					
1993 State Loan	\$ 658,191	\$ 658,191	\$ 658,191	\$ 658,191	\$ 658,191
2000 State Loan ⁽⁵⁾	-	-	-	2,926,391	2,926,391
2003 Installment Purchase Contract	<u>905,922</u>	<u>906,625</u>	<u>905,000</u>	<u>910,750</u>	<u>905,900</u>
TOTAL SENIOR DEBT SERVICE	\$ 1,564,113	\$ 1,564,816	\$ 1,563,191	\$ 4,495,332	\$ 4,495,332
PARITY DEBT SERVICE COVERAGE	4.81	2.24	2.12	1.30	1.24
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE	\$ 5,960,741	\$ 1,945,092	\$ 1,754,675	\$ 1,368,965	\$ 1,107,299
SUBORDINATE DEBT SERVICE					
Wateruse Installment Purchase Contract	\$ 1,284,456	\$ 909,598	\$ 1,018,353	\$ 1,164,299	\$ 989,152
SUBORDINATE DEBT SERVICE COVERAGE	4.64	2.14	1.72	1.18	1.12
NET REVENUES AVAILABLE FOR OTHER PURPOSES	<u>\$ 4,676,285</u>	<u>\$ 1,035,494</u>	<u>\$ 736,322</u>	<u>\$ 204,666</u>	<u>\$ 118,146</u>

(1) Figures for Fiscal Year 2007-08 are based upon unaudited actual results.

(2) Includes interest and other miscellaneous revenues.

(3) Operation and Maintenance costs do not include depreciation and amortization.

(4) Increase resulted from increased energy costs.

(5) Debt service for the 2000 State Loan commenced in Fiscal Year 2006-07.

Source: City.

Projected Operating Results and Debt Service Coverage

The City's estimated projected operating results for the Sewer System for the Fiscal Years ending June 30, 2009 through June 30, 2013 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The fiscal forecast represents the City's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the chart set forth below are material in the development of the City's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**SEWER SYSTEM
PROJECTED OPERATING RESULTS
FISCAL YEAR ENDED JUNE 30***

	2009	2010	2011	2012	2013
REVENUES					
Service charges ⁽¹⁾	\$ 27,273,458	\$ 30,815,610	\$ 32,213,658	\$ 33,674,247	\$ 35,200,141
System buy-in fees ⁽²⁾	452,625	452,625	1,297,927	1,297,927	1,297,927
Other ⁽³⁾	<u>161,945</u>	<u>163,938</u>	<u>124,230</u>	<u>211,792</u>	<u>338,750</u>
TOTAL REVENUES	\$ 27,888,028	\$ 31,432,173	\$ 33,635,815	\$ 35,183,966	\$ 36,836,818
OPERATION AND MAINTENANCE COSTS ⁽⁴⁾	\$ 21,621,471	\$ 22,101,281	\$ 23,233,871	\$ 24,143,419	\$ 24,884,723
NET REVENUES	\$ 6,266,558	\$ 9,330,891	\$ 10,401,944	\$ 11,040,547	\$ 11,952,095
PARITY DEBT SERVICE					
1993 State Loan	\$ 658,191	\$ 658,191	\$ 658,191	\$ 658,191	\$ 658,191
2000 State Loan	2,926,391	2,926,391	2,926,391	2,926,391	2,926,391
2003 Installment Purchase Agreement	905,750	907,550	910,950	908,350	904,950
2008 Installment Purchase Agreement	<u>846,446</u>	<u>846,446</u>	<u>846,446</u>	<u>846,446</u>	<u>846,446</u>
TOTAL SENIOR DEBT SERVICE	\$ 5,336,778	\$ 5,338,578	\$ 5,341,978	\$ 5,339,378	\$ 5,335,978
PARITY DEBT SERVICE COVERAGE	1.17	1.75	1.95	2.07	2.24
NET REVENUES AVAILABLE FOR SUBORDINATE DEBT SERVICE					
NET REVENUES AVAILABLE FOR OTHER PURPOSES	\$ 929,780	\$ 3,992,314	\$ 5,059,966	\$ 5,701,170	\$ 6,616,117

⁽¹⁾ Projected increases in Revenues are based in part on an assumed 17.45% rate increase in Fiscal Year 2008-09 as set forth under "THE SEWER SYSTEM—Projected Sewer Service Charge Revenues."

⁽²⁾ System buy-in fees in Fiscal Year 2008-09 based on approved budget. [System buy-in fee revenues are projected to increase ___% in each Fiscal Year thereafter.] [Discuss assumption.]

⁽³⁾ Assumes interest earnings on reserves and other miscellaneous revenues. [Discuss assumption.]

⁽⁴⁾ Operation and Maintenance Costs projected to increase at approximately ___% in each Fiscal Year thereafter.

Source: City.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Proposition 218

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

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

* Preliminary, subject to change.

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

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

Based upon the California Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are “primarily based on the amount consumed” (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the “Bighorn Case”), however, that fees for ongoing water service through an existing connection were property-related fees and charges. [Since 2004,] the City has been complying with the notice and public hearing requirements of Article XIID in determining whether to change its Sewer System rates. [Confirm]

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge” so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in the Bighorn Case that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the City and the City Attorney do not believe that Article XIIC grants to the voters within the City the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the City. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Certificates. Remedies available to beneficial owners of the Certificates in the event of a default by the City are 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 specific limitations on remedies contained in the applicable documents themselves, the right and obligation with respect to the Installment Purchase Agreement is subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel (the form of which is attached as APPENDIX C), will be similarly qualified.

Article XIII A

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

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

Article XIII A does not affect the ability of the City to collect Revenues.

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

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

Article XIII B

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

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

Future Initiatives

Article XIII A, Article XIII B and Proposition 218 were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting City revenues or the City's ability to expend revenues.

THE AUTHORITY

The Oceanside Public Financing Authority was established pursuant to a Joint Exercise of Powers Agreement dated as of January 23, 2002, by and between the City and the Community Development Commission of the City of Oceanside to assist in financings undertaken by either member. The City Council of the City is appointed as the Governing Board of the Authority.

APPROVAL OF LEGAL PROCEEDINGS

The legality and enforceability of the Installment Purchase Agreement and certain other legal matters are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Special Counsel. The form of the legal opinion to be delivered by Special Counsel with the Certificates is attached hereto as APPENDIX C—"FORM OF SPECIAL COUNSEL'S OPINION." Certain legal matters will be passed upon for the City and the Authority by the City Attorney and for the Trustee by its counsel.

LITIGATION

There is no action, suit or proceeding pending or, to the knowledge of the City, threatened at the present time seeking to restrain or to enjoin the sale or delivery of the Certificates or in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement or the Installment Purchase Agreement or any action of the City contemplated by any of said documents.

There are no pending suits contesting or affecting the collection of Revenues or which would have a material adverse effect on the Sewer System, the financial condition of the City, including the City's ability to make Series 2008 Installment Payments, or the receipt of Revenues. [Confirm no litigation. What is status slope failure litigation?]

CONTINUING DISCLOSURE

The City will covenant in a Continuing Disclosure Agreement to be entered into by Bank of New York Mellon Trust Company, N.A., as dissemination agent for the benefit of the beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than the March 1 following the end of the City's Fiscal Year (currently its Fiscal Year ends on the last day of June) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2008, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in APPENDIX E—"FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The City has failed to comply in certain material respects with its previous continuing disclosure undertakings pursuant to Rule 15c2-12 promulgated under the Securities and Exchange Act of 1934, including but not limited to, a failure to timely file certain annual reports. As of the date of this Official Statement, the City is in compliance in all material respects with its existing continuing disclosure undertakings pursuant to Rule 15c2-12.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Series 2008 Installment Payment constituting interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Series 2008 Installment Payment constituting interest is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, the portion of each Series 2008 Installment Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificate is to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Certificate before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the owner of a Certificate will increase the owner's basis in the Certificate. In the opinion of Special Counsel original issue discount that accrues to the owner of a Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Series 2008 Installment Payment constituting interest (and original issue discount) is based upon certain representations of fact and certifications made by the City and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Series 2008 Installment Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Series 2008 Installment Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City has covenanted to comply with all such requirements.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Installment Purchase Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the

exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Special Counsel has rendered an opinion that the portion of the Series 2008 Installment Payments constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes provided that the City continues to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

A complete copy of the proposed opinion of Special Counsel is set forth in APPENDIX C—"FORM OF SPECIAL COUNSEL'S OPINION."

RATING

The City expects that Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") will assign the Certificates a rating of "___". S&P's rating reflects only the views of S&P, and an explanation of the significance of such ratings may be obtained from Standard & Poor's Ratings Service, 55 Water Street, 38th Floor, New York, New York 10041, (212) 438-2074. The City makes no representation as to the appropriateness of the rating. Further, there is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the trading value and the market price of the Certificates.

UNDERWRITING

The Certificates will be purchased by Stone & Youngberg LLC, as underwriter (the "Underwriter"), under a Purchase Contract, dated December __, 2008, pursuant to which the Underwriter agrees to purchase all of such Certificates for an aggregate purchase price of \$ _____ (equal to the \$ _____ original principal amount of the Certificates plus net original issue premium of \$ _____ and less underwriter's discount of \$ _____).

The initial public offering prices stated on the cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc., Newport Beach, California, as Financial Advisor for the sale of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

FINANCIAL STATEMENTS OF THE CITY

Included herein as APPENDIX A are the audited financial statements of the City as of and for the year ended June 30, 200[7], together with the report thereon dated November 23, 2007, of Diehl, Evans & Company, LLP, Certified Public Accountants (the "Auditor"). Such audited financial statements have been included herein in reliance upon the report of the Auditor. The Auditor has not undertaken to update the audited financial statements of the City or its report or to take any action intended or likely to elicit information

concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated November 23, 2007.

MISCELLANEOUS

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

The execution and delivery of this Official Statement have been duly authorized by the City Council of the City.

CITY OF OCEANSIDE

By: _____
City Manager

APPENDIX A
FINANCIAL STATEMENTS

APPENDIX B

DEFINITIONS AND SUMMARY OF CERTAIN DOCUMENTS

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

APPENDIX C

FORM OF SPECIAL COUNSEL'S OPINION

Upon execution and delivery of the Certificates, Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

City of Oceanside
300 North Coast Highway
Oceanside, CA 92054

Members of the City Council:

We have acted as Special Counsel to the City of Oceanside (the "City") in connection with the execution and delivery of \$_____ aggregate principal amount of the City of Oceanside Revenue Refunding Certificates of Participation, Series 2008, dated the date hereof (the "Certificates"), each evidencing and representing an interest of the registered owner thereof in the right to receive Series 2008 Installment Payments (the "Series 2008 Installment Payments") under and pursuant to that certain Installment Purchase Agreement (the "Agreement"), dated as of December 1, 2008, by and between the City and the Oceanside Public Financing Authority (the "Authority"), which right to receive such Series 2008 Installment Payments has been assigned by the Authority to Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), pursuant to the Assignment Agreement, dated as of December 1, 2008, by and between the Trustee and the Authority. The Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of December 1, 2008 (the "Trust Agreement"), by and among the City, the Authority and the Trustee.

In connection with our representation we have examined a certified copy of the proceedings relating to the Certificates. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings show lawful authority for the execution and delivery by the City of the Agreement and the Trust Agreement under the laws of the State of California now in force, and the Agreement and the Trust Agreement have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the City enforceable against the City in accordance with their respective terms.

2. The Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.

3. The obligation of the City to make the Series 2008 Installment Payments from Net Revenues (as defined in the Agreement) is an enforceable obligation of the City and does not constitute a debt of the City, or of the State of California or of any political subdivision thereof in contravention of any constitutional

or statutory debt limit or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

4. Under existing statutes, regulations, rulings and judicial decisions, the portion of each Series 2008 Installment Payment constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, the portion of each Series 2008 Installment Payment constituting interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

5. The portion of each Series 2008 Installment Payment constituting interest is exempt from State of California personal income tax.

6. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity is to be sold to the public) and the stated prepayment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate Owner will increase the Owner's basis in the applicable Certificate. Original issue discount that accrues to the Certificate Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

7. The amount by which a Certificate owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Certificate owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the owner.

The opinions expressed herein as to the exclusion from gross income of the portion of each Series 2008 Installment Payment constituting interest (and original issue discount) are based upon certain representations of fact and certifications made by the City and others and are subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that such portion of each Series 2008 Installment Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Series 2008 Installment Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The City has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of the

portion of each Series 2008 Installment Payment constituting interest (and original issue discount) for federal income tax purposes with respect to any Certificate if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Certificates.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Trust Agreement, the Agreement and the Certificates are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

APPENDIX D

DTC AND BOOK-ENTRY ONLY SYSTEM

The information in this APPENDIX D concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2008 Bonds, payment of principal, premium, if any, accreted value, if any, and interest on the 2008 Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2008 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2008 Bonds. The 2008 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2008 Bond certificate will be issued for each annual maturity of the 2008 Bonds, each in the aggregate principal amount of such annual maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the 2008 Bonds Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National 2008 Bonds Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the 2008 Bonds and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2008 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2008 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2008 Bonds, except in the event that use of the book-entry system for the 2008 Bonds is discontinued.

To facilitate subsequent transfers, all 2008 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by

an authorized representative of DTC. The deposit of 2008 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2008 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2008 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2008 Bond documents. For example, Beneficial Owners of 2008 Bonds may wish to ascertain that the nominee holding the 2008 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2008 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 2008 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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.

DTC may discontinue providing its services as depository with respect to the 2008 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2008 Bond certificates are required to be printed and delivered and the registration and transfer provisions of the Indenture will apply.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2008 Bond certificates will be printed and delivered to DTC and the registration and transfer provisions of the Indenture will apply.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 1, 2008 (the "Disclosure Agreement") is executed and delivered by the City of Oceanside (the "City") and The Bank of New York Mellon Trust Company (the "Dissemination Agent") in connection with the execution and delivery of \$ _____ Revenue Refunding Certificates of Participation, Series 2008 (the "Certificates"). The Certificates are being executed pursuant to a Trust Agreement, dated as of December 1, 2008, by and among the City, The Bank of New York Mellon Trust Company, as trustee (the "Trustee") and the Oceanside Public Financing Authority (the "Authority"). The City covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule.

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

"Annual Report" shall mean any Comprehensive Annual Financial Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City, the Assistant City Manager of the City, the Director of Financial Services of the City or their designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean Bank of New York Mellon Trust Company, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement relating to the Certificates, dated December __, 2008.

"Participating Underwriter" shall mean the original underwriter of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean 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” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State 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 Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than each March 1 of each year commencing March 1, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City 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 they are not available by that date. If the City’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) Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to each Repository 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 the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the City), file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The City’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to 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 pursuant to the preceding subsection (a) by the date required by Section 3 hereof, updates of the Tables under the captions ‘THE SEWER SYSTEM—Historic Sewer System Usage,’ ‘—Historic Sewer System Service Connections,’ ‘—Historic Sewer System Service and Flow Charge Revenues,’ ‘—Largest Users,’ ‘—Sewer System Rates and Charges’ (except for the information related to nearby communities) and ‘—Historic Operating Results and Debt Service Coverage’ (including a combined debt service coverage calculation for all parity obligations then outstanding).

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 City 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 City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Modifications to rights of Certificate holders.
- (iv) Optional, contingent or unscheduled certificate calls.
- (v) Defeasances.
- (vi) Rating changes.
- (vii) Adverse tax opinions or events affecting the tax-exempt status of the Certificates.
- (viii) Unscheduled draws on the debt service reserves reflecting financial difficulties.
- (ix) Unscheduled draws on the credit enhancements reflecting financial difficulties.
- (x) Substitution of the credit or liquidity providers or their failure to perform.
- (xi) Release, substitution or sale of property securing repayment of the Certificates.

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

(c) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

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

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the City pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the City and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by the City and shall have no duty to review any information provided to it by the City. The Dissemination Agent shall have no duty to prepare any

information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the City in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement. If the City 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 Agreement, the City shall have no obligation under this 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 City to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Certificate holder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the City satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the City shall have refused to comply therewith within a reasonable time.

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 Agreement, and the City agrees, to the extent permitted by law, 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the City, the Certificate holders, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

City: City of Oceanside
300 North Coast Highway
Oceanside, CA 92054
Attention: City Manager

Dissemination Agent: Bank of New York Mellon Trust Company
700 South Flower Street, Suite 500
Los Angeles, CA 90017
Attention: Corporate Trust Department

SECTION 13. Beneficiaries. This Disclosure Agreement solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

CITY OF OCEANSIDE

By: _____
Its: City Manager

BANK OF NEW YORK MELLON TRUST
COMPANY, as Dissemination Agent

By: _____
Its: Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Oceanside
Name of Certificate Issue: \$ _____ City of Oceanside Revenue Refunding Certificates of Participation, Series 2008
Date of Issuance: December __, 2008

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement executed by the City on the date of issuance of the Certificates. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

Dissemination Agent

By: _____

APPENDIX F

SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF OCEANSIDE

The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.

General Information

The City is located in San Diego County, approximately 90 miles south of Los Angeles and 30 miles north of the City of San Diego. The City comprises approximately 44 square miles at an elevation between sea level and 300 feet. Typical of Southern California, it offers a temperate climate with an average high temperature of 60.9 degrees and average annual rain fall of 4.5 inches.

Incorporated in 1888, The City operates as a general law city. It has a council-manager form of government, with the Mayor and other council members elected at large for four-year terms.

City Council

The members of the City Council and the expiration dates of their respective terms are as follows:

CITY OF OCEANSIDE City Council

<i>Council Member</i>	<i>Term Expires</i>
Jim Wood	November 2008
Rocky Chavez	November 2010
Jerome M. Kern	November 2010
Jack Feller	November 2008
Esther C. Sanchez	November 2008

The City Council appoints the City Manager who heads the executive branch of the government, implements City Council directives and policies and manages the administrative and operational functions through the various departmental heads, who are appointed by the City Manager.

City Management

The City Manager's Office is responsible for the administrative supervision of all City activities. This task involves the continual evaluation of the provision of efficient, effective, and economical services to the citizens of the City. The City Manager's Office keeps the City Council informed of City activities and services and implements the policy of the City Council. The City Manager also serves as the Executive Director of the Community Development Commission and oversees the functions of the Redevelopment Commission and Housing Commission.

Peter A. Weiss is the City Manager and has served in such position since August 2007.

Barbara Riegel-Wayne is the City Clerk and has served in such position since November 1980.

