

NEW ISSUE- BOOK ENTRY ONLY**NO RATING**

In the opinion of Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings, and the Bonds are “qualified tax-exempt obligations” within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS” herein.

\$2,750,000
BYRON BETHANY JOINT POWERS AUTHORITY
(Contra Costa County, California)
SERIES 2007A LEASE REVENUE BONDS
(Wastewater Enterprise Project)
Bank Qualified

Dated: Date of Delivery**Due: August 1, as shown below**

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to make an informed investment decision with respect to the purchase of the bonds.

The above-captioned Series 2007A Revenue Bonds (the “Bonds”) are being issued by the Byron Bethany Joint Powers Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of August 1, 2007 (the “Indenture”), by and between the Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”). The Bonds will bear interest at the rate or rates shown on the Maturity Schedule set forth below, payable semiannually on February 1 and August 1 of each year (each an “Interest Payment Date”), commencing February 1, 2008.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to ultimate purchasers in the denomination of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. Purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. The Trustee will make payments of the principal of, premium, if any, and interest on the Bonds directly to DTC, or its nominee, Cede & Co., so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursements of such payments to the Beneficial Owners of the Bonds is the responsibility of DTC’s Participants and Indirect Participants, as more fully described herein. See “THE BONDS – BOOK-ENTRY SYSTEM” herein.

The Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” herein.

The Bonds are being issued by the Authority to (i) provide financing for certain wastewater facilities for sale to the Byron Sanitary District (the “Sanitary District”), (ii) establish a reserve account for the Bonds, and (iii) pay the costs of issuance associated with the issuance and sale of the Bonds.

The Bonds are payable from and secured by a pledge of net revenues (the “Net Revenues”) of the Sanitary District, consisting primarily of amounts to be paid by the Sanitary District to the Authority pursuant to an Installment Sale Agreement, dated as of August 1, 2007, by and between the Authority, as seller, and the Sanitary District, as purchaser. The Sanitary District has covenanted in the Installment Sale Agreement to set rates and charges for wastewater services, sufficient to provide Net Revenues each fiscal year equal to at least 125% of the Debt Service due in such fiscal year (as more fully described herein). See “SECURITY FOR THE BONDS” herein.

MATURITY SCHEDULE

\$2,750,000 Term Bond, Due August 1, 2039
Coupon Rate 5.625% Yield 5.815% CUSIP† No. 124498AA4

Neither the Bonds nor the obligation to pay principal of or interest thereon constitutes a debt, liability or obligation of the Authority, the Sanitary District, the State of California or any of its political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the Sanitary District, but are secured solely by the pledge of Net Revenues of the Sanitary District and certain funds held under the Indenture. The Bonds are not secured by a pledge of the taxing power of the Sanitary District.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval as to their validity by the Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel. Certain other legal matters will be passed upon for the Sanitary District and the Authority by their respective counsel, and by the Law Offices of Cameron A. Weist, Scotts Valley, California, as Disclosure Counsel. It is anticipated that the Bonds in book-entry form will be available through the facilities of DTC in New York, New York for delivery on or about September 20, 2007.



SUTTER SECURITIES INCORPORATED

Dated: September 11, 2007

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BYRON BETHANY JOINT POWERS AUTHORITY
Byron, California

BOARD OF DIRECTORS

Gerald Tennant, *President*
Lee Cummings, *Vice President*
Russell Kagehiro, *Director*
Bill Leighton, *Director*
Tim Maggiore, *Director*

AUTHORITY STAFF

Rick Gilmore, *Executive Director*
Carol Jackson, *Treasurer*

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In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the Authority or the Byron Sanitary District (the "Sanitary District") to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the Sanitary District. 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 Bonds 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 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter 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. Words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority or the Sanitary District.

The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter, Bond Counsel or Disclosure Counsel. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Sanitary District since the date hereof.

This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

\$2,750,000

**BYRON BETHANY JOINT POWERS AUTHORITY
(Contra Costa County, California)
SERIES 2007A REVENUE BONDS
(Wastewater Enterprise Project)
Bank Qualified**

This Official Statement, which includes the cover page and the appendices hereto, is provided to furnish information in connection with the sale by the Byron Bethany Joint Powers Authority (the "Authority") of its Series 2007A Revenue Bonds (Wastewater Enterprise Project) (the "Bonds") in the aggregate principal amount of \$2,750,000. Certain capitalized terms used herein are defined in "APPENDIX A – SUMMARY OF LEGAL DOCUMENTS – Definitions" herein.

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Authority for Issuance of the Bonds

The Bonds are issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the "Bond Law"), a Resolution (the "Resolution") adopted by the Board of Directors of the Authority on July 17, 2007, and an Indenture of Trust (the "Indenture"), dated as August 1, 2007, by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee").

Purpose of the Bonds

The Bonds are being issued to (i) provide financing for certain wastewater facilities for sale to the Byron Sanitary District (the "Sanitary District"), (ii) establish a reserve account for the Bonds, and (iii) pay the costs associated with the issuance and sale of the Bonds. See "THE FINANCING PLAN" herein.

The Authority

The Byron Bethany Joint Powers Authority was created by a Joint Exercise of Powers Agreement, effective as of April 16, 2007 (the "Joint Exercise of Powers Agreement"), by and between the Sanitary District and the Byron Bethany Irrigation District (the "Irrigation District") pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the "Act"). The Authority was created for the purpose of facilitating the financing of public capital improvements and facilities for the Sanitary District and the Irrigation District.

The Sanitary District

The community of Byron is located in eastern Contra Costa County in the Central Valley region of California, approximately 25 miles west of Stockton, approximately 15 miles east of Antioch and approximately 15 miles north of Livermore. The city of Brentwood is approximately 6 miles northwest of Byron along State Highway 4. Temperatures are fairly mild year-round, average highs are between 65 and 75 degrees in the summer, and average lows are between 52 and 65 degrees during the remainder of the year. Average annual rainfall, mostly occurring between December and March, is approximately 10 inches per year. See “APPENDIX D – GENERAL INFORMATION REGARDING THE SANITARY DISTRICT AND SURROUNDING AREA.”