John P. Mullen is the City Attorney and has served in such position since March 2006.

Rosemary Jones is the City Treasurer and has served in such position since December 1992.

City full-time employees numbered (1010) as of June 30, 2007, of which 280 were assigned to the Police Department and 114 to the Fire Department.

Employee Relations

In accordance with the provisions of California Government Code Section 3500 and the City’s Employee/Employer Relations Indenture, the City recognizes the following bargaining units:

<i>Unit/Affiliation</i>	<i>Number of Members</i>
Oceanside City Employee’s Association	397
Management Employees of City of Oceanside	80
Oceanside Police Officer’s Association (non-sworn)	51
Oceanside Police Officer’s Association (sworn)	160
Oceanside Firefighter’s Association	89
Oceanside Harbor Police Officer’s Unit	8
Oceanside Police Management Association	<u>9</u>
Total	<u>714</u>

Source: City of Oceanside.

Management of various unrepresented position classifications include a total of 73 classifications which are not represented by any bargaining unit. In addition, the City has 115 unrepresented part time or temporary positions.

Population

The City’s population as of January 1, 2008 was approximately 178,806. This represents an increase of [9.9]percent from the 2000 census population of 160,700. The following chart shows the population for the City, the County and state from 2004 through 2008.

**POPULATION
For Years 2003 through 2007**

<i>Year (as of 1/1)</i>	<i>City of Oceanside</i>	<i>County of San Diego</i>	<i>State of California</i>
2004	173,008	3,011,770	36,199,342
2005	174,597	3,038,074	36,675,346
2006	175,045	3,065,077	37,114,598
2007	176,755	3,100,132	37,559,440
2008	178,806	3,146,274	38,049,462

Source: California State Department of Finance, *E-4 Population Estimates for Cities, Counties and State, 2001-2008, with 2000 DRU Benchmark.*

City's Economy

The City enjoys one of the most desirable locations in the United States. With Camp Pendleton to the north (a permanent open space) and the Pacific Ocean to the west, Oceanside provides a retail market for tourists and military alike. Many senior citizens and retirees settle in Oceanside because it is one of the last moderately-priced coastal communities in California. Although the City was incorporated in 1888, the majority of development has occurred within the last twenty years. Infrastructure and facilities are therefore relatively new.

The City's commercial base is growing. The downtown redevelopment agency is aggressively recruiting major hotel and retail enterprises to locate within blocks of the City's wide beaches and large marina. Raw land is still available next to major freeway off-ramps for commercial development.

Education

Public instruction in the City is provided by the Oceanside Unified School District and the Vista Unified School District with 18 elementary schools, 3 middle schools, 3 high schools and 2 parochial schools and 3 private schools. The following table summarizes public school enrollment in the two unified school districts over the past five years:

**OCEANSIDE UNIFIED
SCHOOL DISTRICT
PUBLIC SCHOOL ENROLLMENT
2003-04 through 2007-08**

<i>Grades</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
K-6	13,132	12,842	12,277	11,976	11,943
7-12	<u>9,352</u>	<u>9,317</u>	<u>9,090</u>	<u>9,198</u>	<u>9,279</u>
Total	<u>22,484</u>	<u>22,159</u>	<u>21,367</u>	<u>21,174</u>	<u>21,222</u>

Source: California Department of Education, Educational Demographics Unit.

**VISTA UNIFIED
SCHOOL DISTRICT
PUBLIC SCHOOL ENROLLMENT
2003-04 through 2007-08**

<i>Grades</i>	<i>2003-04</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2006-07</i>	<i>2007-08</i>
K-6	13,778	13,460	13,152	12,878	12,899
7-12	<u>13,211</u>	<u>12,947</u>	<u>13,055</u>	<u>14,067</u>	<u>14,024</u>
Total	<u>26,989</u>	<u>26,407</u>	<u>26,207</u>	<u>26,945</u>	<u>26,923</u>

Source: California Department of Education, Educational Demographics Unit.

The City is also served by California State University, San Marcos and by one community college district, Mira Costa College, which includes Camp Pendleton, a U.S. Marine Corps base adjacent to the City.

Building Activity

Residential building activity for the past five calendar years for Oceanside is shown in the following tables.

City of Oceanside New Housing Units Building Permits

	2003	2004	2005	2006	2007
Single Family Units	576	419	288	284	149
Multifamily Units	<u>460</u>	<u>157</u>	<u>253</u>	<u>334</u>	<u>104</u>
Total Units	1036	576	541	618	253

Source: Construction Industry Research Board.

City of Malibu Building Permit Valuations

	2003	2004	2005	2006	2007
Residential					
New Single Family	\$ 139,525,221	\$ 101,752,826	\$ 91,785,808	\$ 98,272,024	\$ 44,252,310
New Multifamily	46,334,271	24,460,677	29,232,632	48,079,548	15,456,944
Res. Alt. & Adds	<u>19,300,260</u>	<u>23,920,412</u>	<u>29,808,844</u>	<u>24,278,879</u>	<u>18,938,298</u>
Total Residential	\$ 205,159,752	\$ 150,133,915	\$ 150,827,284	\$ 170,630,361	\$ 78,647,552
Nonresidential					
New Commercial	\$ 19,649,089	\$ 17,060,412	\$ 2,668,300	\$ 46,404,867	\$ 1,634,601
New Industrial	10,775,065	10,415,611	32,688,762	28,779,249	2,804,300
New Other ⁽¹⁾	8,158,698	14,959,289	4,109,713	8,062,971	8,079,152
Alters. & Adds.	<u>15,776,707</u>	<u>29,606,138</u>	<u>18,328,314</u>	<u>25,310,940</u>	<u>19,071,010</u>
Total Non-Residential	\$ 54,339,559	\$ 72,041,450	\$ 57,775,089	\$ 108,558,027	\$ 49,589,063
Total All Building	\$ 259,499,311	\$ 222,175,365	\$ 208,602,373	\$ 279,188,388	\$ 128,236,615

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings and no-residential alterations and additions.

Note: "Total All Building" is the sum of Residential and Nonresidential Building Permit Valuations. Totals may not add to sums because of independent rounding.

Source: Construction Industry Research Board.

Employment

The civilian labor force in the City increased to an annual average of 84,800 in 2007, up 4.9 percent from the 2003 average of 80,800. For the past five years the unemployment rate in the City and the County of San Diego has been below the State's rate and the nation's rate. The following table summarizes the labor force, employment and unemployment figures over the past five years for the City, the County of San Diego, the State of California and the nation as a whole.

LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT Yearly Average for Years 2003 through 2007

<i>Year and Area</i>	<i>Labor Force</i>	<i>Civilian Employment⁽¹⁾</i>	<i>Unemployment⁽²⁾</i>	<i>Unemployment Rate⁽³⁾</i>
2003				
City of Oceanside	80,800	76,800	4,000	4.9%
County of San Diego	1,482,200	1,419,100	63,100	4.3
California.....	17,414,000	16,223,500	1,190,500	6.8
United States ⁽⁴⁾	146,510,000	137,736,000	8,774,000	6.0
2004				
City of Oceanside	81,900	78,200	3,700	4.5%
County of San Diego	1,490,800	1,420,100	70,700	4.7
California.....	17,552,300	16,459,900	1,092,400	6.2
United States ⁽⁴⁾	147,401,000	139,252,000	8,149,000	5.5
2005				
City of Oceanside	82,800	79,400	3,400	4.1%
County of San Diego	1,505,200	1,440,500	65,400	4.3
California.....	17,703,400	16,742,300	961,100	5.4
United States ⁽⁴⁾	149,320,000	141,730,000	7,591,000	5.1
2006				
City of Oceanside	83,600	80,400	3,200	3.8%
County of San Diego	1,520,000	1,459,900	60,500	4.0
California.....	17,907,300	17,029,900	877,300	4.9
United States ⁽⁴⁾	151,428,000	144,427,000	7,001,000	4.6
2007				
City of Oceanside	84,800	81,100	3,700	4.4%
County of San Diego	1,542,500	1,471,600	70,900	4.6
California.....	18,188,100	17,208,900	979,200	5.4
United States ⁽⁴⁾	153,124,000	146,047,000	7,078,000	4.6

(1) Includes persons involved in labor-management trade disputes.

(2) Includes all persons without jobs who are actively seeking work.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, based on March 2007 benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

The table below summarizes employment by Industry in the San Diego Metropolitan Statistical Area (“MSA”) from 2003 to 2007. Manufacturing, Retail Trade, Services and Government are the largest employment sectors in the San Diego MSA.

**San Diego-Carlsbad-San Marcos MSA
Civilian Labor Force and Employment
Annual Averages, March 2005 Benchmark**

<i>Industry</i>	<i>Employment⁽¹⁾</i>				
	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Total Farm	11,200	11,100	10,700	10,900	10,800
Total Nonfarm	1,240,100	1,260,300	1,281,800	1,301,600	1,308,200
Total Private	1,022,900	1,046,000	1,067,000	1,083,600	1,086,100
Goods Producing	185,800	192,400	196,000	197,100	189,700
Natural Resources and Mining	300	400	400	500	400
Construction	80,200	87,700	91,400	92,700	87,200
Manufacturing	105,300	104,300	104,200	103,900	102,100
Durable Goods	78,800	78,100	78,700	78,400	77,100
Nondurable Goods	26,500	26,200	25,400	25,500	25,000
Service Providing	1,054,300	1,067,900	1,085,900	1,104,500	1,118,500
Private Service Producing	837,000	853,600	871,000	886,500	896,400
Trade, Transportation and Utilities	209,700	215,300	219,100	222,000	223,000
Wholesale Trade	41,600	41,900	43,700	45,100	45,500
Retail Trade	140,800	144,900	146,900	148,300	148,700
Transportation, Warehousing and Utilities	27,300	28,400	28,500	28,700	28,800
Information	36,900	36,600	37,300	37,300	38,000
Financial Activities	79,900	81,900	83,200	83,700	80,400
Professional and Business Services	201,200	204,500	209,800	213,600	216,500
Educational and Health Services	121,800	121,700	122,800	125,100	128,800
Leisure and Hospitality	140,700	145,700	150,200	156,500	160,900
Other Services	46,800	47,900	48,700	48,400	48,800
Government	<u>217,300</u>	<u>214,300</u>	<u>214,800</u>	<u>217,900</u>	<u>222,100</u>
Total, All Industries	<u>1,251,300</u>	<u>1,271,500</u>	<u>1,292,500</u>	<u>1,312,500</u>	<u>1,319,000</u>

Note: The “Total, All Industries” data is not directly comparable to the employment data found herein.

⁽¹⁾ Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *San Diego MSA Annual Average Labor Force and Industry Employment, March 2005 Benchmark*.

Industry

Within the City, principal employers and the approximate number of employees are:

**CITY OF OCEANSIDE
PRINCIPAL EMPLOYERS
As of September 1, 2007**

<i>Name of Company</i>	<i>Type of Business</i>	<i>Number of Employees</i>
Marine Corps Base, Camp Pendleton	Military/Government	60,000
Tri-City Medical Center	Hospital District (Non-Profit)	2,850
Oceanside Unified School District	Education	2,300
City of Oceanside	Municipal Government	1,191
Mira Costa College	Community College	801
Genentech	Manufacturer/Bio-technology	593
North County Transit District	Public Transportation	578
Oceans Eleven Casino	Casino	438
Hydranautics	Manufacturer/Bio-technology	397
Sharp Mission Park Medical	Healthcare	236

Source: City of Oceanside Comprehensive Annual Financial Report.

City Water Supply

The City operates its own municipal water department and serves all of the City's water needs, primarily to residential and commercial users and to some industrial users. Water delivered through the City's water system has historically been supplied by the San Diego Water Authority, which is a member of the Metropolitan Water District, and local water sources. The City has a reverse osmosis system which reclaims ground water and the system contributes to approximately 20% of the City's water consumption. In addition, the City is participating with the City of Carlsbad on pilot project for ocean water desalinization as a water source. While the recent drought reduced water conditions throughout the region, the City expects that future water needs will continue to be met by the San Diego Water Authority and new sources of local water and reclaimed water.

The City has an ongoing water conservation program which includes limitations on watering hours and certain water uses. In the event that the drought were to return and water conditions were to deteriorate the City would likely expand its water conservation program to include additional water use restrictions, such as imposing limitations on the landscaping of new developments.

Commercial Activity

The following table summarizes the annual volume of taxable transactions within the City for the years 2003 through 2007.

**CITY OF OCEANSIDE
TABLE OF TAXABLE TRANSACTIONS BY TYPE
For the Years 2003 Through 2007⁽¹⁾
(000's)**

	(In thousands)				
	2003	2004	2005	2006	2007 ⁽¹⁾
Apparel stores	\$ 20,999	\$ 36,445	\$ 39,312	\$ 44,905	\$ 11,996
General merchandise stores.....	228,692	243,063	257,896	263,827	63,324
Food stores.....	94,425	97,368	104,582	106,061	26,254
Eating and Drinking places.....	158,423	172,867	179,430	188,728	52,647
Home furnishings and appliances	39,612	39,555	36,043	32,723	6,892
Building materials and farm implements	133,824	154,690	165,368	141,343	27,861
Auto dealers and auto supplies.....	108,027	125,110	145,831	143,279	35,642
Service stations	115,595	132,662	154,715	174,637	44,371
Other retail stores.....	<u>210,480</u>	<u>209,804</u>	<u>223,939</u>	<u>228,983</u>	<u>54,088</u>
Total retail outlets	1,110,077	1,211,564	1,307,116	1,324,486	323,375
All other outlets.....	<u>164,641</u>	<u>167,707</u>	<u>217,866</u>	<u>240,149</u>	<u>62,894</u>
Total all outlets.....	<u>1,274,718</u>	<u>1,379,271</u>	<u>1,524,982</u>	<u>1,564,635</u>	<u>386,269</u>

⁽¹⁾ Figures through third quarter 2007.

Source: California State Board of Equalization.

ATTACHMENT 5

INSTALLMENT PURCHASE AGREEMENT

by and between

CITY OF OCEANSIDE

and

OCEANSIDE PUBLIC FINANCING AUTHORITY

Dated as of December 1, 2008

Relating to

**\$ _____
REVENUE REFUNDING CERTIFICATES OF PARTICIPATION
SERIES 2008**

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of December 1, 2008, by and between CITY OF OCEANSIDE, a municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City"), and OCEANSIDE PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California (the "Authority").

WITNESSETH:

WHEREAS, the City proposes to undertake the refinancing of the acquisition of certain improvements, betterments, renovations, and expansions of facilities within its sewer system, more particularly described in Exhibit A attached hereto (the "2000 Project");

WHEREAS, the City and the Watereuse Finance Authority have previously entered into an Installment Purchase Contract, dated as of April 1, 2000 (the "2000 Installment Purchase Contract") in order to assist the City in financing the 2000 Project;

WHEREAS, pursuant to Section 6.01 of the 2000 Installment Purchase Contract, the City proposes to prepay its obligations to make installment payments under the 2000 Installment Purchase Contract;

WHEREAS, the Authority has agreed to assist the City to refinance the 2000 Project, and to prepay the City's obligations to make installment payments pursuant to the 2000 Installment Purchase Contract;

WHEREAS, the City is authorized by Title 4 of the Government Code of the State of California, including, but not limited to Sections 37350 and 40404, to acquire property for its sewer system and to refinance the acquisition of property for its sewer system;

WHEREAS, the City and the Authority have duly authorized the execution of this Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Accountant's Report

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

Authority

The term "Authority" means Oceanside Public Financing Authority, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California.

Bonds

The term "Bonds" means all revenue bonds or notes of the City authorized, executed, issued and delivered by the City, the payments of which are on a parity with the Series 2008 Installment Payments and which are secured by a pledge of and lien on the Revenues.

Business Day

The term "Business Day" means a day which is not (a) a Saturday or Sunday or any other day bank institutions located in New York, New York, or the city or cities in which the principal or other designated corporate office of the Trustee is located are required or authorized to close, or (b) a day on which the New York Stock Exchange is closed.

Connection Charges

The term "Connection Charges" means all amounts levied by the City as a fee for connecting to the Sewer System, as such fee shall be established from time to time pursuant to Section 66013 of the Government Code of the State of California.

Contracts

The term "Contracts" means this Installment Purchase Agreement and any amendments and supplements hereto, and all contracts of the City authorized and executed by the City, the Installment Payments under which are on a parity with the Series 2008 Installment Payments and which are secured by a pledge of and lien on the Revenues, including, but not limited to, the Series 2003 Installment Purchase Agreement, and the State Loans.

Date of Operation

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

Debt Service

The term "Debt Service" means, for any Fiscal Year, the sum of:

(1) the interest accruing during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);

(2) that portion of the principal amount of all outstanding serial Bonds maturing in such Fiscal Year or maturing in the next succeeding Fiscal Year accruing during such Fiscal Year in each case computed as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts;

(3) that portion of the principal amount of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year or during the next succeeding Fiscal Year in each case computed as if such principal amounts were deemed to accrue daily during such Fiscal Year in equal amounts; and

(4) that portion of the Installment Payments required to be made during such Fiscal Year or during the next succeeding Fiscal Year in each case computed as if such Installment Payments were deemed to accrue daily during such Fiscal Year in equal amounts (except to the extent that the interest portion of such Installment Payments is capitalized);

less the earnings derived from investment of moneys on deposit in any debt service reserve fund, including the Reserve Fund, and any construction fund created with respect to any Contracts or Bonds to the extent such earnings are deposited in a debt service fund, including the Certificate Payment Fund;

provided that, as to any such Bonds or Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of (a) the daily average interest rate on such Bonds or Installment Payments during the twelve (12) calendar months preceding the date of calculation (or the portion of the then current Fiscal Year that such Bonds or the principal amount of such Installment Payments have borne interest) or, if such Bonds or Installment Payments were not outstanding during such twelve (12) calendar month period, the daily average interest rate on bonds or installment payments with a similar basis for calculating interest or (b) the most recent effective interest rate on such Bonds or Installment Payments prior to the date of calculation or, if such Bonds or Installment Payments were not then outstanding, the most recent effective interest rate on bonds or installment payments with a similar basis for calculating interest; and

provided further that if any series or issue of such Bonds or Installment Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Installment Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

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

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted.

City

The term “City” means City of Oceanside, a municipal corporation duly organized and existing under and by virtue of the laws of the State of California.

Event of Default

The term “Event of Default” means an event described in Section 8.01.

Fiscal Year

The term “Fiscal Year” means the period beginning on July 1 of each year and ending on June 30 of such year, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Independent Certified Public Accountant

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

Independent Financial Consultant

The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the City, and who, or each of whom:

- (1) is in fact independent and not under domination of the City;
- (2) does not have any substantial interest, direct or indirect, with the City; and
- (3) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

Installment Payment Date; Series 2008 Installment Payment Date

The term “Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the City under and pursuant to any Contract. The term “Series 2008 Installment Payment Date” means April 29 and October 30 of each year commencing on April 29, 2009, and if such date is not a Business Day, the Business Day immediately preceding such date.

Installment Payments; Series 2008 Installment Payments

The term “Installment Payments” means the installment payments of interest and principal scheduled to be paid by the City under and pursuant to the Contracts. The term “Series 2008 Installment Payments” means the Installment Payments scheduled to be paid by the City under and pursuant hereto.

Installment Purchase Agreement

The term “Installment Purchase Agreement” means this Installment Purchase Agreement, by and between the City and the Authority, dated as of December 1, 2008, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Law

The term “Law” means Articles 10 and 11 of Part 1 of Division 2 of the Government Code of the State of California and all laws amendatory thereof or supplemental thereto.

Manager

The term “Manager” means the City Manager of the City, or any other person designated by the City Manager to act on behalf of the City Manager.

Net Proceeds

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

Net Revenues

The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

1993 State Loan

The term “1993 State Loan” means Loan No. C-06-4160—110 from the State Water Resources Control Board in the original aggregate principal amount of \$9,861,068 made pursuant to the State Revolving Loan Fund Program Loan Contract No. 3-812-550-0 between the State Water Resources Control Board and the City dated June 8, 1993.

2000 Installment Purchase Contract

The term “2000 Installment Purchase Contract” means the Installment Purchase Contract, dated as of June 1, 2000, by and between the City and the WaterReuse Finance Authority.

2000 State Loan

The term “2000 State Loan” means Local Match Loan No. L-06-4161-110 from the State Water Resources Control Board in a not to exceed amount of \$58,529,984 to the City pursuant to the State Fund Local Match Loan Program Contract No. 00-829-550-0 between the State Water Resources Control Board and the City dated November 30, 2000.

2003 Installment Purchase Agreement

The term “2003 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of March 1, 2003, by and between the City and the Authority.

Operation and Maintenance Costs

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

Project; 2000 Project

The term “Project” means any additions, betterments, extensions or improvements to the City’s facilities designated by the City Council of the City as a Project, the acquisition and construction of which is to be paid for by the proceeds of any Contracts or Bonds. The term “2000 Project” means the additions, betterments, extensions and improvements to the Sewer System, including real property and buildings, if any, described in Exhibit A hereto and as modified in conformance with Section 3.01 hereof.

Purchase Price

The term “Purchase Price” means the principal amount plus interest thereon owed by the City to the Authority under the terms hereof as provided in Section 4.01.

Revenue Fund

The term “Revenue Fund” means the Sewer Fund of the City being maintained in accordance with Section 5.02 hereof.

Revenues

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

- (1) all income, rents, rates, fees, charges or other moneys derived by the City from the collection, treatment and disposal of wastewater or other services or facilities provided in the conduct or operation of the business of the Sewer System,
- (2) the proceeds of any stand-by or wastewater availability charges, development fees and connection charges collected by the City,
- (3) the earnings on and income derived from the investment of amounts described in clauses (1) and (2) above and from Sewer Fund reserves,

but excluding

- (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and
- (y) any proceeds of taxes or assessments restricted by law to be used by the City to pay bonds or other obligations heretofore or hereafter issued.

Series 2008 Reserve Fund Requirement

The term “Series 2008 Reserve Fund Requirement” means, as of any date of calculation, an amount equal to the least of: (i) the maximum Series 2008 Installment Payments due in the then current or any future Fiscal Year; (ii) 125% of the average annual 2008 Installment Payments then payable under this Agreement (exclusive of the Series 2008 Installment Payments that have been discharged pursuant to Section 9.01 hereof; and (iii) 10% of the aggregate initial amount of the Series 2008 Installment Payments.

Sewer Service

The term “Sewer Service” means the wastewater collection, treatment and disposal service made available or provided by the Sewer System.

Sewer System

The term “Sewer System” means the whole and each and every part of the sewer system of the City, including all real property and buildings, including the portion thereof existing on the date hereof, and including all additions, betterments, extensions and improvements to such Sewer System or any part thereof hereafter acquired or constructed.

State Loans

The term “State Loans” means the 1993 State Loan and the 2000 State Loan and any additional loans from the State Water Resources Control Board which are Contracts.

Subordinate Obligations

The term “Subordinate Obligations” means all contracts or bonds of the City which are secured by a pledge of and lien on the Revenues subordinate to the pledge of and lien on Revenues securing the Contracts or Bonds.

Trust Agreement

The term “Trust Agreement” means the Trust Agreement, dated as of December 1, 2008, by and among the City, the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee

The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., acting in its capacity as Trustee under and pursuant to the Trust Agreement, and its successors and assigns.

ARTICLE II

REPRESENTATIONS AND WARRANTIES:
OPINIONS OF COUNSEL

Section 2.01. Representations by the City. The City makes the following representations:

(a) The City is a municipal corporation duly organized and existing under and pursuant to the laws of the State of California.

(b) The City has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Agreement, and the City has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the City has duly authorized the execution, delivery and due performance of this Agreement.

(d) The City will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the 2000 Project under the terms of the Installment Purchase Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

(e) The City has determined that it is necessary and proper for City uses and purposes within the terms of the Law that the City refinance a portion of the 2000 Project in the manner provided for in this Agreement, in order to provide essential services and facilities to persons residing in the City.

Section 2.02. Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

(a) The Authority is a joint powers authority duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement and by proper action has duly authorized the execution and delivery and due performance of this Agreement.

(b) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.

(c) The Authority will not take or permit any action to be taken which results in interest paid for the installment purchase of the 2000 Project under the terms of this Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California personal income taxation.

ARTICLE III

SALE AND PURCHASE OF 2000 Project

Section 3.01. Sale and Purchase of 2000 Project. In consideration for the Authority's assistance in refinancing the 2000 Project, the City agrees to sell, and hereby sells, to the Authority, and the Authority agrees to purchase and hereby purchases, from the City, the 2000 Project in the manner and in accordance with the provisions of this Agreement.

Section 3.02. Purchase and Sale. In consideration for the Series 2008 Installment Payments, the Authority agrees to sell, and hereby sells, to the City, and the City agrees to purchase, and hereby purchases, from the Authority, the 2000 Project at the purchase price specified in Section 4.01 hereof and otherwise in the manner and in accordance with the provisions of this Agreement.

Section 3.03. Title. All right, title and interest in each component of the 2000 Project shall vest in the City immediately upon acquisition or construction thereof. Such vesting shall occur without further action by the Authority or the City and the Authority shall, if requested by the City or if necessary to assure such automatic vesting, deliver any and all documents required to assure such vesting.

ARTICLE IV

SERIES 2008 INSTALLMENT PAYMENTS

Section 4.01. Purchase Price.

(a) The Purchase Price to be paid by the City hereunder to the Authority is the sum of the principal amount of the City's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.

(b) The principal amount of the payments to be made by the City hereunder is set forth in Exhibit B hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.02 and Exhibit B hereto, and shall be paid by the City as and constitute interest paid on the principal amount of the City's obligations hereunder.

Section 4.02. Series 2008 Installment Payments. The City shall, subject to its rights of prepayment provided in Article VII, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the Series 2008 Installment Payment Dates as set forth in Exhibit B hereto.

Each Series 2008 Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2008 Installment Payments if paid in accordance with their terms.

The obligation of the City to make the Series 2008 Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the City will not discontinue or suspend any Series 2008 Installment Payment required to be made by it under this section when due, whether or not the Sewer System or any part thereof is operating or operable or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

ARTICLE V

SECURITY

Section 5.01. Pledge of Revenues. All Revenues and all amounts on deposit in the Revenue Fund are hereby irrevocably pledged to the payment of the Series 2008 Installment Payments as provided herein and the Revenues shall not be used for any other purpose while any of the Series 2008 Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge shall constitute a first and exclusive lien on Revenues on a parity with the pledge under the 2003

Installment Purchase Agreement, State Loans and, subject to application of amounts on deposit therein as permitted herein, the Revenue Fund and the other funds and accounts created hereunder for the payment of the Series 2008 Installment Payments and all other Contracts and Bonds in accordance with the terms hereof and of the Trust Agreement.

Section 5.02. Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all Revenues shall be received by the City in trust hereunder and shall be deposited when and as received in the Sewer Fund of City which fund is herein referred to as the "Revenue Fund" and which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments or Bonds remain unpaid. Moneys in the Revenue Fund shall be used and applied by the City as provided in this Installment Purchase Agreement.

The City shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. All remaining moneys in the Revenue Fund shall be set aside by the City at the following times in the following respective special funds in the following order of priority and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes hereinafter authorized in this Section:

(a) Certificate Payment Fund. On or before each Series 2008 Installment Payment Date, the City shall, from the moneys in the Revenue Fund, transfer to the Trustee for deposit in the Certificate Payment Fund an amount equal to the portion of the next succeeding Series 2008 Installment Payment designated as interest and coming due on the next succeeding Series 2008 Installment Payment Date and 1/2 of the portion of the next succeeding Series 2008 Installment Payment designated as principal and coming due on the next applicable Series 2008 Installment Payment Date. The City shall also, from the moneys in the Revenue Fund, transfer to the applicable trustee for deposit in the applicable payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of the Contract, resolution or indenture relating thereto.

Any moneys on deposit in the Certificate Payment Fund on each Series 2008 Installment Payment Date (other than amounts required for the payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of the Series 2008 Installment Payments due and payable on such date, pro rata between the portion designated as interest and the portion designated as principal. No deposit need be made in the Certificate Payment Fund as Series 2008 Installment Payments if the amount in the Certificate Payment Fund is at least equal to the amount of the Series 2008 Installment Payment due and payable on the next succeeding Series 2008 Installment Payment Date.

(b) Reserve Fund. On or before each Series 2008 Installment Payment Date, the City shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in the Reserve Fund, that sum, if any, equal to one-half (1/2) of the amount, calculated on the date of any transfer described above, necessary to restore the Reserve Fund to an amount equal to the Series 2008 Reserve Fund Requirement and transfer to the applicable trustee for deposit to such other reserve fund or account for Bonds or Contracts an amount equal to the amount required to be deposited therein.

No transfer of moneys for deposit to the Reserve Fund in connection with the Series 2008 Installment Payments need be made if the amount contained therein is at least equal to the Series 2008 Reserve Fund Requirement.

(b) Surplus. Moneys on deposit in the Revenue Fund not necessary to make any of the payments required above may be expended by the City at any time for any purpose permitted by law, including, but not limited to the payment of Subordinate Obligations.

Section 5.03. Additional Contracts and Bonds. The City may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided:

(1) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, shall have produced a sum equal to at least one hundred fifteen per cent (115%) of the Debt Service for such twelve month period; and

(2) The Net Revenues for any consecutive twelve calendar month period during the eighteen calendar month period preceding the date of the execution of such Contract or the date of adoption by the City Council of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such twelve month period to increases or decreases in rates and charges for the Sewer Service approved and in effect as of the date of calculation, as evidenced by a special report prepared by an Independent Certified Public Accountant or Independent Financial Consultant on file with the City, shall have produced a sum equal to at least one hundred fifteen per cent (115%) of the Debt Service for such twelve month period plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such twelve month period assuming such Contracts had been executed or Bonds had been issued at the beginning of such twelve month period plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such twelve month period; and

(3) The estimated Net Revenues for the then current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed from proceeds of such Contracts or Bonds, as evidenced by a certificate of the City Manager on file with the City, including (after giving effect to the completion of all such uncompleted Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for Sewer Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the City Manager on file with the City, shall produce a sum equal to at least one hundred fifteen per cent (115%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Projects.

Section 5.04. Investments. All moneys held by the City in the Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

ARTICLE VI

COVENANTS OF THE DISTRICT

Section 6.01. Compliance with Installment Purchase Agreement and Ancillary Agreements. The City will punctually pay the Series 2008 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the Installment Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2000 Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to the Installment Purchase Agreement and the Trust Agreement that, subject to Section 10.06 hereunder, each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the purchase of and payment for the 2000 Project by the City pursuant to, and in accordance with, and as authorized under the Law.

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

Section 6.02. Against Encumbrances. The City will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund except as provided herein. The City may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Revenues or any moneys in the Revenue Fund as may from time to time be deposited therein (as provided in Section 5.02), provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Section 6.03. Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Sewer System or any part thereof necessary to secure adequate Revenues for the payment of the Series 2008 Installment Payments, or which would otherwise impair the rights of the Authority hereunder or the operation of the Sewer System. Any real or personal property which has become nonoperative or which is not needed for

the efficient and proper operation of the Sewer System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the Series 2008 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

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

Section 6.04. Against Competitive Facilities. The City will not, to the extent permitted by law, acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any sewer system competitive with the Sewer System.

Section 6.05. Tax Covenants.

(a) General. The City hereby covenants with the holders of the Certificates that, notwithstanding any other provisions of this Installment Purchase Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Certificates under Section 103 of the Code. The City shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates.

(b) Use of Proceeds. The City shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the City, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the City, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), to the extent such requirements are, at the time, applicable and in effect. The City shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as "governmental bonds."

(c) Arbitrage. The City shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of the City, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) Federal Guarantee. The City shall not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

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

(f) Hedge Bonds. The City will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Certificates to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Certificates for federal income tax purposes.

(g) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of this Section 6.05, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

Section 6.06. Maintenance and Operation of the Sewer System. The City will maintain and preserve the Sewer System in good repair and working order at all times and will operate the Sewer System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Section 6.07. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created hereunder or under the Trust Agreement or on any funds in the hands of the City pledged to pay the Series 2008 Installment Payments or to the Owners prior or superior to the lien of the Series 2008 Installment Payments or which might impair the security of the Series 2008 Installment Payments.

Section 6.08. Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Sewer System and all other contracts affecting or involving the Sewer System, to the extent that the City is a party thereto.

Section 6.09. Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Sewer System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Sewer System) as are usually covered in connection with facilities similar to the Sewer System so long as such insurance is available at reasonable rates.

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

reconstruction, repair or replacement so that the same shall be completed and the Sewer System shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement, then the excess Net Proceeds shall be applied in part to the prepayment of Series 2008 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Bonds and Contracts in the same proportion which the aggregate unpaid principal balance of Series 2008 Installment Payments then bears to the aggregate unpaid principal amount of such Bonds and Contracts. If such Net Proceeds are sufficient to enable the City to retire the entire obligation evidenced hereby prior to the final due date of the Series 2008 Installment Payments as well as the entire obligations evidenced by Bonds and Contracts then remaining unpaid prior to their final respective due dates, the City may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Sewer System, and thereupon such Net Proceeds shall be applied to the prepayment of Series 2008 Installment Payments as provided in Article VII and to the retirement of such Bonds and Contracts.

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

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

All policies of insurance required to be maintained herein shall provide that the Authority or its assignee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 6.10. Accounting Records; Financial Statements and Other Reports. The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Sewer System, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

Section 6.11. Protection of Security and Rights of the Authority. The City will preserve and protect the security hereof and the rights of the Authority to the Series 2008 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Sewer System, or any part thereof or upon the Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Sewer System, or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.13. Amount of Rates and Charges. The City shall fix, prescribe, revise and collect rates, fees and charges for the Sewer Service which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred fifteen per cent (115%) of the Debt Service for such Fiscal Year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section.

Section 6.14. Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Sewer Service to such land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the City may discontinue such service from the Sewer System, and such service shall not thereafter be recommenced except in accordance with the City laws or rules and regulations governing such situations of delinquency.

Section 6.15. Eminent Domain Proceeds. If all or any part of the Sewer System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

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

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

Section 6.16. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

Section 6.17. Enforcement of Contracts. So long as any of the Certificates are outstanding, the City will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or hereafter entered into which contracts provide for the collection, treatment or disposal of wastewater

by the City which consent, revision, amendment or other action will reduce the supply of water thereunder (except as provided therein), unless the City Council of the City determines by resolution that such recision or amendment would not materially adversely affect the ability of the City to pay Series 2008 Installment Payments.

Section 6.18. Continuing Disclosure. The City has covenanted and agreed pursuant to the Trust Agreement that it will comply with and carry out all of its obligations under the continuing disclosure agreement to be executed and delivered by the City in connection with the execution and delivery of the Certificates. Notwithstanding any other provision of this Installment Purchase Agreement, failure of the City to comply with the continuing disclosure certificate shall not be considered an Event of Default.

ARTICLE VII

PREPAYMENT OF SERIES 2008 INSTALLMENT PAYMENTS

Section 7.01. Prepayment. (a) The City may or shall, as the case may be, prepay from the Net Proceeds as provided herein the Series 2008 Installment Payments in whole or in part on any date in the order of payment date as directed by the City at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

(b) The City may prepay the Series 2008 Installment Payments as a whole or in part on any date in the order of payment date as directed by the City on and after April 29, ____, at a prepayment price equal to the principal amount of the Series 2008 Installment Payments to be prepaid plus accrued interest thereon to the date of prepayment.

Notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Authority).

Section 7.02. Method of Prepayment. Before making any prepayment pursuant to Section 7.01, the City shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) nor more than seventy-five (75) days from the date such notice is given, unless a shorter time period is agreed to by the Authority and the Trustee.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Section 8.01. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the City in the due and punctual payment of any Series 2008 Installment Payment or any Contract or Bond when and as the same shall become due and payable;

(2) if default shall be made by the City in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Authority; or

(3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

then and in each and every such case during the continuance of an Event of Default, the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid Series 2008 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This Section, however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2008 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Series 2008 Installment Payments or the unpaid payment of any other Contract or Bond referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2008 Installment Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2008 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.02. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.01, all Revenues thereafter received by the City shall be applied in the following order --

First, to the payment, without preference or priority, and in the event of any insufficiency of such Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Authority and Trustee, if any, in carrying out the provisions of this article, including reasonable compensation to their respective accountants and counsel;

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

Third, to the payment of the entire principal amount of the unpaid Series 2008 Installment Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2008 Installment Payments and such Bonds and Contracts if paid in accordance with their respective terms.