The Byron Sanitary District is a public entity established under the laws of the State of California. It was formed pursuant to a resolution of the Contra Costa County Board of Supervisors, executed by that Board and filed with the Contra Costa County Clerk on April 12, 1948. The Sanitary District operates and maintains the wastewater system for the community. The Sanitary District serves approximately 152 residences, a 540-student school, the Contra Costa County Boy’s Ranch, and 19 commercial facilities for a total of 173 users. This is equal to 366 equivalent dwelling units (EDUs). See “THE WASTEWATER ENTERPRISE” herein.

Byron itself is an unincorporated community located in a suburban and agricultural area of eastern Contra Costa County. The town center is a small business district that serves a community population of approximately 1,000. The residential areas are a grid of neighborhood streets surrounding the town center. In order to preserve the small-town atmosphere of the community, all planned future development is to be confined to areas immediately adjacent to areas that have already been developed. Growth is anticipated as moderate within the service area of the Sanitary District.

The Project

The Sanitary District is planning for a significant wastewater facilities upgrade (the “Project”), due in part to requirements from the Regional Water Quality Control Board for possible violations of its Waste Discharge Requirements. See “APPENDIX F – CONSULTING ENGINEER’S REPORT” herein. The Project is generally described as the renovation, expansion and modernization of the Sanitary District’s existing Wastewater System. See “THE FINANCING PLAN – The Project” herein.

Sources of Payment for the Bonds

In General. The Bonds are payable solely from and secured by a first pledge of the Net Revenues, which are defined in the Indenture to be for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period. Net Revenues consist primarily of (i) amounts paid by the Sanitary District to the Authority under an Installment Sale Agreement (as defined below) and (ii) amounts in funds or accounts established under the Indenture.

Installment Sale Agreement. Pursuant to an Installment Sale Agreement, dated as of August 1, 2007, by and between the Sanitary District, as purchaser, and the Authority, as seller (the “Installment Sale Agreement”), the Sanitary District has agreed to pay installment payments (the “Installment Payments”) to

the Authority as the purchase price of certain wastewater facilities. The aggregate Installment Payments are scheduled to be sufficient, in time and amount, for the Authority to pay principal of and interest on the Bonds when due. The Sanitary District is obligated to make such payments solely from Net Revenues. Under no circumstances shall the Sanitary District be obligated, liable or required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified for the payment of the Installment Payments and the Additional Payments, nor shall any other funds or property of the Sanitary District be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable under the Installment Sale Agreement. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

Rate Covenant. In the Installment Sale Agreement, the Sanitary District has covenanted that it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by the Sanitary District’s wastewater enterprise (interchangeably, the “Enterprise” or “Wastewater Enterprise”) which will at least be sufficient to yield Net Revenues, during the next succeeding Fiscal Year, equal to 125% of the total Installment Payments for such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

Reserve Account. A reserve account (the “Reserve Account”) is established with the Trustee pursuant to the Trust Indenture in an amount equal to the Initial Reserve Requirement (as defined in the Indenture). Amounts on deposit in the Reserve Account will be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Interest Account, Principal Account or Sinking Account, respectively, are insufficient therefor. In lieu of funding the Reserve Account with cash or in replacement of amounts then on deposit in the Reserve Account, there may be credited to the Reserve Account a Qualified Reserve Account Credit Instrument in an amount, together with moneys to remain on deposit therein, equal to the Reserve Requirement. See “SECURITY FOR THE BONDS – Reserve Account” herein.

Additional Obligations. Additional obligations and refunding bonds issued or incurred on a parity with or subordinate to the Bonds may be issued pursuant to the Indenture provided that certain conditions are met. See “SECURITY FOR THE BONDS – Additional Bonds” herein.

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Net Revenues. Neither the full faith and credit of the Authority nor its members (including the Sanitary District and the Irrigation District) is pledged for the payment of the interest on or principal or redemption price of the Bonds and no tax or other source of funds, other than the Net Revenues, is pledged to pay the interest on or principal or redemption price of the Bonds. Neither the payment of the interest on or principal or redemption price of the Bonds constitutes a debt, liability or obligation of the Authority or any member of the Authority (including the Sanitary District and the Irrigation District) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

Risk Factors

The purchase of the Bonds involves certain risks. For a description of certain of these risks, see “BONDOWNER’S RISKS” herein.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the front cover hereof at the principal corporate office of the Trustee. Interest on the Bonds will be paid by check of the Trustee mailed on the interest payment date by first class mail to the person entitled thereto. Initially, interest on and principal and premium, if any, of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “THE BONDS – Book-Entry Only System” herein.

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Redemption Provisions” herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “THE BONDS – Book-Entry Only System” herein.

Continuing Disclosure

The Sanitary District has covenanted for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the Sanitary District’s Wastewater Enterprise by not later than nine (9) months following the end of the Sanitary District’s Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the Sanitary District’s Fiscal Year), commencing with the report for the 2006-07 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Sanitary District with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The notices of material events will be filed by the Sanitary District with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in “APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE” herein. The Sanitary District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events. See “CONTINUING DISCLOSURE” herein.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any

sale of the Bonds, under any circumstances, shall create any implication that there has been no change in the affairs of the Sanitary District or the Wastewater System since the date of this Official Statement.

This Official Statement, including any supplements or amendments, is intended to be deposited with one or more repositories. The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” herein.

Copies of the Indenture and the Installment Sale Agreement are available from the Trustee upon request and payment of duplication costs.

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Bond Law”), and pursuant to the Indenture.

General Provisions

General. The Bonds will initially be issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC. See “THE BONDS – Book-Entry Only System.”

The Bonds. The Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof and will be dated the date of delivery. Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing February 1, 2008, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds shall be calculated based on a 360-day year consisting of twelve 30-day months.

Each Bond will bear interest from the Interest Payment Date next preceding the date of registration thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before January 15, 2008, in which event it shall bear interest from the date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall

bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside front cover of this Official Statement. Principal of and premium, if any, on the Bonds are payable upon presentation and surrender of the Bonds at the principal office of the Trustee.

Transfer or Exchange of the Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. Transfer of any Bond shall not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the Authority may require payment of the expenses of the Authority, the Sanitary District and the Trustee incurred in connection therewith.