Section 8.03. Other Remedies of the Authority. The Authority shall have the right --

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

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

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

Notwithstanding anything contained herein, the Authority shall have no security interest in or mortgage on the 2000 Project, the Sewer System or other assets of the City and no default hereunder shall result in the loss of the 2000 Project, the Sewer System, or other assets of the City.

Section 8.04. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Series 2008 Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

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

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

Section 8.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.01. Discharge of Obligations. When

(a) all or any portion of the Series 2008 Installment Payments shall have become due and payable in accordance herewith or a written notice of the City to prepay all or any portion of the Series 2008 Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Series 2008 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2008 Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (A) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Series 2008 Installment Payments to their respective Series 2008 Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, if an opinion of bond counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the tax exempt status of the interest portion of the Series 2008 Installment Payments, the right, title and interest of the Authority herein and the obligations of the City hereunder shall, with respect to all or such portion of the Series 2008 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of such Series 2008 Installment Payments).

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

ARTICLE X

MISCELLANEOUS

Section 10.01. Liability Limited. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Revenues, the Revenue Fund and the other funds provided herein for the payment of amounts due hereunder or

for the performance of any agreements or covenants required to be performed by it contained herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Series 2008 Installment Payments is a special obligation of the City payable solely from the Net Revenues and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Section 10.02. Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City or the Authority any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the City or the Authority shall be for the sole and exclusive benefit of the other party.

Section 10.03. Successor Is Deemed Included in all References to Predecessor. Whenever either the City or the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.04. Waiver of Personal Liability. No council member, officer or employee of the City shall be individually or personally liable for the payment of the Series 2008 Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.05. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to the Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.06. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The City and the Authority hereby declare that they would have executed the Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.07. Assignment. The Installment Purchase Agreement and any rights hereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the City.

Section 10.08. Net Contract. The Installment Purchase Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Series 2008 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.09. California Law. THE INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 10.10. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the City: City of Oceanside
 300 North Coast Highway
 Oceanside, CA 92054
 Attention: City Manager

If to the Authority: Oceanside Public Financing Authority
 300 North Coast Highway
 Oceanside, CA 92054
 Attention: Executive Director

Section 10.11. Effective Date. The Installment Purchase Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Authority).

Section 10.12. Execution in Counterparts. The Installment Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.13. Indemnification of Authority. The City hereby agrees to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder, under the Trust Agreement, and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder, under the Trust Agreement or the Assignment Agreement by the Authority.

Section 10.14. Amendments Permitted.

(a) This Agreement and the rights and obligations of the Authority and the City and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a

majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 of the Trust Agreement. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

(b) This Agreement and the rights and obligations of the Authority and the City and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes--

(1) to add to the covenants and agreements of the Authority or the City contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority or the City, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

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

IN WITNESS WHEREOF, the parties hereto have executed and attested this Installment Purchase Agreement by their officers thereunto duly authorized as of the day and year first written above.

CITY OF OCEANSIDE

By: _____
Its: City Manager

ATTEST:

City Clerk

OCEANSIDE PUBLIC FINANCING AUTHORITY

By: _____
Its: Executive Director

ATTEST:

Secretary

APPROVED AS TO FORM:

City Attorney

EXHIBIT A

DESCRIPTION OF 2000 Project

The 2000 Project comprises the following described improvements to the City's Sewer System.

Expansion of the San Luis Rey Wastewater Treatment Plant to increase design treatment capacity from 10.7 MGD to 17.4 MGD; including, but not limited to, the construction and improvements to treatment process, including preliminary treatment works, primary and secondary treatment facilities, effluent disposal facilities, solids handling facilities, construction of new administration and maintenance building and a remodeled operations building and site improvements and upgrades to electrical and instrumentation systems, including a standby generator. [Confirm.].

EXHIBIT B
PURCHASE PRICE

1. The principal amount of payments to be made by the City hereunder is \$_____.
2. The installment payments of principal and interest are payable in the amounts and on the Installment Payment Dates as follows:

Installment Payment Date	Amount Attributable to Principal	Amount Attributable to Interest
-----------------------------	-------------------------------------	------------------------------------

Total

ATTACHMENT 6

TRUST AGREEMENT

by and among

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

and

OCEANSIDE PUBLIC FINANCING AUTHORITY

and

CITY OF OCEANSIDE

Dated as of December 1, 2008

Relating to

**\$ _____
REVENUE REFUNDING CERTIFICATES OF PARTICIPATION
SERIES 2008**

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TRUST AGREEMENT

THIS TRUST AGREEMENT, made and entered into as of December 1, 2008 (the "Agreement"), by and among THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as trustee (the "Trustee"), a national banking association authorized to conduct a trust business, duly organized and existing under the laws of the United States, and OCEANSIDE PUBLIC FINANCING AUTHORITY, as the seller of the 2000 Project (hereinafter defined), a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and CITY OF OCEANSIDE, a municipal corporation and general law city duly organized and existing under the laws of the State of California (the "City");

WITNESSETH:

In consideration of the mutual covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

ARTICLE I

DEFINITIONS; RULES OF CONSTRUCTION; CONTENTS OF CERTIFICATES AND OPINIONS; RECITALS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Installment Purchase Agreement:

Agreement. The term "Agreement" means this Trust Agreement, as originally executed or as it may from time to time be amended as provided for herein.

Assignment Agreement. The term "Assignment Agreement" means that certain Assignment Agreement, by and between the Authority and the Trustee, dated as of December 1, 2008 as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Certificate Payment Fund. The term "Certificate Payment Fund" means the fund by that name established in Section 5.02 hereof.

Certificates. The term "Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to this Agreement.

Closing Date. The term "Closing Date" means the date on which the Certificates, duly executed by the Trustee are delivered to Stone & Youngberg, LLC as the original purchaser thereof.

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

Continuing Disclosure Agreement. The term “Continuing Disclosure Agreement” shall mean that certain Continuing Disclosure Agreement by the City and The Bank of New York Mellon Trust Company, N.A., as dissemination agent, and dated as of December 1, 2008, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Delivery Cost Fund. The term “Delivery Cost Fund” means the fund by that name established in Section 3.04 hereof.

Delivery Costs. The term “Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the City and related to the authorization, execution, sale and delivery of the Certificates, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the Certificates and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

Delivery Date. The term “Delivery Date” means December __, 2008.

Depository or DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

[Escrow Agent. The term “Escrow Agent” means The Bank of New York Mellon Trust Company, N.A..]

[Escrow Agreement. The term “Escrow Agreement” means that certain Escrow Agreement, by and between the City and the Escrow Agent, dated as of December 1, 2008.]

[Escrow Fund. The term “Escrow Fund” means the fund by that name established pursuant to the Escrow Agreement.]

Information Services. The term “Information Services” means, in accordance with then current guidelines of the Securities and Exchange Commission, such services providing information with respect to called bonds as the City may designate in a Written Request of the City delivered to the Trustee.

Installment Payments. The term “Installment Payments” means the installment payments payable by the City pursuant to the Installment Purchase Agreement and in the amounts and at the times set forth in the Installment Purchase Agreement.

Installment Payment Date. The term “Installment Payment Date” means the date on which Installment Payments are scheduled to be paid by the City pursuant to the Installment Purchase Agreement.

Installment Purchase Agreement. The term “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of December 1, 2008, by and between the City and the Authority, as originally executed or as it may from time to time be amended in accordance with its terms.

Interest Fund. The term “Interest Fund” means the fund by that name established in Section 5.02 hereof.

Letter of Representations. The term “Letter of Representations” means the letter of the City and the Trustee delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates setting forth the basis on which the Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the City and the Trustee delivered to and accepted by the Depository.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.11 hereof.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 11.04) all Certificates except --

- (1) Certificates canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Certificates paid or deemed to have been paid within the meaning of Section 10.01; and
- (3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.10.

Owner. The term “Owner” or “Certificate Owner” or “Owner of Certificates” or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate.

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

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

Payment Dates; Payment Date. The term “Payment Dates” means May 1 and November 1 in each year commencing May 1, 2009 and any date on which the unpaid Installment Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement.

Permitted Investments. The term “Permitted Investments” means, if and to the extent permitted by law and by any policy guidelines promulgated by the City:

(1) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the City as a certification that such investment is a Permitted Investment):

- (a) cash (insured at all times by the Federal Deposit Insurance Corporation); or

(b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are based by the full faith and credit of the U.S., including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

(c) obligations of Government-Sponsored Agencies that are not backed by the full faith and credit of the U.S. Government, including:

- Federal Home Loan Mortgage Corp. (FHLMC) Debt obligations
- Farm Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
- Federal Home Loan Banks (FHL Banks)
- Federal National Mortgage Association (FNMA) Debt obligations
- Financing Corp. (FICO) Debt obligations
- U.S. Agency for International Development (U.S. A.I.D.) Guaranteed notes

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding 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).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies;

(c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P; and

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

The value of the above investments shall be determined as follows:

"Value" which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Citi, Bank of America, JP Morgan or Goldman Sachs.

(b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: the value thereof established by prior agreement between the City and the Trustee.

Prepayment Fund. The term “Prepayment Fund” means the fund by that name established in Section 5.02 hereof.

Prepayment Price. The term “Prepayment Price” means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and this Agreement.

Principal Fund. The term “Principal Fund” means the fund by that name established in Section 5.02 hereof.

Rebate Fund. The term “Rebate Fund” means the fund by that name established in Section 5.06 hereof.

Record Date. The term “Record Date” means, with respect to any Payment Date for the Certificates, the fifteenth day of the calendar month prior to such Payment Date.

Reserve Fund. The term “Reserve Fund” means the fund by that name established in Section 5.02 hereof.

Securities Depositories. The term “Securities Depositories” means: The Depository Trust Company and/or such other securities depositories as the Authority may designate in a Written Certificate of the Authority delivered to the Trustee and/or such other securities depositories as the City may designate in a Written Request of the City delivered to the Trustee.

State. The term “State” means the State of California.

Statement of the Authority or City. The term “Statement of the Authority or City” means a statement signed by or on behalf of (i) the Authority by its Chair or Executive Director or (ii) the City by the City Manager or the Finance Director and by the City Clerk or by any two persons (whether or not officers of the City) who are specifically authorized by resolution of the City to sign or execute such a document on its behalf. If and to the extent required by the provisions of Section 1.03, each Statement of the Authority or City shall include the statements provided for in Section 1.03.

Tax Certificate. “Tax Certificate” means the Tax Certificate dated as of the Closing Date concerning certain matters pertaining to the use and investment of proceeds of the Certificates executed by and delivered to the City on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

Trustee. The term “Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States, having a principal corporate trust office in Los Angeles, California, or its successor as Trustee hereunder.

2000 Project. The term “2000 Project” means the additions, betterments, extensions and improvements to the sewer system of the City described in Exhibit A attached to the Installment Purchase Agreement, or any property substituted therefor in conformance with Section 3.01 thereof.

Written Consent of the Authority or City, Written Order of the Authority or City, Written Request of the Authority or City. The terms “Written Consent of the Authority or City,” “Written Order of the Authority or City,” “Written Request of the Authority or City” mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the Authority by its Chair, Treasurer, Executive Director or (ii) the City by the Mayor, City Manager or its Finance Director or by the City Clerk or by any two persons who are specifically authorized by resolution of the City to sign or execute such a document on its behalf.

Section 1.02. Rules of Construction. Words of any gender shall be deemed and construed to include all genders, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa.

Section 1.03. Content of Statements and Opinions. Every statement or opinion with respect to compliance with a condition or covenant provided for in this Agreement, including each Statement of the Authority, shall include (a) a statement that the person or persons making or giving such statement or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such statement or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such statement or opinion made or given by an officer of the Authority may be based, insofar as it relates to legal or accounting matters, upon a statement or opinion of or representations by counsel, accountants or consultants, unless such officer knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his statement or opinion may be based, as aforesaid, are erroneous. Any such statement or opinion made or given by counsel, accountants or consultants may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the Authority, or upon the statement or opinion of or representations by an officer or officers of the Authority, unless such counsel, accountant or consultant knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous.

Section 1.04. Recitals.

(a) Installment Purchase Agreement. The Authority and the City have entered into the Installment Purchase Agreement whereby the Authority has agreed to sell to the City the 2000 Project, and the City has agreed to purchase the 2000 Project from the Authority.

(b) Installment Payments. Under the Installment Purchase Agreement, the City is obligated to pay to the Authority or its assigns Installment Payments for the purchase of the 2000 Project.

(c) Assignment Agreement. For the purpose of obtaining the moneys required to be deposited by the Authority with the Trustee, and for the purpose of securing the obligations of the Authority hereunder, the Authority has assigned and transferred certain of its rights under the Installment Purchase Agreement to the Trustee, pursuant to the Assignment Agreement; and in consideration of such assignment and the execution of this Agreement, the Trustee has agreed to execute and deliver certificates of participation, each evidencing an interest in the Installment Payments in an aggregate amount equal to the aggregate principal amount of certificates of participation so executed and delivered.

(d) Conditions Precedent Satisfied. The City and the Authority hereby certify that all acts, conditions and things required by law to exist, happen and be performed precedent to and in connection with the execution and entering into of this Agreement have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly empowered to execute and enter into this Agreement.

ARTICLE II

CERTIFICATES; TERMS AND PROVISIONS

Section 2.01. Preparation of Certificates. The Trustee is hereby authorized to execute certificates of participation, to be denominated "Revenue Refunding Certificates of Participation, Series 2008" in an aggregate principal amount of \$_____ evidencing undivided interests in Installment Payments to be paid by the City under the Installment Purchase Agreement.

Section 2.02. Denominations; Medium and Place of Payment; Dating. The Certificates shall be delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year.

The principal and Prepayment Price with respect to all Certificates shall be payable in lawful money of the United States of America upon presentation and surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect to Certificates shall be payable by check or draft of the Trustee mailed by first class mail on the Payment Dates of such Certificates to the respective Certificate Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to Section 2.08 or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Payment Date, such defaulted interest shall be paid to the Owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee.

The Certificates shall be dated the Delivery Date. Interest with respect to Certificates shall be payable from the Payment Date next preceding their date of execution, unless such date shall be after a Record Date and on or before the succeeding Payment Date, in which case interest shall be payable from such Payment Date or unless such date shall be on or before the first Record Date, in which case interest shall be payable from Closing Date, provided, however, that if, as shown by the records of the Trustee, interest represented by the Certificates shall be in default, Certificates

executed in exchange for Certificates surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from Closing Date.

Section 2.03. Payment of Principal and Interest with Respect to Certificates.

(a) Certificates shall become payable on May 1 in the years and in the amounts and with an interest component as provided in subsection (b) below at the rates, as follows:

<u>Payment Date</u> <u>May 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2009	\$	%
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		

Principal or Prepayment Price due with respect to the Certificates at maturity or prepayment thereof, whichever is earlier, shall, to the extent of the aggregate principal amount stated upon the Certificates, represent the sum of those portions of the Installment Payments designated as principal coming due on the Installment Payment Dates immediately preceding the Payment Dates in each year.

(b) Interest with respect to the Certificates shall be payable on each Payment Date, and continuing to and including the date of maturity or prior prepayment, whichever is earlier. Said interest shall represent the sum of those portions of the Installment Payments designated as interest coming due on the Installment Payment Dates, at the rates set forth in subsection (a) above. Interest with respect to the Certificates shall be calculated on the basis of a 360 day year of twelve 30-day months.

Section 2.04. Form of Certificates. The Certificates and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Agreement.

Section 2.05. Execution. The Certificates shall be executed by and in the name of the Trustee, as trustee under this Agreement, by the manual signature of an authorized officer or signatory of the Trustee.

Section 2.06. Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Certificate for cancellation at the principal corporate trust office of the Trustee in San Francisco, California, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Certificate executed and delivered upon any transfer. The Trustee may require the payment by any Certificate Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Certificates the Trustee shall cancel and destroy the Certificates it has received.

Section 2.07. Exchange of Certificates. Certificates may be exchanged at the principal corporate trust office of the Trustee in Los Angeles, California, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The Trustee may charge a sum for each new Certificate executed and delivered upon any exchange except in the case of any exchange of temporary Certificates for definitive Certificates. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Certificates the Trustee shall cancel and destroy the Certificates it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to Section 2.06 hereof, of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

Section 2.08. Certificate Registration Books. The Trustee will keep or cause to be kept, at its principal corporate trust office in Los Angeles, California, sufficient books for the registration and transfer of the Certificates, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Authority or the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates as hereinbefore provided.

The person in whose name any Certificate shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest with respect to and principal of and Prepayment Price represented by such Certificate shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such Certificate to the extent of the sum or sums so paid.

Section 2.09. Temporary Certificates. The Certificates may be initially executed and delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in registered form and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If the Trustee executes and delivers temporary Certificates it will execute and furnish definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the principal corporate trust office of the Trustee in San Francisco, California, and the Trustee shall deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of the same maturity or maturities. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Agreement as definitive Certificates executed and delivered hereunder.

Section 2.10. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee shall execute and deliver a new Certificate of like tenor, maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated.

Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Authority and the City, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor and maturity, and numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed under this Section and of the expenses which may be incurred by the Trustee under this Section. Any Certificate executed under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Agreement with all other Certificates secured by this Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate for a Certificate which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for prepayment, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

Section 2.11. Book-Entry System.

(a) Election of Book-Entry System. Prior to the execution and delivery of the Certificates, the City may provide that such Certificates shall be initially executed and delivered as book-entry Certificates. If the City shall elect to deliver any Certificates in book-entry form, then the City shall cause the delivery of a separate single fully registered certificate (which may be typewritten) for each maturity date of such Certificates in an authorized denomination corresponding to that total principal amount of the Certificates designated to mature on such date. Upon initial execution and delivery, the ownership of each such Certificate shall be registered in the Certificate registration books in the name of the Nominee, as nominee of the Depository and ownership of the

Certificates, or any portion thereof may not thereafter be transferred except as provided in Section 2.11(e).

With respect to book-entry Certificates, the City and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Certificates. Without limiting the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Certificates, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Certificate registration books, of any notice with respect to book-entry Certificates, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Certificates to be prepaid in the event the City prepays the Certificates in part, or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest with respect to book-entry Certificates. The City and the Trustee may treat and consider the person in whose name each book-entry Certificate is registered in the Certificate registration books as the absolute Owner of such book-entry Certificate for the purpose of payment of principal of, premium and interest with respect to such Certificate, for the purpose of giving notices of prepayment and other matters with respect to such Certificate, for the purpose of registering transfers with respect to such Certificate, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest with respect to the Certificates only to or upon the order of the respective Owner, as shown in the Certificate registration books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Certificate registration books, shall receive a Certificate evidencing the obligation to make payments of principal of, premium; if any, and interest with respect to the Certificates. Upon delivery by the Depository to the Owner and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Agreement shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry Certificates for the Depository's book-entry system, the City and the Trustee shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Certificates other than the Owners, as shown on the Certificate registration books. By executing a Letter of Representations, the Trustee shall agree to take all action necessary at all times so that the City will be in compliance with all representations of the City in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the City and the Trustee shall take such other actions, not inconsistent with this Agreement, as are reasonably necessary to qualify book-entry Certificates for the Depository's book-entry program.

(c) Selection of Depository. In the event (i) the Depository determines not to continue to act as securities depository for book-entry Certificates, or (ii) the City determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Certificates or the City, then the City will discontinue the book-entry system with the Depository. If the City determines to replace the Depository with another qualified securities depository, the City shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each

of the maturity dates of such book-entry Certificates, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) hereof. If the City fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be restricted to being registered in such Certificate registration books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Certificates shall designate, in accordance with the provisions of Sections 2.06 and 2.07 hereof.

(d) Payments To Depository. Notwithstanding any other provision of this Agreement to the contrary, so long as all Outstanding Certificates are held in book-entry form and registered in the name of the Nominee, all payments of principal of, prepayment premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate shall be made and given, respectively, to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of Certificates to Substitute Depository.

(i) The Certificates shall be initially executed and delivered as provided in Section 2.01 hereof. Registered ownership of such Certificates, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.11(e) (“Substitute Depository”); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the City that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a written request of the City to the Trustee designating the Substitute Depository, a single new Certificate, which the City shall prepare or cause to be prepared, shall be executed and delivered for each maturity of Certificates then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the City. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.11(e), upon receipt of all Outstanding Certificates by the Trustee, together with a written request of the City to the Trustee, new Certificates, which the City shall prepare or cause to be prepared, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in a written request of the City, subject to the limitations of Section 2.01

hereof, provided that the Trustee shall not be required to deliver such new Certificates within a period of less than sixty (60) days from the date of receipt of such written request from the City.

(iii) In the case of a partial prepayment or an advance refunding of any Certificates evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such Certificates indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations.

(iv) The City and the Trustee shall be entitled to treat the person in whose name any Certificate is registered as the Owner thereof for all purposes of this Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the City; and the City and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Certificates. Neither the City nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any Certificates, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Certificates.

ARTICLE III

DELIVERY OF CERTIFICATES; DELIVERY COST FUND

Section 3.01. Delivery of Certificates. The Trustee is hereby authorized to execute and deliver Certificates in an aggregate principal amount of \$_____, upon the Written Order of the City.

Section 3.02. Application of Proceeds of Certificates. The \$_____ proceeds received from the sale of the Certificates (representing the \$_____ aggregate principal amount of the Certificates, plus \$_____ in net original issue premium, less the \$_____ representing the Underwriter's discount shall be deposited with the Trustee who shall transfer the sum of \$_____ to the [Escrow Agent for deposit into the Escrow Fund] and deposit \$_____ into the Delivery Cost Fund.

Section 3.03. Validity of Certificates. The validity of the execution and delivery of the Certificates is not dependent on and shall not be affected in any way by any proceedings taken by the City, the Authority or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the Certificates that all acts, conditions and things required by the Constitution and statutes of the State of California and this Agreement to exist, to have happened and to have been performed precedent to and in the delivery thereof do exist, have happened and have been performed in due time, form and manner as required by law shall be conclusive evidence of their validity and of compliance with the provisions of law in their delivery.

Section 3.04. Delivery Cost Fund. There is hereby established with the Trustee the Delivery Cost Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Delivery Cost Fund shall be used and withdrawn by the Trustee to pay Delivery Costs upon submission of Written Requisitions of the City

stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is a proper charge against said fund and that payment for such charge has not previously been made. On May 1, 2009, or upon the earlier Written Request of the City, all amounts remaining in the Delivery Cost Fund shall be transferred by the Trustee to the City for deposit in the Certificate Payment Fund.

ARTICLE IV

PREPAYMENT OF CERTIFICATES

Section 4.01. Terms of Prepayment.

(a) The Certificates shall be subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by the City in a Written Request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000 from prepaid Installment Payments made by the City from Net Proceeds, upon the terms and conditions of, and as provided for in, Section 6.10 of this Agreement, and Sections 6.09 and 6.15 of the Installment Purchase Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

(b) The Certificates with stated maturities on or after May 1, 20__, shall further be subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by the City in a Written Request provided to the Trustee and by lot within each maturity in integral multiples of \$5,000, on any date, on or after May 1, 20__, from optional prepayments of the Installment Payments made by the City pursuant to the Installment Purchase Agreement at a prepayment price equal to the principal amount of such Certificates to be prepaid plus interest accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Section 4.02. Selection of Certificates for Prepayment. Whenever less than all of the Certificates are called for prepayment, the Trustee shall select the Certificates or portions thereof to be prepaid from the Outstanding Certificates in accordance with Section 4.01 hereof. The Trustee shall promptly notify the City in writing of the numbers of the Certificates or portions thereof so selected for prepayment.

Section 4.03. Notice of Prepayment. Notice of prepayment shall be mailed, first class postage prepaid, to the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 30 days but not more than 60 days prior to the prepayment date.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time

thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

Each notice of prepayment shall state the date of notice, the prepayment date, the place or places of prepayment and the Prepayment Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Certificates of any such maturity are to be prepaid, the serial numbers of the Certificates of such maturity to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal represented thereby in the case of a Certificate to be prepaid in part only, together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such Certificates be then surrendered to the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Certificate.

Notice of prepayment of Certificates shall be given by the Trustee on behalf of and at the expense of the City.

Section 4.04. Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and maturity.

Section 4.05. Effect of Prepayment. When notice of prepayment has been duly given as aforesaid, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Certificates (or portions thereof) so called for prepayment are held by the Trustee, the Certificates (or portions thereof) so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the Prepayment Price specified in such notice and interest accrued thereon to the prepayment date; and from and after the prepayment date interest represented by the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under this Agreement, and the Owners of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

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

ARTICLE V

INSTALLMENT PAYMENTS

Section 5.01. Pledge and Deposit of Installment Payments. The Installment Payments are hereby irrevocably pledged to, and shall be used for, the punctual payment of the Certificates, and the Installment Payments shall not be used for any other purpose while any of the Certificates remain Outstanding. This pledge shall constitute a first and exclusive lien on the Installment Payments in accordance with the terms hereof.

All Installment Payments to which the Authority may at any time be entitled (including income or profit from investments pursuant to Section 5.03) shall be paid directly to the Trustee pursuant to the terms of the Assignment Agreement, and if received by the Authority at any time shall be deposited by the Authority with the Trustee within one business day after the receipt thereof; and the Trustee shall deposit all Installment Payments as and when received in the Certificate Payment Fund. All moneys at any time deposited in the Certificate Payment Fund shall be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes herein set forth.

Section 5.02. Certificate Payment Fund and Reserve Fund. There is hereby established with the Trustee the Certificate Payment Fund and the Reserve Fund each of which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Installment Payments remain unpaid. The Trustee shall transfer from the Certificate Payment Fund the following amounts at the times and in the manner hereinafter provided, and shall deposit such amounts in one or more of the following respective funds, each of which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it, and each of which shall be disbursed and applied only as hereinafter authorized. Such amounts shall be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Fund. The Trustee, on the last business day before each Payment Date (commencing on the last business day of April, 2009 shall deposit in the Interest Fund an amount representing the portion of the Installment Payments designated as interest coming due on the next succeeding May 1 or November 1, as the case may be.

No deposit need be made into the Interest Fund so long as there shall be in such fund moneys sufficient to pay the interest portion of all Certificates then Outstanding on the next May 1 or November 1, as the case may be.

Except as hereinafter provided, moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Certificates when due and payable (including accrued interest on any Certificates prepaid prior to maturity pursuant to this Agreement).

(b) Principal Fund. The Trustee, on the last business day before each May 1 (commencing on the last business day of April, 2009), shall deposit in the Principal Fund an amount equal to the principal coming due with respect to the Certificates on the next succeeding May 1.

No deposit need be made into the Principal Fund so long as there shall be in such fund moneys sufficient to pay the portion of all Certificates then Outstanding designated as principal and coming due on the next succeeding May 1.

Except as hereinafter provided, moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Certificates when due and payable.

(c) Prepayment Fund. Moneys to be used for prepayment pursuant to Section 4.01 hereof and paid by the City pursuant to Section 7.01 of the Installment Purchase

Agreement shall be transferred by the Trustee from the Certificate Payment Fund and deposited in the Prepayment Fund on the prepayment date specified in the Written Request of the City filed with the Trustee pursuant to Section 7.02 of the Installment Purchase Agreement. Said moneys shall be set aside in the Prepayment Fund solely for the purpose of prepaying the Certificates in advance of their respective stated maturities and shall be applied on or after the date specified for prepayment pursuant to Section 4.01 hereof to the payment of the Prepayment Price with respect to the Certificates to be prepaid upon presentation and surrender of such Certificates.

Section 5.03. Investment of Moneys in Special Funds. Any moneys in the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Reserve Fund and the Prepayment Fund shall be invested by the City or, upon the Written Request of the City, by the Trustee, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the City, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (2)(e) of the definition thereof.

Any interest, profit or other income on such investments will be deposited when received by the Trustee in the Reserve Fund to the extent the amount available and contained therein is less than the Series 2008 Reserve Fund Requirement and thereafter in the Certificate Payment Fund established hereunder.

Subject to the further provisions of Section 6.03 hereof; the Trustee may sell or present for prepayment any obligations so purchased at the direction of the City whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fee therefor. The Trustee may commingle any of the funds or accounts established pursuant to this Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling.

Section 5.04. Reserve Fund. The Trustee shall deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the Installment Purchase Agreement and this Agreement and apply moneys in the Reserve Fund in accordance with this Section 5.04.

If one business day prior to any Payment Date the moneys in the Certificate Payment Fund are insufficient to make the payments required by this Agreement with respect to Certificates on such Payment Date, the Trustee shall transfer from the Reserve Fund to the Certificate Payment Fund the amount of such insufficiency.

In the event that the Trustee has transferred moneys from the Reserve Fund to the Certificate Payment Fund in accordance with this Section 5.04, upon receipt of the moneys from the City to increase the balance in the Reserve Fund to the Series 2008 Reserve Fund Requirement, the Trustee shall deposit such moneys in the Reserve Fund.

If the amount available and contained in the Reserve Fund exceeds an amount equal to the Series 2008 Reserve Fund Requirement and if the City is not then in default under the Installment Purchase Agreement, the Trustee shall semiannually on or before May 1 and November 1 withdraw

the amount of such excess from the Reserve Fund and shall deposit such amount in the Certificate Payment Fund, and for this determination the Trustee shall make a valuation of the Reserve Fund as often as it may deem appropriate, and in any event on or before May 1 and November 1 in each year. In addition, the Trustee shall, on the date all or any portion of the Certificates are discharged in accordance with Section 10.02 hereof; value the Reserve Fund in accordance with this Section and withdraw the excess, if any, on deposit in the Reserve Fund and transfer such amount to or in accordance with the written direction of the City. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal and interest with respect to the Certificates in the event that no other moneys of the City are available therefor.

The City may substitute a policy of insurance, letter of credit or surety bond (the "Funding Instrument") for moneys on deposit in the Reserve Fund in order to meeting the Series 2008 Reserve Requirement; provided that:

(a) The obligation to reimburse for any draws upon the Funding Instrument shall be subordinate to the payment of the Installment Payments. The right of the provider of the Funding Instrument to reimbursement for any draws on the Funding Instrument from amounts paid by the City for deposit in the Reserve Fund shall be senior to cash replenishment of the Reserve Fund, which shall be senior to payment to the provider of the Funding Instrument of any interest on amounts advanced under the Funding Instrument.

(b) The provider of any Funding Instrument will be rated at the time of its delivery "AAA" by Standard & Poor's Credit Market Services or any successor thereto and "Aaa" by Moody's Investor Services or any successor thereto, or any equivalent rating then in effect.

Section 5.05. Pledge of Moneys in Funds. All amounts on deposit in the, the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund are hereby irrevocably pledged to the Owners of the Certificates as provided herein. This pledge shall constitute a first and exclusive lien on the Delivery Cost Fund, the Certificate Payment Fund, the Interest Fund, the Principal Fund, the Prepayment Fund and the Reserve Fund for the benefit of the Owners of the Certificates in accordance with the terms hereof and of the Installment Purchase Agreement. Amounts deposited in the Escrow Fund or the Rebate Fund are not pledged to the Owners of the Certificates.

Section 5.06. Rebate Fund.

(a) The Trustee shall establish a special fund to be known as the Rebate Fund. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder. Such amounts shall be free and clear of any lien under this Agreement and shall be governed by this Section and Section 6.03 of this Agreement and by the Tax Certificate. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement if it follows the directions of the City, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the City with the Rebate Requirement.

(b) Within 45 days of the end of each Certificate Year (as such term is defined in the Tax Certificate), (1) the City shall calculate or cause to be calculated with respect to the

Certificates the amount that would be considered the “rebate amount” within the meaning of Section 1.148-3 of the Treasury Regulations using as the “computation date” for this purpose the end of such Certificate Year, and (2) upon the City’s written direction, the Trustee shall deposit to the Rebate Fund from payments made by the City from the Revenue Fund, which the City hereby agrees to make, if and to the extent required, amounts sufficient to cause the balance in the Rebate Fund to be equal to the “rebate amount” so calculated. The Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with the preceding sentence if the amount on deposit in the Rebate Fund prior to the deposit required to be made under this subsection (b) equals or exceeds the “rebate amount” calculated in accordance with the preceding sentence. Such excess may be withdrawn from the Rebate Fund to the extent permitted under subsection (g) of this Section. The City shall not be required to calculate the “rebate amount,” and the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b), with respect to all or a portion of the proceeds of the Certificates (1) to the extent such proceeds satisfy the expenditure requirements of Section 148(f)(4)(B) or Section 148(f)(4)(C) of the Code or Section 1.148-7(d) of the Treasury Regulations, whichever is applicable, and otherwise qualify for the exception to the Rebate Requirement pursuant to whichever of said sections is applicable, (2) to the extent such proceeds are subject to an election by the City under Section 148(f)(4)(C)(vii) of the Code to pay a 1-1/2% penalty in lieu of arbitrage rebate in the event any of the percentage expenditure requirements of Section 148(f)(4)(C) are not satisfied, or (3) to the extent such proceeds qualify for the exception to arbitrage rebate under Section 148(f)(4)(A)(ii) of the Code for amounts in a “bona fide debt service fund.” In such event, and with respect to such amounts, the City shall provide written direction to the Trustee that the Trustee shall not be required to deposit any amount to the Rebate Fund in accordance with this subsection (b).

(c) Any funds remaining in the Rebate Fund after prepayment of all the Certificates and any amounts described in paragraph (2) of subsection (d) of this Section, including accrued interest and payment of any applicable fees to the Trustee, shall be withdrawn by the Trustee and remitted to the City.

(d) Upon the City’s written direction, but subject to the exceptions contained in subsection (b) of this section to the requirement to calculate the “rebate amount” and make deposits to the Rebate Fund, the Trustee shall pay to the United States, from amounts on deposit in the Rebate Fund:

(1) not later than 60 days after the end of (i) the fifth Certificate Year, and (ii) each fifth Certificate Year thereafter, an amount that, together with all previous rebate payments, is equal to at least 90% of the “rebate amount” calculated as of the end of such Certificate Year in accordance with Section 1.148-3 of the Treasury Regulations; and

(2) not later than 60 days after the payment of all Certificates, an amount equal to 100% of the “rebate amount” calculated as of the date of such payment (and any income attributable to the “rebate amount” determined to be due and payable) in accordance with Section 1.148-3 of the Treasury Regulations.

(e) In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the City shall calculate the amount of such deficiency and direct the Trustee to deposit an amount received from the City equal to such deficiency into the Rebate Fund prior to the time such payment is due.

(f) Each payment required to be made pursuant to subsection (d) of this Section shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T which shall be prepared by or on behalf of the City.

(g) In the event that immediately following the calculation required by subsection (b) of this Section, but prior to any deposit made under said subsection, the amount on deposit in the Rebate Fund exceeds the “rebate amount” calculated in accordance with said subsection, upon written instructions from the City, the Trustee shall withdraw the excess from the Rebate Fund and transfer such excess to the City for credit of such excess to the Revenue Fund.

(h) The City shall retain records of all determinations made hereunder until six years after the complete retirement of the Certificates.

(i) Notwithstanding anything in this Agreement to the contrary, the Rebate Requirement of the City shall survive the payment in full or defeasance of the Certificates.

ARTICLE VI

COVENANTS

Section 6.01. Authority and City to Perform Installment Purchase Agreement. The Authority and City covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Purchase Agreement and, together with the Trustee, to enforce such Installment Purchase Agreement against the other party thereto in accordance with its terms.

The Authority and the City will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Purchase Agreement to be kept, performed and complied with by it.

The Authority and the City agree not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Purchase Agreement.

Section 6.02. City Budgets. On or prior to the fifteenth day of each Fiscal Year, the City shall certify to the Trustee that the amounts budgeted for payment of Installment Payments are fully adequate for the payment of all Installment Payments due under the Installment Purchase Agreement for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of Installment Payments due under the Installment Purchase Agreement, the City will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the City in the then ensuing Fiscal Year for the payment of Installment Payments due under the Installment Purchase Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the City.

Section 6.03. Tax Covenants.

(a) General. The City hereby covenants with the holders of the Certificates that, notwithstanding any other provisions of this Trust Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Certificates under Section 103 of the Code. The City shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates.

(b) Use of Proceeds. The City shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the City, that would cause the Certificates to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the City, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The City shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the Certificates as “governmental bonds.”

(c) Arbitrage. The City shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of the City, or take or omit to take any action, that would cause the Certificates to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) Federal Guarantee. The City shall not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

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

(f) Hedge Bonds. The City will make no use of the proceeds of the Certificates or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Certificates to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Certificates for federal income tax purposes.

(g) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of this Section 6.03, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein. These covenants shall survive payment in full or defeasance of the Certificates.