Redemption Provisions

Optional Redemption. The Bonds maturing on or after August 1, 2010, shall be subject to redemption at the option of the Authority, as a whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds (including prepayments of Installment Payments made by the Sanitary District pursuant to the Installment Purchase Agreement), on any Interest Payment Date on or after August 1, 2009, at a redemption price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption, plus a premium (expressed as a percentage of the principal amount of Bonds, or portions thereof, to be redeemed) as set forth in the following table:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 1, 2009 through February 28, 2010	102%
August 1, 2010 through February 28, 2011	101%
August 1, 2011 and thereafter	100%

Mandatory Redemption. The Bonds maturing on August 1, 2039 (the “Term Bond”) are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each August 1, on and after August 1, 2010, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (August 1)	Principal Amount to be Redeemed
2010	35,000
2011	40,000
2012	40,000
2013	45,000
2014	45,000
2015	50,000
2016	50,000
2017	55,000
2018	60,000
2019	60,000
2020	65,000
2021	70,000
2022	70,000
2023	75,000
2024	80,000
2025	85,000
2026	90,000
2027	95,000
2028	100,000
2029	105,000
2030	110,000
2031	115,000
2032	125,000
2033	130,000
2034	140,000
2035	145,000
2036	155,000
2037	165,000
2038	170,000
2039(maturity)	180,000

Notice of Redemption. The Trustee shall give notice of redemption to the Owners of the Bonds and to certain security depositories and information services, not less than thirty nor more than sixty days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such

Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Failure by any Owner of a Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

Book-Entry System

The Depository Trust Company (“DTC”) will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC System must be made by or through DTC Participants, which will receive a credit balance in the records of DTC. The ownership interest of each actual purchaser of each Bond (the “Beneficial Owner”) will be recorded through the records of a DTC Participant. Beneficial Owners are expected to receive a written confirmation of their purchase providing certain details of the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and, in turn, by the DTC Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Indenture in the event participation in the Book-Entry System is discontinued (see “Discontinuance of DTC Services” below).

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

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the holders or registered Owners of the Bonds will mean Cede & Co. and will not mean the Beneficial Owners of the Bonds.

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, Bond certificates are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the registered Owner of the Bonds.

The Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered as described in the Indenture. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Redemption notices and all other notices to Bond Owners shall be sent only to Cede & Co., as registered Owner of the Bonds. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed. Neither DTC nor Cede & Co. will consent to vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made solely to DTC or its nominee, Cede & Co., as registered Owner of the Bonds. Upon receipt of moneys, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing rules and regulations governing municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC, the Trustee, the Sanitary District or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Authority, the Sanitary District, the Underwriter and the Trustee do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an Owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal of, redemption price of or interest on the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered Owners under the Indenture; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered Owner; or (vi) any other matter arising with respect to the Bonds or the Indenture. The Authority, the Sanitary District, the Underwriter and the Trustee cannot and do not give any assurances that DTC

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

The foregoing description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made by the Authority or the Sanitary District concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that DTC shall no longer so act and delivers a written certificate to the Trustee to that effect, then the Authority will discontinue the Book-Entry System with DTC for the Bonds. If the Authority determines to replace DTC with another qualified securities depository, the Authority will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Indenture. If the Authority fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds shall no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds shall designate.

SECURITY FOR THE BONDS

Pledge of Net Revenues

All Net Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Indenture are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Indenture, and the Net Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Net Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture.

Such pledge constitutes a lien on and security interest upon the Net Revenues and all other moneys on deposit in the funds and accounts established under the Indenture for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Indenture.

In the Indenture, the Authority agrees to transfer in trust, grant a security interest in and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Net Revenues and all of the right, title and interest of the Authority in the Installment Sale Agreement (except for the right to receive any Additional Payments (as defined hereinafter) to the extent payable to the Authority and certain rights to indemnification set forth in the Installment Sale Agreement).

In order to carry out and effectuate the pledge, charge and lien on Net Revenues provided in the Indenture, the Authority agrees and covenants in the Indenture that all Net Revenues will be promptly deposited by the Trustee upon receipt thereof in the Bond Fund created under the Indenture, which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Installment Sale Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund. All Net Revenues will be accounted for through and held in trust in the Bond Fund, and the Authority has no beneficial right or interest in any of the Net Revenues except only as provided in the Indenture.

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Net Revenues. Neither the full faith and credit of the Authority nor its members (including the Sanitary District and the Irrigation District) is pledged for the payment of the interest on or principal or redemption price of the Bonds and no tax or other source of funds, other than the Net Revenues, is pledged to pay the interest on or principal or redemption price of the Bonds. Neither the payment of the interest on or principal or redemption price of the Bonds constitutes a debt, liability or obligation of the Authority or any member of the Authority (including the Sanitary District and the Irrigation District) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

Installment Payments

The Sanitary District's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable under the Installment Sale Agreement is a special obligation of the Sanitary District limited solely to Net Revenues. Under no circumstances will the Sanitary District be required, obligated or liable to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Installment Sale Agreement for the payment of the Installment Payments and the Additional Payments, nor will any other funds or property of the Sanitary District be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable under the Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the Sanitary District to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the Sanitary District, the Authority or the Trustee of any obligation to the Sanitary District or otherwise with respect to the Enterprise, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the Sanitary District by the Authority or the Trustee.

Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement have been fully paid or prepaid, the Sanitary District (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, failure to complete the acquisition and construction of any Improvements by the estimated Completion Date thereof, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Installment Sale Agreement.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Installment Sale Agreement, including the right to receive the Installment Payments.

The obligation of the Sanitary District to pay the Installment Payments is limited to the Net Revenues, which are defined in the Installment Sale Agreement to be for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

Net Revenues

Net Revenues is defined in the Indenture as the Gross Revenues of the Enterprise less Operation and Maintenance Costs.

“Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the Sanitary District, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the Sanitary District, now or hereafter existing, used or pertaining to the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting wastewaters, outfalls, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the Sanitary District from the ownership and operation of the Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the Sanitary District from the operation of the Enterprise or arising from the Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the Sanitary District for the Enterprise service and the other services of the Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Enterprise, (c) the

earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to the law to the Enterprise, (d) the proceeds derived by the Sanitary District directly or indirectly from the sale, lease or other disposition of a part of the Enterprise, and (e) all other monies howsoever derived by the Sanitary District from the operation of the Enterprise or arising from the Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Sanitary District.

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

Enterprise Fund

The Sanitary District has heretofore established an Enterprise (or sometimes, “Utility”) Fund into which the Sanitary District deposits and will continue to deposit all Gross Revenues (the “Enterprise Fund”), which the Sanitary District has covenanted to maintain throughout the Term of the Installment Sale Agreement.