Section 6.04. Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books shall be available upon reasonable prior notice for inspection by the City and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee shall furnish to the City a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created hereunder held by it.

Section 6.05. Compliance with Trust Agreement. The Trustee will not execute, or permit to be executed, any Certificates in any manner other than in accordance with the provisions of this Agreement, and the City will not suffer or permit any default by it to occur under this Agreement, but will faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.06. Observance of Laws and Regulations. To the extent necessary to assure their performance hereunder, the Authority and the City will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or here-after acquired by the Authority or the City, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 6.07. Compliance with Contracts. The City shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the 2000 Project by the City, and all other contracts and agreements affecting or involving the 2000 Project to the extent that the City is a party thereto.

Section 6.08. Prosecution and Defense of Suits. The City shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Sewer System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee, the Authority and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The City shall defend against every suit, action or proceeding at any time brought against the Trustee, the Authority or any Certificate Owner upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee, the Authority or any Certificate Owner under this Agreement; provided that the Trustee, the Authority or any Certificate Owner at such party's election may appear in and defend any such suit, action or proceeding. The City shall indemnify and hold harmless the Trustee, the Authority and the

Certificate Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Certificate Owners against any attorneys' fees or other expenses which any of them may incur in connection with any litigation to which any of them may become a party by reason of ownership of Certificates. The City shall promptly reimburse the Authority or any Certificate Owner in the full amount of any attorneys' fees or other expenses which the Authority or such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Agreement or the Certificates, provided that such litigation shall be concluded favorably to such party's contentions therein.

Section 6.09. Recordation and Filing. The Trustee, upon written direction of the City, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in this Agreement and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Certificate Owners and the rights and security interests of the Trustee. The Trustee, upon written direction of the City, shall (subject to Section 8.05) do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of this Agreement and the Assignment Agreement.

Section 6.10. Eminent Domain. If all or any part of the 2000 Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be applied in the manner specified in Section 6.15 of the Installment Purchase Agreement.

Section 6.11. Further Assurances. Whenever and so often as requested so to do by the Trustee or any Certificate Owner, the Authority and the City will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Certificate Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Agreement.

Section 6.12. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Certificates and upon receipt of indemnification acceptable to the Trustee, shall) or any Owner of Certificates or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes."

ARTICLE VII

DEFAULT AND LIMITATION OF LIABILITY

Section 7.01. Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the City pursuant to the Installment Purchase Agreement, the Trustee shall, after one business day following the date upon which such delinquent Installment Payment was due, immediately give written notice of the delinquency and the amount of the delinquency to the City and the Authority.

Section 7.02. Action on Default or Termination. Upon the occurrence of an Event of Default, which event shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding shall have the right, upon notice in writing to the City, to exercise the remedies provided to the Authority in the Installment Purchase Agreement.

Upon declaration of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.01 of the Installment Purchase Agreement, the Trustee may apply all moneys received as Installment Payments and all moneys held in any fund or account hereunder to the payment of the entire principal amount of the Certificates and the accrued interest with respect thereto, with interest on the overdue Certificates at the rate or rates of interest applicable to the Certificates if paid in accordance with their terms.

Section 7.03. Other Remedies of the Trustee. The Trustee shall have the right --

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any director, officer or employee thereof, and to compel the City or any such director, officer or employee to perform or carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained herein;
- (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or
- (c) by suit in equity upon the happening of any default hereunder to require the City and its directors, officers and employees to account as the trustee of an express trust.

Section 7.04. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

Section 7.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Section 7.06. No Obligation by the City to Owners. Except for the payment of Installment Payments when due in accordance with the Installment Purchase Agreement and the performance of the other covenants and agreements of the City contained in said Installment Purchase Agreement and herein, the City shall have no obligation or liability to the Owners of the Certificates with respect to this Agreement or the execution, delivery or transfer of the Certificates, or the disbursement of Installment Payments to the Owners by the Trustee; provided however that nothing contained in this Section shall affect the rights, duties or obligations of the Trustee expressly set forth herein.

Section 7.07. Trustee Appointed Agent for Certificateowners; Direction of Proceedings. The Trustee is hereby appointed the agent and attorney of the Owners of all Certificates outstanding hereunder for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the Certificates Outstanding hereunder shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, provided such direction shall be in accordance with law and the provisions of this Trust Agreement and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Certificate owners not parties to such a direction.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding pursuant to Section 7.07 hereof, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, 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 at least a majority in principal amount of the Certificates Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 7.09. Limitation on Certificateowners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have

tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

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

The right of any Owner of any Certificate to receive payment of the principal of (and premium, if any) and interest on such Certificate out of Revenues, as herein and therein provided, on and after the respective due dates expressed in such Certificate, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or Section 7.10 or any other provision of this Agreement.

Section 7.10. No Obligation with Respect to Performance by Trustee. Neither the City nor the Authority shall have any obligation or liability to any of the other parties hereto or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under this Agreement.

Section 7.11. No Liability to Owners for Payment. The Authority shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Installment Purchase Agreement or herein. Except as provided in this Agreement, the Trustee shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the City when due, or with respect to the performance by the City of any other covenant made by it in the Installment Purchase Agreement or herein.

Section 7.12. No Responsibility for Sufficiency. The Trustee shall not be responsible for the sufficiency of this Agreement, the Installment Purchase Agreement, or of the assignment made to it by the Assignment Agreement of rights to receive Installment Payments pursuant to the Installment Purchase Agreement, or the value of or title to the 2000 Project. The Trustee shall not be responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with this Agreement.

Section 7.13. Indemnification of Trustee. The City shall indemnify the Trustee and hold it harmless against any loss, liability, expenses or advances, including but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee, (i) in the exercise and performance of any of the powers and duties hereunder or under the Installment Purchase Agreement by the Trustee, (ii) relating to or arising out of the 2000 Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the 2000 Project or any part thereof, or (iii) arising out of or relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the

statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates, including the costs and expenses of defending itself against any claim of liability arising under this Agreement. Such indemnity shall survive payment of the Certificates and discharge of this Agreement or resignation or removal of the Trustee.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Employment of Trustee. In consideration of the recitals hereinabove set forth and for other valuable consideration, the City hereby agrees to employ the Trustee to receive, hold, invest and disburse the moneys received pursuant to the Installment Purchase Agreement for credit to the various funds and accounts established by this Agreement; to execute, deliver and transfer the Certificates; and to apply and disburse the Installment Payments received from the City to the Owners of Certificates; and to perform certain other functions; all as herein provided and subject to the terms and conditions of this Agreement.

Section 8.02. Acceptance of Employment. In consideration of the compensation herein provided for, the Trustee accepts the employment above referred to subject to the terms and conditions of this Agreement.

Section 8.03. Trustee; Duties, Removal and Resignation. By executing and delivering this Agreement, the Trustee accepts the duties and obligations of the Trustee provided in this Agreement, but only upon the terms and conditions set forth in this Agreement.

The City may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee; provided, however, that if the City is in default under the Installment Purchase Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding, by written request to the Trustee, remove the Trustee and appoint a successor Trustee. Any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the City and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the City does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the City petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon written acceptance of appointment by the successor Trustee.

Section 8.04. Compensation of the Trustee. The City shall from time to time, subject to any agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. Such compensation and reimbursement shall be paid by the City and amounts owing therefor shall constitute a charge on the moneys in the Certificate Payment Fund and payable by the City; provided, however, that the Trustee shall not otherwise have any claims, except in accordance with Section 7.13 hereof and Section 8.02 of the Installment Purchase Agreement, or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder but may take whatever legal actions are lawfully available to it directly against the City. The obligations of the City under this Section shall survive resignation or removal of the Trustee and payment of the Certificates and discharge of this Agreement.

Section 8.05. Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition, order, facsimile transmission, electronic mail or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of this Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or to take any action at the request of any such person unless such Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate shall be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the Authority or the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

Whenever in the administration of its duties under this Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) shall be deemed to be conclusively proved and established by a certificate of the Authority or the City and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Agreement upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to this Agreement, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to this Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the City or the Authority, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Authority or the City as freely as if it were not Trustee hereunder.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder, and

the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Agreement or in the performance of its duties hereunder or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the City or the Authority contained in this Agreement or in the Certificates shall be taken and construed as made by and on the part of the City or Authority and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Agreement and no implied duties or obligations shall be read into this Agreement against the Trustee.

No provision in this Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the City or the Authority having any claim against the Trustee arising from this Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the City or the Authority of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Purchase Agreement or this Agreement for the existence, furnishing or use of the Project.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under the Installment Purchase Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in Section 11.16 hereof. The Trustee shall, during the existence of any Event of Default (which has not been cured) use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee shall not be accountable for the use or application by the City, or the Authority or any other party of any funds which the Trustee has released in accordance with the terms of this Agreement.

Section 8.06. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is

eligible under Section 8.03 hereof), shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

ARTICLE IX

AMENDMENT OF TRUST AGREEMENT

Section 9.01. Amendments Permitted. (a) This Agreement and the rights and obligations of the City and of the Owners of the Certificates and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 hereof. No such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

(b) This Agreement and the rights and obligations of the Authority and the City and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Authority or the City contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority or the City, and which shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

Section 9.02. Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall so determine, new Certificates so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the principal

corporate trust office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Section 9.03. Amendment of Particular Certificates. The provisions of this article shall not prevent any Owner from accepting any amendments to the particular Certificates held by him, provided that due notation thereof is made on such Certificates.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Trust Agreement. When the obligations of the City under the Installment Purchase Agreement shall cease pursuant to Article IX of the Installment Purchase Agreement (except for the right of the Trustee and the obligation of the City to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth and the obligation to apply moneys on deposit in the Rebate Fund as provided in Section 5.06), then and in that case the obligations created by this Agreement shall thereupon cease, terminate and become void except for the obligation of the City to direct the Trustee to apply money on deposit in the Rebate Fund as provided herein which shall continue until such moneys are so applied and the right of the Owners to have applied and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Certificates as herein set forth, and subject to application of moneys on deposit in the Rebate Fund as provided in Section 5.06, the Trustee shall turn over to the City, after provision for payment of amounts due the Trustee hereunder, as an overpayment of Installment Payments, any surplus in the Certificate Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Certificates, and after such payment, this Agreement shall become void.

If moneys or securities described in clause (1) of the definition of Permitted Investments are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such moneys or Permitted Investments shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.08, setting forth (a) the date fixed for prepayment of the Certificates, (b) a description of the moneys or securities described in clause (1) of the definition of Permitted Investments so held by it, and (c) that this Agreement has been released in accordance with the provisions of this Section.

Section 10.02. Deposit of Money or Securities with Trustee. Whenever in this Agreement or the Installment Purchase Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Agreement and shall be --

(a) lawful money of the United States of America in an amount equal to the principal amount represented by such Certificates and all unpaid interest represented thereby to maturity, except that, in the case of Certificates which are to be prepaid prior to maturity and in respect of which notice of such prepayment shall have been given as in Article IV provided or

provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price and all unpaid interest to such date of prepayment if any, represented by such Certificates; or

(b) non-callable securities described in clause (1) of the definition of Permitted Investments which will provide money sufficient to pay the principal at maturity or upon prepayment plus all accrued interest to maturity or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such amounts become due, plus premium, if any, provided that, in the case of Certificates which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Agreement and the Installment Purchase Agreement or by Written Request of the City) to apply such money or securities to the payment of such principal or Prepayment Price and interest represented by such Certificates.

Section 10.03. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Prepayment Price represented by any of the Certificates which remain unclaimed for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal or Prepayment Price represented by such Certificates have become payable, shall at the Written Request of the City be repaid by the Trustee to the City as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for the payment of the interest and principal or Prepayment Price represented by such Certificates; provided, however, that before being required to make any such payment to the City, the Trustee shall, at the written request and expense of the City, first mail a notice to the Owners of the Certificates so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the City.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Benefits of Trust Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City, the Trustee, the Authority and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the City shall be for the sole and exclusive benefit of the Trustee, the Authority and the Owners.

Section 11.02. Successor Deemed Included in all References to Predecessor. Whenever either the City, the Authority or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City, the Authority or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the City, the Authority or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.08.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the City or the Trustee in good faith and in accordance therewith.

Section 11.04. Disqualified Certificates. Certificates owned or held by or for the account of the Authority or the City (but excluding Certificates held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided for in this Agreement, and shall not be entitled to consent to or take any other action provided for in this Agreement.

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

Section 11.05. Waiver of Personal Liability. No director, officer or employee of the City or the Authority shall be individually or personally liable for the payment of the interest or principal or the prepayment premiums, if any, represented by the Certificates, but nothing contained herein shall relieve any director, officer or employee of the City or Authority from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Agreement or hereby.

Section 11.06. Acquisition of Certificates by City; Destruction of Certificates. All Certificates acquired by the City, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation. Whenever in this Agreement provision is made for the cancellation by the Trustee of any Certificates, the Trustee shall destroy such Certificates and upon written request deliver a certificate of such destruction to the City.

Section 11.07. Headings. Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Agreement or affect its meaning, construction or effect.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; and the words "herein,"

Section 11.12. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have executed and attested this Agreement by their officers thereunto duly authorized as of the date and year first written above.

OCEANSIDE PUBLIC FINANCING AUTHORITY

By: _____
Its: Executive Director

ATTEST:

Secretary

CITY OF OCEANSIDE

By: _____
Its: City Manager

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

COMPANY, N.A., as Trustee

THE BANK OF NEW YORK MELLON TRUST

By: _____
Its: Authorized Officer

EXHIBIT A

FORM OF CERTIFICATE OF PARTICIPATION

R-__

\$_____

**CITY OF OCEANSIDE
REVENUE REFUNDING CERTIFICATE OF PARTICIPATION
SERIES 2008**

Evidencing an Interest of the Owner Hereof
in Installment Payments to be Made by the

CITY OF OCEANSIDE

<u>INTEREST RATE</u>	<u>CERTIFICATE PAYMENT DATE</u>	<u>ORIGINAL ISSUE DATE</u>	<u>CUSIP</u>
_____%	May 1, ____	December __, 2008	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ AND NO/100 DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Certificate of Participation (herein called the "Certificate") is the owner of an undivided interest in the right to receive certain Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under that certain Installment Purchase Agreement, dated as of December 1, 2008 (the "Installment Purchase Agreement"), by and between Oceanside Public Financing Authority (the "Authority") and the City of Oceanside (the "City"). The Installment Payments to be made thereunder have been assigned to The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), having a corporate trust office in Los Angeles, California. The Trustee has executed and delivered \$_____ aggregate principal amount of Certificates.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Purchase Agreement and the Trust Agreement, on the Certificate Payment Date (specified above) the Principal Amount (specified above) representing a portion of the Installment Payments designated as principal coming due on the Certificate Payment Date, and to receive an interest component on such principal component at the interest rate per annum specified above, from the Interest Payment Date (as hereinafter defined) next preceding the date of execution hereof by the Trustee, unless such date of execution is after a Record Date (as hereinafter defined) and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date, or unless such date of execution is on or before the first Record Date, in which case interest shall be payable from Closing Date; provided, however, that if, as shown by the records of the Trustee, interest represented by this Certificate shall be in default, Certificates executed in exchange for this Certificate surrendered for transfer or exchange shall represent interest from the

last date to which interest has been paid in full or duly provided for with respect to this Certificate, or, if no interest has been paid or duly provided for with respect to this Certificate, from Closing Date. Interest with respect to this Certificate shall be paid on May 1 and November 1 in each year, commencing May 1, 2009 (each, an "Interest Payment Date"), and continuing to and including the Certificate Payment Date or the date of prior prepayment hereof, whichever is earlier. Interest with respect to this Certificate shall be calculated on the basis of a 360 day year of twelve 30-day months. The principal with respect hereto and prepayment premiums, if any, are payable in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Trustee in Los Angeles, California. Interest with respect hereto is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof as of the close of business on the fifteenth day of the calendar month prior to such Interest Payment Date (the "Record Date") at the address shown on the registration books maintained by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except, in each case that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the owner in whose name this Certificate is registered at the close of business on a special record date as determined by the Trustee.

The City has certified that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner as required by law.

This Certificate has been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of December 1, 2008, by and among the Trustee, the Authority and the City (the "Trust Agreement"). Copies of the Trust Agreement and the Installment Purchase Agreement are on file at the corporate trust office of the Trustee in Los Angeles, California, and reference is made to the Trust Agreement and the Installment Purchase Agreement and any and all amendments thereto for a description of the pledges and covenants securing the Certificates, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the registered owners of the Certificates with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder.

The Certificates are payable from Installment Payments and other amounts on deposit in certain funds and accounts held under the Trust Agreement, including but not limited to the Reserve Fund, all in accordance therewith. All Revenues and all amounts on deposit in the Revenue Fund (as such terms are defined in the Installment Purchase Agreement) are irrevocably pledged to the payment of the Installment Payments and the Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Purchase Agreement. Such pledge constitutes a first and exclusive lien on Revenues on a parity with the pledge under the 2003 Installment Purchase Agreement and the State Loans (as such terms are defined in the Installment Purchase Agreement) and, subject to application of amounts on deposit therein as permitted in the Installment Purchase Agreement, the Revenue Fund and the other funds and accounts created under the Installment Purchase Agreement for the payment of the Installment Payments and all other Contracts and Bonds (as such terms are defined in the Installment Purchase Agreement) in accordance with the terms of the Installment Purchase Agreement and the Trust Agreement. The obligation of the City to make Installment Payments is a special obligation of the

City payable solely from Net Revenues (as defined in the Installment Purchase Agreement) and other funds described in the Installment Purchase Agreement and does not constitute a debt of the City or the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The Certificates are authorized to be executed and delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges, if any, as provided in the Trust Agreement, Certificates may be exchanged for a like aggregate principal amount of Certificates of the same Certificate Payment Date of other authorized denominations at the principal corporate trust office of the Trustee in Los Angeles, California.

This Certificate is transferable by the Registered Owner hereof, in person or by such person's duly authorized attorney, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the taxes and governmental charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Upon such transfer a new Certificate or Certificates, of the same Certificate Payment Date and of authorized denomination or denominations, for a like aggregate principal amount will be delivered to the transferee in exchange herefor. The Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Trustee shall not be required to register the transfer or exchange of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

The Certificates are subject to mandatory prepayment prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the City in a written request to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from prepaid Installment Payments made by the City from Net Proceeds (as defined in the Installment Purchase Agreement), under the terms and conditions of, and as provided for in the Trust Agreement and the Installment Purchase Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The Certificates with stated maturities on or after May 1, 20__, are subject to prepayment prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the City in a Written Request provided to the Trustee and by lot within each maturity, in integral multiples of \$5,000, on any date, on or after May 1, 20__, from optional prepayments of Installment Payments made by the City pursuant to the Installment Purchase Agreement, at a prepayment price equal to the principal amount of such Certificates to be prepaid plus interest accrued to the date fixed for prepayment, without premium.

The Certificates shall be subject to prepayment prior to their respective stated maturities, in part on the next Interest Payment Date for which timely notice of prepayment can be given after the date on which the Trustee receives the Statement of the City referred to in the Trust Agreement in the order of maturity as directed by the City and by lot within each maturity in integral multiples of \$5,000 from proceeds transferred from the Acquisition Fund to the Certificate Payment Fund for

deposit into the Prepayment Fund at a prepayment price of the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment without premium.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, not less than 30 nor more than 60 days prior to the prepayment date, to the Registered Owner of this Certificate at the address thereof appearing on the Certificate registration books. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment. Any defect in the notice or the mailing will not affect the validity of the prepayment of this Certificate.

With respect to any notice of optional prepayment of Certificates, such notice may state that such prepayment shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such prepayment of moneys sufficient to pay the principal of, premium, if any, and interest with respect to such Certificates to be prepaid and that, if such moneys shall not have been so received, said notice shall be of no force and effect and the Trustee shall not be required to prepay such Certificates. In the event that such notice of prepayment contains such a condition and such moneys are not so received, the prepayment shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of prepayment was given, that such moneys were not so received.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the City and of the registered owners of the Certificates and of the Trustee or the Installment Purchase Agreement and the rights and obligations of the Authority and the City and the registered owners of the Certificates and the Trustee, respectively, may be modified or amended with the written consents of the registered owners of a majority in aggregate principal amount of the Certificates then outstanding, but no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof; without the consent of the Registered Owner of each Certificate so affected, or (2) reduce the percentage of Registered Owners of Certificates whose consent is required for the execution of any amendment or modification of the Trust Agreement or the Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Trustee or the Authority without its written consent thereto.

To the extent and in the manner permitted by the terms of the Trust Agreement and the Installment Purchase Agreement, as the case may be, the Trust Agreement and the rights and obligations of the Authority and the City and of the registered owners of the Certificates or the Installment Purchase Agreement and the rights and obligations of the Authority and the City and the registered owners of the Certificates, respectively, may also be modified or amended, without the consent of the registered owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes --

(1) to add to the covenants and agreements of the Authority or the City contained in the Trust Agreement or the Installment Purchase Agreement other covenants and agreements thereafter to be observed or to surrender any right or power in the Trust Agreement or the Installment Purchase Agreement reserved to or conferred upon the

Authority or the City, and which shall not adversely affect the interests of the registered owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Installment Purchase Agreement or in regard to questions arising under the Trust Agreement or the Installment Purchase Agreement, as the Authority or the City may deem necessary or desirable and which shall not adversely affect the interests of the registered owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the registered owners of the Certificates.

Upon acceleration, the Installment Payments and the Certificates shall become due and payable immediately from the sources described in the Installment Purchase Agreement and the Trust Agreement, respectively.

The Trustee has no obligation or liability to the registered owners of the Certificates for the payment of interest, principal or prepayment premium, if any, with respect to the Certificates out of the Trustee's own funds; the Trustee's sole obligations are those described in the Trust Agreement. The recitals of facts herein shall be taken as statements of the City and the Authority and the Trustee does not have any responsibility for the accuracy thereof.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized signatory of the Trustee, all as of the date set forth below.

Execution date: _____
COMPANY, N.A., as Trustee

THE BANK OF NEW YORK MELLON TRUST

By: _____
Its: Authorized Signatory

ATTACHMENT 7

§ _____
CITY OF OCEANSIDE
REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

CERTIFICATE PURCHASE CONTRACT

November __, 2008

City of Oceanside
300 North Coast Highway
Oceanside, California 92054

Ladies and Gentlemen:

Stone & Youngberg LLC, as the underwriter (the "Underwriter"), does hereby offer to enter into this Certificate Purchase Contract with you, the City of Oceanside (the "City") for the purchase by the Underwriter of the Revenue Refunding Certificates of Participation, Series 2008 specified below. This offer is made subject to acceptance by the City prior to 10:00 A.M., California time, on the date hereof, and, upon such acceptance, this Purchase Contract shall be in full force and effect in accordance with its terms and shall be binding upon the City and the Underwriter. All terms not defined herein shall have the meanings set forth in the Official Statement hereinafter mentioned.

1. Purchase and Sale. (a) Upon the terms and conditions and upon the basis of the representations herein set forth, the Underwriter hereby agrees to purchase and the City agrees to cause the Trustee to execute and deliver to the Underwriter all (but not less than all) of the \$_____ aggregate principal amount of the Revenue Refunding Certificates of Participation, Series 2008 (hereinafter the "Certificates"). The Certificates shall be dated their date of delivery. The Certificates shall have the maturities and evidence interest at the rates per annum set forth on Exhibit A hereto, and the optional redemption provisions of the Certificates shall be as set forth in Exhibit A hereto. The purchase price for the Certificates shall be \$_____ (representing \$_____ aggregate principal amount of the Certificates, less \$_____ of Underwriter's discount and less \$_____ of net original issue discount).

(b) Each Certificate shall evidence a fractional interest of the owner thereof in Series 2008 Installment Payments to be paid by the City pursuant to a certain Installment Purchase Agreement, dated as of December 1, 2008 (the "Installment Purchase Agreement"), by and between the City and the Oceanside Public Financing Authority (the "Authority"). The Authority's right to receive the Series 2008 Installment Payments due under the Installment Purchase Agreement and to exercise remedies upon default under such Installment Purchase Agreement shall be assigned to the Trustee for the benefit of the owners of the Certificates pursuant to an Assignment Agreement, dated as of December 1, 2008 (the "Assignment Agreement"), by and between the Authority and Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Proceeds from the sale of the Certificates are to provide funds: (i) to discharge all outstanding obligations of the City under the Installment Purchase Contract, dated as of April 1, 2000, by and between the City and WateReuse Finance Authority in the aggregate principal amount of \$_____ ; (ii) to provide for a reserve fund; and (iii) to pay certain costs of issuance.

The Certificates shall be as described in, and shall be secured under and pursuant to a Trust Agreement, dated as of December 1, 2008 (the "Trust Agreement"), by and among the City, the Authority and the Trustee, substantially in the form previously submitted to the Underwriter with only such changes therein as shall be mutually agreed upon by the Authority, the City and the Underwriter.

The City will execute a Continuing Disclosure Agreement, to be dated the date of Closing (the "Continuing Disclosure Agreement," and together with the Installment Purchase Agreement, the Trust Agreement and this Purchase Contract, the "Closing Documents").

(c) At 8:00 A.M., California time, on December __, 2008, or at such other time or on such earlier or later date as the City and the Underwriter mutually agree upon (the "Closing Date"), the City will cause to be delivered to the Underwriter, the Certificates in the form of a separate single fully registered Certificate (which may be typewritten) for each of the maturities (all of the Certificates to bear CUSIP numbers), duly executed, together with the other documents hereinafter mentioned and, subject to the terms and conditions hereof, the Underwriter will accept such delivery and pay the purchase price of the Certificates as set forth in subparagraph (a) above by wire transfer to the order of the Trustee in an amount equal to the purchase price (such delivery and payment being herein referred to as the "Closing"). Sale, delivery and payment as aforesaid shall be made at the offices of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Special Counsel"), or at such other place as shall have been mutually agreed upon by the City and the Underwriter, except that the Certificates shall be delivered to the Underwriter in New York, New York, through the book-entry system of The Depository Trust Company.

2. Use and Preparation of Official Statement. The City hereby ratifies, confirms and approves the use by the Underwriter prior to the date hereof of the Preliminary Official Statement relating to the Certificates dated November __, 2008 (which, together with all appendices thereto, is referred to herein as the "Preliminary Official Statement"). The City has deemed final the Preliminary Official Statement as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The City hereby agrees to deliver or cause to be delivered to the Underwriter, within seven business days of the date hereof, copies of the final official statement, dated the date hereof (including all information permitted to be omitted by Rule 15c2-12 and any amendments and supplements to such official statement as have been approved by the City and the Underwriter, the "Official Statement") in sufficient quantity to enable the Underwriter to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The City hereby approves of the use and distribution by the Underwriter of the Official Statement in connection with the offer and sale of the Certificates. At the time of or prior to the Closing Date, the Underwriter shall file a copy of the Official Statement with the Municipal Securities Rulemaking Board and with a nationally recognized securities information repository.

3. Representations, Warranties and Agreements of the City. The City represents, warrants and covenants to the Underwriter that:

(a) The City is a general law city and municipal corporation duly organized and operating pursuant to the Constitution and laws of the State of California and has all necessary power and authority to enter into and perform its duties under the Closing Documents and, when executed and delivered by the respective parties thereto, the Closing Documents will constitute legal, valid and binding obligations of the City enforceable in accordance with their respective terms.

(b) By official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved the distribution of the Preliminary Official Statement and the distribution of the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the Closing Documents and the consummation by it of all other transactions contemplated by the Official Statement and this Purchase Contract.

(c) The execution and delivery of the Closing Documents and the approval and execution of the Official Statement and compliance with the provisions on the City's part contained therein and herein, will not conflict, in any material respect, with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets of the City under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Installment Purchase Agreement, the Trust Agreement and this Purchase Contract.

(d) Except as may be required under blue sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory agency having jurisdiction over the City required for the execution, delivery and sale of the Certificates or the consummation by the City of the other transactions contemplated by the Official Statement and the Closing Documents.

(e) The City is not in breach of or default under any applicable law or administrative regulation of the State of California or the United States or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any such instrument.

(f) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public office or body, pending or threatened against the City: (i) affecting the existence of the City or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the execution or delivery of the Certificates or the City's covenants to make Series 2008 Installment Payments or in any way contesting or affecting the validity or enforceability of the Certificates or the Closing Documents or contesting the powers of the City or its authority to enter into, adopt or perform its obligations under any of the foregoing, or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or any amendment or supplement thereto, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Certificates or the Closing Documents; or (ii) in which a final adverse decision could materially adversely affect the operations of the City.

(g) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order: (i) to qualify the Certificates for offer and sale under the blue sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and

other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Certificates; provided, however, that the City shall not be required to qualify to do business or consent to service of process in connection with any such qualification or determination in any jurisdiction.

(h) As of the date thereof, the Preliminary Official Statement did not contain any untrue statement of a material fact.

(i) As of the date thereof and at all times subsequent thereto to and including the date which is 25 days following the End of the Underwriting Period (as such term is hereinafter defined) for the Certificates, the Official Statement did not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(j) If between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Certificates, an event occurs which would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was presented, not misleading, the City will notify the Underwriter, and, if in the opinion of the Underwriter, or its counsel, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will cooperate in the preparation of an amendment or supplement to the Official Statement in a form and manner approved by the Underwriter, and shall pay all expenses thereby incurred. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Certificates, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request.

(k) If the information contained in the Official Statement is amended or supplemented pursuant to paragraph (j) hereof, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Certificates, the portions of the Official Statement so supplemented or amended (including any financial and statistical data contained therein) will not contain any untrue statement of a material fact required to be stated therein or necessary to make such information therein in the light of the circumstances under which it was presented, not misleading.

(l) After the Closing, the City will not participate in the issuance of any amendment of or supplement to the Official Statement to which, after being furnished with a copy, the Underwriter shall reasonably object in writing or which shall be disapproved by counsel for the Underwriter.

(m) As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Certificates shall mean the earlier of: (i) the Closing Date unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date; or (ii) the date on which the End of the Underwriting Period for the Certificates has occurred under Rule 15c2-12; provided, however, that the City may treat as the End of the Underwriting Period for the Certificates the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period.

(n) The City will take no action and will cause no action to be taken that would cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes.

(o) Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, the City will not have issued any bonds, notes or other obligations for borrowed money on behalf of the City secured by Sewer System Revenues except for such borrowings as may be described in or contemplated by the Official Statement.

(p) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the City is an issuer whose non-arbitrage certificates may not be relied upon.

(q) Any certificate signed by any officer of the City and delivered to the Underwriter shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

4. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the City of its obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Certificates shall be conditioned, at the option of the Underwriter, upon the performance by the City of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The Underwriter shall receive, within seven business days of the date hereof, copies of the Official Statement (including all information permitted to have been omitted by Rule 15c2-12 and any amendments or supplements as have been approved by the Underwriter), in such reasonable quantity as the Underwriter shall have requested.

(b) The representations and warranties of the City contained herein shall be true and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date and the statements of the officers and other officials of the City and the Authority made in any certificate or any other document furnished pursuant to the provisions hereof are accurate.

(c) At the time of Closing, the Closing Documents and the Assignment Agreement, all as described in the Official Statement, shall be in full force and effect as valid and binding agreements between or among the various parties thereto and the Closing Documents, the Assignment Agreement, , and the Official Statement shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter, and there shall be in full force and effect such resolutions as, in the opinion of Special Counsel shall be necessary in connection with the transactions contemplated hereby.

(d) At or prior to the Closing, the Underwriter shall receive the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) the unqualified approving opinion of Special Counsel, dated the Closing Date, as to the validity of the Installment Purchase Agreement and the tax-exempt status of the Certificates, together with a reliance letter addressed to the Underwriter and the Trustee;

(2) a supplemental opinion of Special Counsel in form and substance satisfactory to the Underwriter, dated the Closing Date and addressed to the City and the Underwriter, to the effect that:

(i) the statements in the Official Statement on the cover page thereof and under the captions "INTRODUCTION," "THE REFUNDING PLAN," "THE CERTIFICATES," "SECURITY FOR THE CERTIFICATES," "CONTINUING DISCLOSURE," "TAX MATTERS," and APPENDIX B—"DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS," to the extent they purport to summarize certain provisions of the Closing Documents and the Assignment Agreement, and the final approving opinion of Special Counsel, accurately summarize such matters in all material respects; provided that Special Counsel need not express any opinion with respect to any financial or statistical data contained therein;

(ii) assuming due authorization, execution and delivery by the other parties thereto, the Installment Purchase Agreement, the Trust Agreement and this Purchase Contract have each been duly authorized, executed and delivered by the City, and constitute legal, valid and binding agreements of the City and are enforceable in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except as their enforcement may be subject to the application of equitable principles and the exercise of judicial discretion in appropriate cases if equitable remedies are sought;

(iii) the Certificates are exempt from registration pursuant to the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, as amended;

(iv) although such attorneys have not undertaken to check the accuracy, completeness or fairness of, or verified the information contained in, the Official Statement, and are therefore unable to make any representation in that regard, such attorneys have participated in conferences prior to the date of the Official Statement with representatives of the City, the Authority, the Underwriter and others, during which conferences the contents of the Official Statement and related matters were discussed. Based upon the information made available to such attorneys in the course of their participation in such conferences, their review of the documents referred to above, their reliance on the certificates and the opinions of counsel described above and their understanding of applicable law, such attorneys do not believe that the Official Statement (other than financial statements and projections and statistical data therein, The Depository Trust Company and the book-entry system and Appendices A and E thereto, as to which no view need be expressed) as of its date contained, or as of the date of such opinion, contains, any untrue statement or a material fact, or as of its date omitted, or as of the date of such opinion omits, to

state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(3) an opinion of the City Attorney of the City, dated the Closing Date and addressed to the City and the Underwriter, in form and substance satisfactory to the Underwriter, to the effect that:

(i) the City is a general law city and municipal corporation duly organized, validly existing and in good standing under the Constitution and the laws of the State of California;

(ii) the resolutions of the City approving and authorizing the execution and delivery of the Installment Purchase Agreement, the Trust Agreement and this Purchase Contract and approving the Official Statement were duly adopted at meetings which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout;

(iii) there is no action, suit, proceeding or investigation at law or in equity before or by any court, public office or body, pending or, to the best of such counsel's knowledge, threatened against or affecting the City, which would adversely impact the City's ability to complete the transactions described in and contemplated by the Official Statement, to restrain or enjoin the collection of Series 2008 Installment Payments under the Installment Purchase Agreement, or in any way contesting or affecting the validity of the Certificates, the Installment Purchase Agreement, the Trust Agreement, this Purchase Contract or the transactions described in and contemplated hereby and by the Official Statement wherein an unfavorable decision, ruling or finding would adversely affect the validity and enforceability of the Certificates or the Closing Documents, or in which a final adverse decision could materially adversely affect the operations of the City;

(iv) the execution and delivery of the Closing Documents and the approval of the Official Statement and compliance with the provisions thereof and hereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach of or default under any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(v) the Closing Documents have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the other parties thereto, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights and by the application of equitable principles if equitable remedies are sought;

(vi) no authorization, approval, consent, or other order of any court or governmental body is required for the valid authorization, execution and delivery of the Closing Documents and the approval of the Official Statement or the

consummation by the City of the transactions contemplated herein and in the Official Statement, except such as have been obtained and except such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Certificates by the Underwriter; and

(vii) to the best knowledge of such counsel, the information in the Official Statement under the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES" does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(4) An opinion of the counsel to the Authority, dated the Closing Date, and addressed to the Authority and the Underwriter, in form and substance satisfactory to the Underwriter to the effect:

(i) the Authority is a joint powers agency duly organized, validly existing and in good standing under the laws of the State of California;

(ii) the Authority has full power and authority to enter into the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement; and

(iii) the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement have each been validly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by and enforceability against the other parties thereto, constitute legal, valid and binding agreements of the Authority, enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights and by the application of equitable principles if equitable remedies are sought;

(5) the opinion of counsel to the Trustee, dated the Closing Date and addressed to the Underwriter, to the effect that:

(i) the Trustee is a national banking association with trust powers, duly organized and lawfully existing under the laws of the United States;

(ii) the Trustee has duly authorized, executed and delivered the Trust Agreement and the Assignment Agreement and assuming due authorization, execution and delivery by the other parties thereto are the valid and binding agreements of the Trustee, enforceable in accordance with their respective terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights and by the application of equitable principles if equitable remedies are sought; and

(iii) the Trustee has lawful authority to execute and deliver the Certificates;