In the Installment Sale Agreement, all of the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments and any other Parity Obligations, and except as otherwise provided therein, the Net Revenues shall not be used for any other purpose so long as any of the Installment Payments remain unpaid.

All of the Gross Revenues shall be deposited by the Sanitary District immediately upon receipt in the Enterprise Fund. The Sanitary District covenants and agrees that all Net Revenues will be held by the Sanitary District in the Enterprise Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Parity Obligations. On or before each Installment Payment Date, the Sanitary District will withdraw from the Enterprise Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Net Revenues which, together with the balance then on deposit in the Bond Fund, the Interest Account, the Sinking Account and the Principal Account, but excluding the Reserve Account (other than amounts resulting from the prepayment of the Installment Payments pursuant to the Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the Sanitary District shall withdraw from the Enterprise Fund such amounts at such times as shall be required to: (i) pay all Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Account, including any amount required as a result of the expiration of a Qualified Reserve Account Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Installment Sale Agreement.

In addition to the Installment Payments, the Sanitary District shall pay when due Additional Payments, which generally consist of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund or the Project Fund) and amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Allocation of Net Revenues

Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) After taking into account any moneys then on deposit in the Interest Account, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account, to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on the next succeeding August 1.

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

Reserve Account

In order to further secure the payment of principal of and interest on the Bonds, a portion of Bond proceeds will be deposited into the Reserve Account in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every

succeeding Bond Year, or (iii) Maximum Annual Debt Service; unless, with respect to the issuance of Additional Bonds, it is determined to maintain a pooled Reserve Account, then it shall mean, as of as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds and Additional Bonds, (ii) 125% of average annual debt service on the Bonds and Additional Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds are retired, any moneys then on deposit in the Reserve Account will be withdrawn by the Trustee and paid to the Sanitary District.

If at any time the amount on deposit in the Reserve Account is less than the Reserve Requirement, the Sanitary District is required to pay from Net Revenues to the Trustee the amount of such deficiency as provided in the Installment Sale Agreement. Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Fund.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture shall be pro-rata with respect to each such instrument.

Special Obligation; Unconditional Obligation

The collective Installment Payments due under the Installment Sale Agreement are calculated to be in an amount sufficient to provide for the payment of the principal of and interest on the Bonds. The Sanitary District's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable under the Installment Payment Agreement are a special obligation of the Sanitary District limited solely to the Net Revenues. Under no circumstances shall the Sanitary District be obligated, liable or required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified for the payment of the Installment Payments and the

Additional Payments, nor shall any other funds or property of the Sanitary District be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable under the Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the Sanitary District to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the Sanitary District, the Authority or the Trustee of any obligation to the Sanitary District or otherwise with respect to the Enterprise, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the Sanitary District by the Authority or the Trustee.

Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable under the Installment Sale Agreement have been fully paid or prepaid, the Sanitary District has agreed that it (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, failure to complete the Acquisition and Construction of any Improvements by the appropriate Completion Date thereof, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with an Indenture or an Installment Sale Agreement.

Rate Covenant

The Sanitary District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and Improvements furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the Sanitary District to become due and payable in such Fiscal Year;

(ii) The Installment Payments and the principal of and interest on (a) any Senior Obligation, and (b) any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or such principal and interest on any Senior Obligation or Parity Obligations are payable from the proceeds of the Bonds or Parity Obligations, or from any other source of legally available funds of the Sanitary District which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement; and

(iv) All Additional Payments and other payments required to meet any other obligations of the Sanitary District which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Revenues during such Fiscal Year, including payments with respect to subordinating obligations.

In addition, in the Installment Sale Agreement, the Sanitary District covenants, to the extent permitted by law, to fix, prescribe, revise and collect rates, fees and charges for the services and improvements furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues at least equal to one hundred twenty-five percent (125%) of the total Installment Payments and payments with respect to all Parity Obligations coming due and payable in such Fiscal Year.

Additional Bonds

The Authority may, by Supplemental Indenture, issue additional bonds (“Additional Bonds”) on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, subject to certain specific conditions set forth in the Indenture, including the following:

(a) The Authority is in compliance with all covenants and undertakings set forth in the Indenture.

(b) The Supplemental Indenture authorizing issuance of such Additional Bonds must require that the balance on deposit in the Reserve Account upon delivery of said Additional Bonds is a sum at least equal to the Reserve Requirement of the Bonds and said Additional Bonds.

In addition, the Installment Sale Agreement requires, among other things, that Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the Sanitary District for the most recent completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive twelve (12) month period selected by the Sanitary District at its option, in either case verified by a certificate or opinion of an Independent Certified Public Accountant or Fiscal Consultant, plus the Additional Revenues, at least equal one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service with respect to the Installment Payments and all Parity Obligations then outstanding (including the Parity Obligations then proposed to be issued).

Insurance; Net Proceeds

The Sanitary District will procure and maintain such insurance relating to the Enterprise (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the Sanitary District, and their respective members, officers, agents and employees. In addition, the Sanitary District will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost) casualty insurance against loss or damage to any improvements constituting any part of the Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Sanitary District, and may be maintained in whole or in part in the form of self-

insurance by the Sanitary District, subject to the provisions of the Installment Sale Agreement, or in the form of the participation by the Sanitary District in a joint powers agency or other program providing pooled insurance.

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

Contra Costa County Tax Losses Reserve

The County of Contra Costa and its subsidiary political subdivisions operate under the provisions of Sections 4701 through 4717, inclusive, of the Revenue and Taxation Code of the State of California, commonly referred to as the "Teeter Plan," with respect to property tax collection and disbursement procedures. These sections provide an alternative method of apportioning secured taxes whereby agencies (such as the Sanitary District) levying taxes through the County roll may receive from the County 100% of their taxes in the year they are levied. The County treasury's cash position (from taxes) is insured by a special tax losses reserve fund (the "Tax Losses Reserve Fund") accumulated from delinquent penalties.

During each fiscal year, the Tax Losses Reserve Fund is reviewed and when the amount of the fund exceeds certain levels, the excess is credited to the County General Fund as provided by Sections 4703 and 4703.2 of the California Revenue and Taxation Code. State law allows any county to draw down their tax losses reserve fund to a balance equal to (i) one percent of the total of all taxes and assessments levied on the secured roll for that year, or (ii) 25% of the current year delinquent secured tax levy.

Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk. The constitutionality of the Teeter Plan was upheld in *Corrie v. County of Contra Costa*, 110 Cal. App. 2d 210 (1952). The County was the first Teeter Plan county in the State.

This method of apportioning taxes has been extended to all assessments then being collected on the County tax roll, including the Sanitary District. Although the Sanitary District currently receives the total levy for its user fee and property tax collections, without regard to actual collections, the basic legal liability for assessment deficiencies at all times remains with the Sanitary District and, therefore, the alternative method of tax apportionment only assists the Sanitary District in the current financing of the maturing debt service requirements. The Board of Supervisors may discontinue the procedures under the Teeter Plan altogether, or with respect to any tax or assessment levying agency in the County, if the rate of secured tax and assessment delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency.

The collections for the Sanitary District will be collected pursuant to the procedures described above. Thus, so long as the County maintains its policy of collections pursuant to said procedures and the Sanitary District meets the Teeter Plan requirements, the Sanitary District will receive 100% of the annual collections levied with the County without regard to actual collections in the Sanitary District. There is no assurance, however, that the County Board of Supervisors will maintain its policy pursuant to the aforementioned procedures.

THE FINANCING PLAN

General

The Bonds are being issued primarily for the purpose of financing the Project (as described below), pursuant to the Installment Sale Agreement. The Sanitary District has made application for State financial assistance in the form of a State Grant (as defined below), which proceeds are expected be used in conjunction with the Bond proceeds to complete the Project. However, it is the Sanitary District's present plan to finance the Project solely from Bond proceeds and from certain available funds on hand. See "SOURCES AND USES OF FUNDS" herein.

If, when and to the extent that State Grant moneys become available to the District, as is presently expected, the District has expressed its intention to optionally redeem Bonds at such time.

The Project

The Project is generally described as the renovation, expansion and modernization of the Sanitary District's existing Wastewater System (the "Project"). The Project generally consists of the following:

Project Design: As part of the facility upgrade, existing ponds 1-6 will be rehabilitated, along with the modification of 7.5 acre overland flow, dispersal system. The new system will allow for 120 days of wet weather storage. The system will utilize a combination of seepage and evaporation of design flows to accommodate 120% of permitted daily flow rates, 80,000 gpd (current) to 96,000 gpd (future). The Project will also include the addition of a control building for monitoring and operation.

Collection System: A full assessment and evaluation to be performed during the design phase of the Project. According to the Consulting Engineer, review of existing reports and maintenance records do not indicate a significant problem with infiltration or inflow to the collection system. To obtain compliance with new State Water Resource Control Board requirements to permit sewer collection systems, recommendations will be made for both short and long term upgrades to the collection system.

Pumping Station: As part of the facility upgrade, a new sewer lift station will be constructed to replace the existing station.

Treatment Facilities: The headworks will be improved for screening and flow measurement. Pond's 1 & 2 will be designed as aerobic treatment ponds, and will receive all sewage flows. Ponds 3-6 will be available for storage, percolation and evaporation. The Wastewater System is being designed to have approximately 120 days of wet weather seasonal storage.

Project Cost Estimate

Table 1 presents the preliminary cost estimate for the renovation, construction and modernization of the Project.

Table 1
BYRON SANITARY DISTRICT
SERIES 2007A REVENUE BONDS

PROJECT COST ESTIMATE	
<u>Construction Cost Estimates</u>	
Pump Station	\$ 200,000
New Headworks	230,000
Abandon Existing Treatment Facilities	25,000
Sludge removal - ponds, as needed	210,000
Sludge removal - Imhoff Tank	15,000
Modify land dispersal area	20,000
Rehab existing ponds 1-6	500,000
New transfer piping between lagoons	90,000
Onsite non-potable well	50,000
Operations Building	80,000
Control and monitoring systems	<u>40,000</u>
Subtotal	\$ 1,460,000
<u>Contingency and Misc.</u>	
Contingency (20% of Subtotal)	292,000
Permits, fee's, other	25,000
Monitoring wells	<u>30,000</u>
Total Construction Cost	\$ 1,807,000
<u>Planning and Engineering Estimates</u>	
Planning/Preliminary Engineering/CEQA	180,000
Engineering – Design, Inspection, and Management	<u>546,225</u>
TOTAL PROJECT COST ESTIMATE	\$ <u>2,533,225</u>

Source: The Consulting Engineer

State Grant

The Sanitary District has been accepted for a State Grant (the “State Grant”) pursuant to the State’s “Small Community Wastewater Grant Program,” and has been placed on the 2004 State Water Resources Control Board (the “SWRCB”) Program Competitive Project List (the “Grant Program”). Under the Grant Program, the Sanitary District Byron is eligible for up to \$2,000,000 in grant money for the Project.

In order to receive the full grant amount, the District must receive several approvals for design and construction. As of June 22, 2007, the State Water Board claims that it has received all of the necessary submittals from the District (Project Report, Draft Revenue Program, and CEQA Documents) in order to issue a Facility Plan Approval (FPA) Letter. The submittals are currently under review by State Water Board staff and they have indicated that an FPA Letter is expected to be issued sometime in September of 2007, although the Sanitary District makes no guarantees as to the attainment of the FPA Letter or the State Grant.

Sources and Uses of Funds

Table 2 sets forth the estimated sources and uses of funds relating to the issuance of the Bonds.

Table 2
BYRON BETHANY JOINT POWERS AUTHORITY
SERIES 2007A REVENUE BONDS

ESTIMATED SOURCES AND USES OF FUNDS	
SOURCES	
<u>Sources of Funds:</u>	
Principal Amount of Bonds	\$ 2,750,000.00
Less: Net Original Issue Discount	75,625.00
Less: Underwriter's Discount	<u>52,000.00</u>
Total Sources	<u>\$ 2,622,375.00</u>
USES	
<u>Uses of Funds:</u>	
Deposit to Project Fund	\$ 2,088,317.19
Deposit to Reserve Account	194,437.50
Capitalized Interest	288,320.31
Costs of Issuance ⁽¹⁾	<u>51,300.00</u>
Total Uses	<u>\$ 2,622,375.00</u>

(1) Costs of Issuance include legal fees, consulting fees, printing costs, Trustee fees, and other miscellaneous expenses in connection with the issuance, sale and delivery of the Bonds.