(6) a certificate, dated the Closing Date, signed by a duly authorized official of the City satisfactory in form and substance to the Underwriter to the effect that the representations and warranties of the City contained in this Purchase Contract are true and correct on and as of the closing Date with the same effect as if made on the Closing Date;

(7) a certificate, dated the Closing Date, signed by a duly authorized official of the City satisfactory in form and substance to the Underwriter to the effect that the signatures of the officers of the City on the Installment Purchase Agreement, the Trust Agreement and this Purchase Contract are genuine;

(8) a certificate, dated the Closing Date, signed by a duly authorized official of the Authority satisfactory in form and substance to the Underwriter to the effect that: (i) to the best of his or her knowledge, no litigation or proceeding is pending or threatened against the Authority: (a) to restrain or enjoin the delivery of any of the Certificates or the collection of Series 2008 Installment Payments; (b) in any way contesting the validity of the Certificates, the Installment Purchase Agreement, the Assignment Agreement, or the Trust Agreement, or the authority of the Authority to enter into the Installment Purchase Agreement, the Assignment Agreement or the Trust Agreement; or (c) in any way contesting the powers of the Authority in connection with any action contemplated by the foregoing agreements; and (ii) the statements and information concerning the Authority contained in the Official Statement are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein, in light of the circumstances under which they were made, not misleading in any material respect;

(9) a certificate, dated the Closing Date, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Underwriter to the effect that: (i) to the best of such officer's knowledge, there is no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court or governmental agency, public office or body pending or threatened: (a) seeking to prohibit, restrain or enjoin the execution of the Certificates or the collection of Series 2008 Installment Payments intended to pay the principal of and interest with respect to the Certificates; or (b) in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement or the Assignment Agreement; (ii) to the best of such officer's knowledge, there is no action pending or threatened against the Trustee affecting the existence of the Trustee, or contesting the powers of the Trustee or their respective authority to enter into or perform its obligations under any of the foregoing agreements, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Certificates, the Trust Agreement or the Assignment Agreement; and (iii) to the best of such officer's knowledge, no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery by the Trustee of the Trust Agreement and the Assignment Agreement, as applicable;

(10) one executed copy of each of the Installment Purchase Agreement, the Assignment Agreement, the Trust Agreement and the Continuing Disclosure Agreement;

(11) one executed copy of the Official Statement, delivered by the City;

(12) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of Certificates, the Trust Agreement and the acceptance of the Assignment Agreement;

(13) certified copies of resolutions adopted by the City authorizing the execution and delivery of the Closing Documents and the approval of the Official Statement;

(14) certified copies of resolutions adopted by the Authority authorizing the execution and delivery of the Installment Purchase Agreement, the Assignment Agreement and the Trust Agreement;

(15) a certified copy of the Joint Exercise of Powers Agreement forming the Authority, together with certified copies of the filings required by Sections 6503.5, 6503.7 and 53051 of the Government Code;

(16) non-arbitrage certifications by the City in form and substance acceptable to Special Counsel;

(17) evidence that any ratings described in the Official Statement have been obtained as of the Closing Date; and

(18) such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the Closing Date, of the representations contained herein and in the Official Statement and the due performance or satisfaction by the Trustee, the Authority and the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied in connection with the delivery and sale of the Certificates.

5. Termination. The Underwriter shall have the right to cancel its obligations to purchase the Certificates if, between the date hereof and the Closing Date:

(a) the marketability of the Certificates or the market price thereof, in the reasonable opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State of California, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for the staff of either such Committee, or by the staff of the Joint Committee on taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or state court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or state authority affecting the federal or state tax status of the City, or the interest on bonds or notes (including the Certificates);

(b) there shall exist any event which in the reasonable opinion of the Underwriter either: (i) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement; or (ii) is not reflected in the Official Statement but should be reflected therein to make the statements and information contained therein not misleading in any material respect (for the purposes of this paragraph the Preliminary Official Statement shall be deemed to be the Official Statement until such time as the final Official Statement has been printed);

(c) there shall have occurred any new outbreak or escalation of hostilities or other national or international calamity or crisis, the effect of such outbreak, calamity or crisis on the financial markets of the United States being such as would make it impracticable, in the reasonable opinion of the Underwriter, for the Underwriter to sell the Certificates;

(d) there shall be in force a general suspension of trading on the New York Stock Exchange or other national securities exchange, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange or such other exchange, whether by virtue of a determination by the New York Stock Exchange or such other exchange or by orders of the Securities and Exchange Commission or any other governmental authority;

(e) a general banking moratorium shall have been declared by either federal, California or New York authorities having jurisdiction and be in force;

(f) there shall be established any new restrictions on transactions in securities materially affecting the free market for securities (including the imposition of any limitations on interest rates) or the extension of credit by, or the charge to the net capital requirements of, underwriters established by the New York Stock Exchange, the Securities and Exchange Commission, any other federal or state agency or the Congress of the United States, or by Executive Order;

(g) an adverse event occurs in the affairs of the Trustee or the City which, in the opinion of the Underwriter, requires or has required a supplement or amendment to the Official Statement; or

(h) the Comptroller of the Currency renders an opinion or issues a regulation which has the effect of prohibiting the Underwriter from underwriting the Certificates.

6. Expenses. Whether or not the transactions contemplated by this Purchase Contract are consummated, the Underwriter shall be under no obligation to pay, and the City shall pay from the proceeds of the Certificates or otherwise, all expenses and costs of the City and the Authority incident to the performance of their obligations in connection with the authorization, execution and delivery of the Certificates to the Underwriter including, without limitation: (i) fees and disbursements of Special Counsel and other professional advisors employed by the City or the Authority; (ii) costs of preparation, printing, signing, transportation, delivery and safekeeping of the Certificates; (iii) costs of printing and distribution of the Preliminary Official Statement and the Official Statement; and (iv) Trustee fees and charges; or travel by City or Authority officials and rating agency fees. The Underwriter shall pay its out-of-pocket expenses, including, but not limited to, PSA, MSRB, CUSIP and CDIAAC fees.

7. Notice. Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stone & Youngberg LLC, 515 South Figueroa Street, Suite 1800, Los Angeles, California 90071, Attention: Carmen Vargas. Any

notice or communication to be given the City under this Purchase Contract may be given by delivering the same to the City at the address indicated on the first page hereof, Attention: City Manager. The approval of the Underwriter when required hereunder or the determination of satisfaction as to any document referred to herein shall be in writing signed by the Underwriter and delivered to the City.

8. Parties in Interest. This Purchase Contract is made solely for the benefit of the City and the Underwriter (including the successors or assigns thereof) and no other person shall acquire or have any right hereunder or by virtue hereof. All representations, warranties and agreements of the City in this Purchase Contract shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of and payment for the Certificates.

9. Effectiveness and Counterparts. This Purchase Contract shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by duly authorized officers of the City and the Underwriter and shall be valid and enforceable as of the time of such acceptance. This Purchase Contract may be executed by the parties hereto by facsimile transmission and in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

10. Governing Law. This Purchase Contract shall be construed in accordance with the laws of the State of California.

STONE & YOUNGBERG LLC

By: _____
Its: Authorized Officer

Accepted:

CITY OF OCEANSIDE

By: _____
Its: City Manager

EXHIBIT A

\$ _____
CITY OF OCEANSIDE
REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

MATURITY SCHEDULE

<i>Year Ending (May 1)</i>	<i>Principal</i>	<i>Coupon</i>	<i>Yield</i>	<i>Price</i>
2009	\$	%	%	
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				

Prepayment Provisions

The Certificates with stated maturities on or after May 1, 20__, will be subject to prepayment prior to their respective stated maturities, as a whole or in part in the order of maturity as directed by the City in a Written Request provided to the Trustee and by lot within each maturity in integral multiples of \$5,000, on any date, on or after May 1, 20__, from optional prepayments of the Installment Payments made by the City pursuant to the Installment Purchase Agreement at a prepayment price equal to the principal amount of such Certificates to be prepaid plus interest accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

ATTACHMENT 8

BOND COUNSEL AGREEMENT

CITY OF OCEANSIDE

REVENUE REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2008

THIS AGREEMENT, made as of this 12th day of November, 2008, by and between the CITY OF OCEANSIDE, a municipal corporation organized and existing under the laws of the State of California (herein "City") and STRADLING YOCCA CARLSON & RAUTH, a Professional Corporation (herein "Bond Counsel"):

RECITALS:

A. The City desires to issue execute and deliver Certificates of Participation (the "Certificates") to refinance the Installment Purchase Contract dated as of April 1, 2000, by and between the City and the Watereuse Finance Authority; and

B. The City desires to retain Bond Counsel to do the necessary legal work hereinafter outlined, upon the terms and conditions hereinafter set forth, for accomplishing the issuance of the Certificates in one or more series; and

C. Bond Counsel represents that it is ready, willing and able to perform said legal work;

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

1. SCOPE OF SERVICES

A. BOND COUNSEL SERVICES

The City retains Bond Counsel to provide, and Bond Counsel agrees to provide, legal services in connection with the execution and delivery of the Certificates. Such services shall include the rendering of legal opinions (hereinafter called the "opinions") pertaining to the Certificates to the effect that:

1. The Certificates have been properly executed and delivered and are valid and binding obligations; and
2. The essential sources of security for the Certificates have been legally provided; and
3. Interest with respect to the Certificates is exempt from California personal income taxation and is excluded from gross income for purposes of federal income taxes.

Bond Counsel's services will also include:

- i. Researching applicable laws and ordinances relating to the proposed Certificates;
- ii. Attending conferences and consulting with City staff and counsel regarding such laws, and the need for amendments thereto, or additional legislation;
- iii. Participating in meetings, conferences or discussions with any financial advisors, underwriters or other experts retained by the City with respect to the execution and delivery of the Certificates;
- iv. Supervising and preparing documentation of the steps to be taken through the execution and delivery of the Certificates, including:
 - a. Drafting all resolutions, notices, rules and regulations and other legal documents required for the execution and delivery of the Certificates, and all other documents relating to the security of the Certificates, in consultation with the City, the City Attorney, the City's financial advisor, underwriter and other experts;
 - b. Preparing the record of proceedings for the authorization, sale, execution and delivery of the Certificates;
 - c. Assisting in the preparation of the portions of the official statement and any updated official statement or placement memorandum for the sale of the Certificates which relate to the terms of the Certificates and the firm's legal opinion delivered with respect to the Certificates;
 - d. Reviewing the purchase contract or the bidding documents relating to the sale of the Certificates and participating in the related negotiations;
 - e. Participating in meetings and other conferences scheduled by the City, the City's financial advisor or the underwriter;
 - f. Consulting with prospective purchasers, their legal counsel and rating agencies;
 - g. Consulting with counsel to the City concerning any legislation or litigation which may affect the Certificates, the security for the Certificates, or any other matter related to the execution and delivery of the Certificates;
 - h. Consulting with any trustee or fiscal agent for the Certificates and their counsel;

- i. Preparing the form of the Certificates, and supervising their production or printing, signing, authentication and delivery;
- j. Rendering the final approving opinion as to the validity of the Certificates for use and distribution upon their execution and delivery; and
- k. Rendering a legal opinion to the underwriter or purchaser of the Certificates as to the applicability of the registration requirements of federal securities laws and a statement as to the fair and accurate nature of those portions of the Official Statement described in (c) above.

B. DISCLOSURE COUNSEL SERVICES

In addition to the services set forth in Section A above, Bond Counsel agrees to prepare the Official Statement to be delivered at the time of pricing of the Certificates and will provide a letter addressed to the underwriter or purchaser of the Certificates to the effect that, to the best knowledge of Bond Counsel, the offering document does not misstate a material fact or omit a material fact required to be stated therein.

C. SPECIAL SERVICES

“Special Services” are defined for purposes of this Agreement as services in addition to the services outlined in Sections A and B above. Special Services will include, but not be limited to, any work after the closing of the Certificates related to amendments to the financing documents or agreements and special studies or analyses. Special Services must be authorized in writing by the City Manager, or his designee.

2. COMPENSATION

The City agrees to pay Bond Counsel the following amounts as compensation for services rendered by Bond Counsel under this Agreement:

A. For the services to be rendered under Section 1.A above, Bond Counsel will be paid a fee in accordance with the following schedule:

<i>Amount of Certificates to be Issued</i>	<i>Fee</i>
\$5,000,000 or less	\$40,000
\$5,000,001 or more	\$40,000 plus .10 of 1% of the excess over \$5,000,000

For the services to be rendered under Section 1.B above, Bond Counsel will be paid a fee of \$20,000 for preparing the Official Statement which shall be payable solely from Certificate proceeds.

The fees referenced in this Section 2.A assume that the Certificates will be executed and delivered within one year from the date of this Agreement. In the event the Certificates are not executed and delivered within that time, Bond Counsel reserves the right to make such modifications to the foregoing fees as the City and Bond Counsel agree, as justified by reason of increased cost to Bond Counsel and the then prevailing fees for disclosure counsel and bond counsel services for Certificates such as the Certificates.

B. In the event Bond Counsel is requested to perform Special Services as set forth in Section 1.C above, Bond Counsel will be paid fees at the hourly rates set forth in Exhibit A, or in such other manner as is mutually acceptable to the City and Bond Counsel. Such fees will be billed monthly and shall be payable within thirty (30) days following the receipt of each invoice. Bond Counsel shall not be paid fees for traveling time.

C. In addition to the fees set forth in paragraphs A and B above, Bond Counsel shall be reimbursed for the actual cost of any out-of-pocket expenses reasonably incurred by Bond Counsel in the course of its employment, such as document reproduction, telecommunications charges, printing costs, filing fees, long-distance telephone calls, messenger services, overnight delivery services, travel and similar items of expense. All expenses incurred in connection with services rendered will be billed upon the execution and delivery of the series of the Certificates to which they relate, and may include an estimate of costs to be incurred subsequent to the issuance date.

3. PERSONNEL AND CONTRACT ADMINISTRATION

City agrees to accept and Bond Counsel agrees to provide the aforementioned services primarily through Brian Forbath, Cyrus Torabi and Carol L. Lew. If any one of the above attorneys is unable to provide such services due to death, disability or similar event, Bond Counsel reserves the right to substitute another of its attorneys, upon approval by the City Manager, or his designee, to provide such services; and such substitution shall not alter or affect in any way Bond Counsel's or the City's other obligations under this Agreement.

This Agreement will be administered by the City Manager, or his designee.

4. CONFLICTS OF INTEREST

Bond Counsel represents many of the underwriting firms active in the issuance of certificates of participation and other municipal financings, including Salomon Smith Barney, Inc., the proposed underwriter for the Certificates. The City hereby provides its informed written consent to Bond Counsel's representation of such underwriting firms on matters unrelated to the Certificates.

5. TERMINATION

A. This Agreement may be terminated without cause by the City or Bond Counsel upon thirty (30) days' advance written notice to the other party. Such notification shall state the effective date of the termination of this Agreement.

B. Bond Counsel reserves the absolute right to withdraw from representing the City if, among other things, the City fails to honor the terms of this Agreement, the City fails to cooperate fully or follow Bond Counsel's advice on a material matter, or any fact or circumstance

occurs that would, in Bond Counsel's view, render its continuing representation unlawful or unethical. If Bond Counsel elects to withdraw, the City will take all steps necessary to free Bond Counsel of any obligation to perform further services, including the execution of any documents necessary to complete such withdrawal, and Bond Counsel will be entitled to be paid at the time of withdrawal for all services rendered and costs and expenses paid or incurred on the City's behalf in accordance with the payment terms set forth in Section 2 above. If necessary in connection with litigation, Bond Counsel would request leave of court to withdraw.

C. Bond Counsel's representation of the City will be considered terminated at the earlier of (i) the City's termination of its representation, (ii) Bond Counsel's withdrawal from its representation of the City, or (iii) the substantial completion by Bond Counsel of its substantive work for the City. Unless Bond Counsel has been specifically engaged to perform Special Services related to the Certificates after their execution and delivery, Bond Counsel's representation of City shall terminate on the date of execution and delivery of the Certificates.

6. DISPUTE RESOLUTION

IN THE EVENT OF A DISPUTE REGARDING FEES, COSTS, OR ANY OTHER MATTER ARISING OUT OF OR RELATED IN ANY WAY WHATSOEVER TO BOND COUNSEL'S RELATIONSHIP WITH THE CITY, OR BOND COUNSEL'S OR THE CITY'S PERFORMANCE OF THIS AGREEMENT, INCLUDING THE QUALITY OF THE SERVICES WHICH BOND COUNSEL RENDERS, SUCH DISPUTE SHALL BE FIRST SUBMITTED TO MEDIATION, THE COST OF WHICH SHALL BE BORNE EQUALLY BY THE PARTIES, AND RESOLVED BY CONFIDENTIAL ARBITRATION IN THE COUNTY OF ORANGE, CALIFORNIA.

7. INDEMNIFICATION AND INSURANCE

The Firm agrees to defend, indemnify and hold the City and its officers, agents, and employees harmless from any and all claims which arise from or are directly connected with the Bond Counsel's negligence or failure to perform the work or other obligations under this Agreement, and all expenses of investigating and defending against same; provided, however, that this duty to defend, indemnify, and hold harmless shall not include any claim based upon the alleged errors or omissions of Bond Counsel related to the rendering of or the failure to render professional services hereunder so long as Bond Counsel maintains in effect errors and omissions insurance as required by this paragraph, or arising from the sole negligence or willful misconduct of the City, its officers, agents or employees. Bond Counsel agrees to maintain errors and omissions insurance in an amount not less than twenty-five million dollars (\$25,000,000) per claim period throughout the term of this Agreement.

8. MISCELLANEOUS

A. Bond Counsel and the employees of Bond Counsel, in performance of the Agreement, shall act in an independent capacity and not as officers or agents of the City.

B. Without the written consent of the City, this Agreement is not assignable by Bond Counsel in whole or in part.

C. No alteration or variation of the terms of this Agreement shall be valid unless in writing and signed by the parties hereto, and no oral understanding or agreement not incorporated herein shall be binding on any of the parties hereto.

D. In accordance with the requirements of California Business and Professions Code § 6148, Bond Counsel advises you that the firm maintains professional errors and omissions insurance coverage applicable to the services to be rendered to the City.

CITY OF OCEANSIDE

By: _____
City Manager

APPROVED AS TO FORM:

By: _____
City Attorney

STRADLING YOCCA CARLSON & RAUTH
a Professional Corporation

By: _____
Brian Forbath

EXHIBIT A

Shareholders	\$410
Associates	\$250
Paralegals	\$125