Debt Service Requirements

Table 3 sets forth annual principal and interest on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 3
BYRON BETHANY JOINT POWERS AUTHORITY
SERIES 2007A REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE			
Bond Year (August 1)	Principal Portion of Debt Service	Interest Portion of Debt Service	Total Debt Service
2008		133,632.81	133,632.81
2009		154,687.50	154,687.50
2010	35,000	154,687.50	189,687.50
2011	40,000	152,718.76	192,718.76
2012	40,000	150,468.76	190,468.76
2013	45,000	148,218.76	193,218.76
2014	45,000	145,687.50	190,687.50
2015	50,000	143,156.26	193,156.26
2016	50,000	140,343.76	190,343.76
2017	55,000	137,531.26	192,531.26
2018	60,000	134,437.50	194,437.50
2019	60,000	131,062.50	191,062.50
2020	65,000	127,687.50	192,687.50
2021	70,000	124,031.26	194,031.26
2022	70,000	120,093.76	190,093.76
2023	75,000	116,156.26	191,156.26
2024	80,000	111,937.50	191,937.50
2025	85,000	107,437.50	192,437.50
2026	90,000	102,656.26	192,656.26
2027	95,000	97,593.76	192,593.76
2028	100,000	92,250.00	192,250.00
2029	105,000	86,625.00	191,625.00
2030	110,000	80,718.76	190,718.76
2031	115,000	74,531.26	189,531.26
2032	125,000	68,062.50	193,062.50
2033	130,000	61,031.26	191,031.26
2034	140,000	53,718.76	193,718.76
2035	145,000	45,843.76	190,843.76
2036	155,000	37,687.50	192,687.50
2037	165,000	28,968.76	193,968.76
2038	170,000	19,687.50	189,687.50
2039	180,000	10,125.00	190,125.00
Totals	<u>\$2,750,000</u>	<u>\$3,293,476.73</u>	<u>\$6,043,476.73</u>

Debt Service Coverage Projections for the Bonds

Table 4 shows the projected debt service coverage (the “Coverage Projections”) for the Fiscal Year 2007-2008 through 2010-2011 using projected debt service for the Bonds.

Please be advised that the Coverage Projections are based upon estimates and projections of the Sanitary District, given present facts, circumstances and assumptions. No guarantee is made with regard to the accuracy of the Coverage Projections.

Table 4
SANITARY DISTRICT ENTERPRISE FUND
FORECAST REVENUES, EXPENSES AND NET REVENUES

DEBT SERVICE COVERAGE PROJECTIONS FOR THE BONDS				
	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Total Gross Revenues ⁽¹⁾	\$316,360	\$320,192	\$444,705	\$449,945
Less: Total O & M Expenses ⁽²⁾	128,820	132,685	136,665	140,765
Net Revenues / Cash Flow Available for Debt Service	\$187,558	\$187,507	\$308,040	\$309,180
Estimated Annual Debt Service Payments for the Bonds⁽³⁾	Funded	Funded	\$190,000	\$193,000
Debt Service Coverage Projections For the Bonds⁽⁴⁾	N/A	N/A	1.62x	1.60x

Notes:

- (1) Total Gross Revenues reflect: (i) the 2006-2007 Audited Financial Statement for Operating Revenues, plus (ii) Wastewater User Fee increases which have already been adopted by the Sanitary District Board on May 21, 2007, plus a projected annual increase of five additional EDU's per year, beginning in Fiscal Year 2008-2009.
- (2) Total O & M Expenses are based on the 2006-2007 Audited Financial Statement, as adjusted to include an increase of \$15,695 for Fiscal Year 2007-2008 (which is projected to cover any increased expenses due to the Project), and approximately three percent per year thereafter.
- (3) Based on actual (rounded) debt service for the Bonds.
- (4) These Coverage Projections are only forecasts and are subject to uncertainties. Inevitably, some assumptions used to develop these forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecasts and actual results, and those differences may be material.

Source: Sanitary District

THE WASTEWATER ENTERPRISE

The Wastewater System

The Sanitary District operates the wastewater collection system (the “Collection System”) and the wastewater treatment and disposal facilities (the “Treatment Facilities”) (together, the Collection System and the Treatment Facilities are sometimes referred to as the “Wastewater System”). The Wastewater System was originally constructed in the late 1950’s. The Treatment Facilities consist of an Imhoff Tank, four evaporation/percolation ponds that have a surface area of 3.76 acres, two storage evaporation/storage ponds with a total surface area of 4.24 acres, and 7.5 acres of land south of the plant irrigated with treated effluent on a seasonal basis. Due to solids carryover from the Imhoff Tank, the four evaporation/percolation ponds have been acting as treatment/storage/evaporation ponds. The Wastewater System has had minimal improvements since initial construction in 1958. The ponds are located adjacent to a natural wetlands area, and testing indicates some impact to the wetlands and groundwater.

Collection System

Past studies, Sanitary District record’s for repair and maintenance, and monitoring of influent flows indicate no significant problem with infiltration or exfiltration of the Collection System. Several sections of the sewer mains have experienced periodic back up, but appear to function as designed. The Sanitary District will be undertaking a complete assessment of the collection, including video footage and inspection of the Wastewater System. Wet weather and dry weather flows do not differ by any significant amount. Some of the lowest average monthly flows occur in the wet weather season.

Treatment and Disposal

The Treatment Facilities consist of a lift station, followed by flow measurement, leading to a 40,000 gallon Imhoff Tank, leading to four evaporation/percolation ponds. Two additional ponds are available for additional evaporation/percolation and for wet weather storage. A 7.5 acre overland flow discharge area is available next to the ponds for periodic discharge for evaporation/percolation of pond effluent.

The lift station has had periodic repairs and pumps replaced. The design does not presently comply with current engineering standards. The flow meters have been upgraded over the past two years, are currently maintained, calibrated and function as designed.

The Imhoff Tank is identified in the RWQCB Waste Discharge Order as the treatment component of the system. The tank is 13' x 40', holds 40,000 gallons, constructed of a concrete basin, with approximately 24” above grade, unknown depth. The top of the tank is covered with wooden boards, and are aged and deteriorating. The tank has not functioned as originally designed in over 20 years, when the sludge removal and disposal system was disconnected. Any sludge removal is by pump truck only, and is not performed on a routine basis. As a result of this, the system experiences solids carry over on a periodic basis, thus discharging the solids into the first pond (pond #1). A survey of the pond in 2003 indicated moderate build-up, with most sludge accumulating in the western side of the pond, closest to the influent piping.

On several occasions, the pond levees integrity was compromised by rodent burrowing. The ponds were repaired and a rodent prevention program established. The ponds are monitored daily and repairs made as needed.

None of the six ponds are lined or sealed. This was part of the original design for the system. An additional 7.5 acres was put into operation in 2000 as an overland flow dispersal site. This section has been primarily used as a “safety valve” to maintain adequate freeboard in the ponds, and for dewatering ponds 5 & 6 prior to wet weather season. The underlying soil conditions are comprised of Marcuse Clay to the west side, and Marcuse Clay to the east side of the facilities. Only limited deep percolation would be expected at this site. Because of the lack of sealed ponds, some seepage may occur on the north east edge of ponds 3 & 4. Seven (7) groundwater monitoring wells have been installed and are sampled quarterly for PH, Specific Conductance, Total Dissolved Solids, Nitrate as N, Ammonia as N, Total Coliform Bacteria and Fecal Bacteria.

The Sanitary District also has 7.5 acres of land for overland flow for evaporation/percolation. A 20 acres parcel was added in 2000, of which 7.5 are utilized for effluent disposal/dispersal. This portion of the system is used on an as-need basis, primarily to maintain adequate freeboard in ponds 1-4, and to reduce pond levels for 5 and 6 for wet weather storage.

Usage

The Sanitary District identifies customers through the use of equivalent dwelling units (EDU's). One EDU is equivalent to a typical single family home. The Sanitary District currently serves 139 residential users, 33 commercial users and 1 public school for a total number of users at 173, or the equivalent of 367 EDU's. Average monthly flows from this customer base represents approximately 67,616 gpd totals daily or 184 gpd per EDU. Projection of flows and usage based on the Contra Costa General Plan, which uses 255 gpd per EDU for residential wastewater usage, would indicate a flow 93,585 gpd. Review of historical records over the past six (6) years indicates rare peak daily flows in this higher range. Actual flows during these six years are approximately 67,616 gpd, or 184 GPD/EDU. These flows vary from the predicated flow due to conservation and life style habits of the community, seasonal use of the public school, and commercial business's that do not use a lot of water in their day to day operations.

Because of increased costs related to changes in regulatory requirements, the upgrade of the Wastewater Treatment Plant, and the continued escalation of operating costs and a minor population influx, the Sanitary District is projecting higher revenue requirements than in past years for the sewer enterprise fund.

Rate Structure

In anticipation of issuing the Bonds to pay for the Project improvements, the District has adopted a set of phased in rate increases. According to the Consulting Engineer, the rate increases will support the upgrade of the existing treatment facility as needed to meet regulatory requirements as well as make scheduled debt service payments on the Bonds. The first rate increase raises the current rate by \$16.54, to \$61.54 per month for a typical residential home. The second phase rate increase raises the current rate by an additional \$25.78 per month, effective July 1, 2009. This would raise the total residential rate to \$87.32 per month.

The recent rate increases were implemented following wastewater rate studies prepared for the Sanitary District by the Consulting Engineer. The recent rate increases were approved by a 5-0 vote of the Sanitary District Board of Directors on May 21, 2007. These rates do not require additional Board action to take effect within the relevant time period, as they were approved consistent with requirements of California Proposition 218 requirements for public notice and rate payer participation. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIII C and XIII D” herein.

In addition to supporting the costs of financing the Project, the recommended rates were designed by the Consulting engineer to provide for the future maintenance of approximately four months of operating reserves in the Wastewater System Revenue Fund, as well as the establishment and funding for ongoing Wastewater System maintenance and repair costs.

During the annual budget process, it is expected that the Sanitary District will review the wastewater rates and charges and operating results and revenue requirements of the Wastewater System and, in the event circumstances so warrant, including the realization of additional growth and receipt of impact fees, such rates may be subject to future adjustment. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

As a result of the Wastewater System upgrade, the Sanitary District will incur additional expenses for debt retirement, establishment of reserve accounts for capital improvements, debt reserve and O&M reserves. Electrical, water quality monitoring and reporting requirements are increasing, and will continue to increase over the foreseeable future.

Table 5 shows the current and projected user charges over the next five years.

**Table 5
BYRON BETHANY JOINT POWERS AUTHORITY
SERIES 2007A REVENUE BONDS**

CURRENT AND PROPOSED NEW RATES FOR YEARS 2007 – 2012*			
Monthly Charges per EDU			
	<u>Current 2007</u>	<u>2008</u>	<u>2009-2012</u>
Residential	\$61.54	\$61.54	\$87.32
Commercial	\$61.54	\$61.54	\$87.32

Source: Consulting Engineer

*Based on average rates for Fiscal Years 2006-07 through 2012, with all customers classified by equivalent dwelling units (EDU)

Regulatory Violations

The State of California Regional Water Quality Control Board (the “RWQCB”) has filed Complaint (No. R5-2002-0733) in the matter of Waste Discharge Requirements Order No. 5-00-058 issued on November

22, 2002 (the “Complaint”). The Complaint requires the Sanitary District to improve and upgrade the Wastewater System to prevent potential degradation of the ground water. In addition, in January 2005 the RWQCB issued a Time Schedule Order (the “TSO”) in accordance with Section 13308 the California Water Code establishing a time schedule for compliance and civil penalties for violations of the TSO. The Sanitary District continues its operation on a daily basis under the authority of RWQCB in conjunction with the Consulting Engineer, Certified Plant Operator Grade II, community development representative and Sanitary District staff. The Sanitary District has recently taken an aggressive proactive approach in addressing the issues set forth in the Complaint. The proceeds of the Bonds are earmarked for the completion of the Project.

Table 6 shows selected comparable wastewater user charges for communities similar in size, treatment levels and include debt in user charge.

Table 6
BYRON BETHANY JOINT POWERS AUTHORITY
SERIES 2007A REVENUE BONDS

WASTEWATER RATE COMPARISON OF SIMILAR AGENCIES			
Agencies with similar flow rates & treatment level with less than 1,000 people	MGD	Treatment Level	Monthly User Charge
Amador Water Agency-Jackson Pines	0.086	1	\$71.75
Bear Valley Water District	0.075	1	\$56.00
Knights Landing Service District	0.067	1	\$27.00
Lake Canyon CSD 02	0.045	1	\$75.00
Madison CSD	0.060	1	\$29.00
Pauma Valley CSD	0.070	1	\$58.00
South Dos Palos CWD	0.060	1	\$32.45
Tulare County Res. Mgmt Agency - Delft	0.045	1	\$41.00
<i>Byron Sanitary District 2006-07</i>	0.068	1	\$45.00
<i>Byron Sanitary District 2007-08</i>	0.080	1	<u>\$61.54</u>
Average monthly user charge			\$49.67

Source: Consulting Engineer

Identification and Characteristics of Users

For billing purposes, the Sanitary District currently uses a system of identifying users with a measurement of Equivalent Dwelling Unit (EDU’s). The Sanitary District uses a system of identifying users by a variety of types of services, 22 in total, ranging from residential, to commercial, to schools and churches.

Residential/Commercial Wastewater Loadings

The Sanitary District identifies residential services in four classes of users, residential; multiple unit; mobile home; motel/hotel. There are currently 219 EDU’s identified within these classes of users.

To determine classes of users for “commercial,” the Sanitary District assumes a similar sewage strength as residential, and thus divides the systems based on assumed flow rates, based on one (1) EDU = 181 GPD/unit. Typical classes of users include restaurants, bars, churches, schools, small business, service station’s and a variety of other classes. The Sanitary District currently has 77 users in the commercial class and 78 users in the school/boarding school classification.

Table 7 includes a summary of wastewater user groups and wastewater user characteristics for the Sanitary District customer accounts.

**Table 7
BYRON BETHANY JOINT POWERS AUTHORITY
SERIES 2007A REVENUE BONDS**

SUMMARY OF USERS AND WASTEWATER FLOWS				
Number of EDU Accounts	Users Groups	Actual Average Daily Flow (gallons)	Average Design Flow (gallons)	Annual Volume (gallons)
219	Residential	39,617	39,617	14,460,242
35	Schools	6,332	6,332	2,310,998
43	Boarding Schools	7,779	7,779	2,839,226
<u>84</u>	Commercial	<u>15,196</u>	<u>15,196</u>	<u>5,546,394</u>
381	Sub Totals	68,923	68,923	25,156,859
<u>61</u>	Future Capacity*	<u>11,035</u>	<u>11,035</u>	<u>4,027,739</u>
<u>442</u>	Totals	<u>79,958</u>	<u>79,958</u>	<u>29,184,597</u>
	Total Permitted Capacity	<u>80,000</u>	<u>80,000</u>	<u>29,200,000</u>

Source: Consulting Engineer

* Future capacity is subject to the RWQCB permit approval

Future Loadings

The Sanitary District anticipates moderate growth over the next 5 years, with a greater rate of increase over the next 10 year span. Projected new accounts include a minor expansion of a local church, with an additional 7 EDU’s, a minor expansion of a local tavern, with an increase of 1-2 EDU’s, planned expansion of the local pubic school, unknown total EDU increase, but estimated at an additional 15-20 EDU’s. Current average daily flows, as compared to RWQCB permitted capacity indicate adequate capacity under current operating modes.

The Bonds are being issued, in part, to allow the Sanitary District to undertake a significant rehabilitation of the Wastewater System, with a moderate expansion of 20% over existing permitted levels. With this rehabilitation, the District should be able to service future connections foreseeable within the next 5-10 years.

A proposed expansion of the Bay Area Rapid Transit System to a station in Byron would require an analysis to verify capacity. Another planned growth, located outside the District boundaries, includes expansion of the Contra Costa County local Byron Airport, with commercial/industrial customers. As this is outside the sphere of influence and district boundaries, an analysis would be required as well as application to LAFCO for either expansion of District service area, or to serve a customer outside the existing boundaries. These two planned developments would be required to fund any needed system capacity expansion required.

Environmental Compliance

CEQA. In connection with the acquisition and construction of the Project, the Sanitary District has been advised by its engineers that it is not required to comply with the California Environmental Quality Act, as amended, consisting of Division 13 of the California Public Resources Code (“CEQA”).

General. The operation of wastewater treatment facilities and the discharge of sewage are highly regulated activities. The two major laws governing the Wastewater System are the Federal Water Pollution Control Act (as amended, the “Clean Water Act”) enacted in 1972, and the State’s Porter-Cologne Water Quality Control Act (as amended, the “Porter-Cologne Act”) first enacted in 1969. The combined laws require that policies, plans, requirements and standards for discharges be developed for all water bodies in order to protect the beneficial uses of the water. The Clean Water Act also regulates the disposal of sewage sludge and authorizes the adoption of sediment standards. The Porter-Cologne Act specifically requires the adoption of sediment standards for enclosed bays and estuaries. The Porter-Cologne Act directly addresses the issue of water reclamation and reuse. A declared policy of the law is that the people of the State have a primary interest in the development of facilities to reclaim wastewater to supplement existing surface and underground water supplies in order to meet their water requirements. The legislative intent was to undertake all possible development of water reclamation facilities to make reclaimed water available for use. The law requires the State Department of Health Services to establish statewide reclamation criteria for each type of use where such use involves public health.

The United States Environmental Protection Agency (the “USEPA”), the federal agency charged with implementation and enforcement of the Clean Water Act, has delegated much of the planning, permitting and enforcement activities to the states. In California, the State Water Resources Control Board (“SWRCB”) develops policies, plans, requirements and discharge standards for the three types of State waters: inland surface waters, enclosed bays and estuaries, and the ocean. The RWQCB is the local enforcement arm of the State and federal water pollution control programs.

The present discharge requirements for the domestic and cannery industrial wastewater treatment plants are established by the RWQCB which administers and enforces all federal and State discharge requirements. The RWQCB regulates water quality in the central coast region under authority of the federal Clean Water Act and State Porter-Cologne Act. Wastewater treatment plants are required under the State and federal law to meet various requirements for the operation, treatment, monitoring and disposal/discharge of wastewater. The Sanitary District’s domestic wastewater treatment facility is currently regulated under an approved discharge permit (“Waste Discharge Requirements”) from the RWQCB. Prior to operation of the Project, the Sanitary District will be required to obtain a new Waste Discharge Requirements. Waste Discharge Requirements are subject to review whenever there is a significant modification in the treatment and disposal strategies of the permittee. The Project represents such a

modification. The application for this discharge permit is under preparation and is due to be submitted for approval prior to completion of the Project as required by the RWQCB.

The Sanitary District is unable to predict at this time what additional conditions, if any, will be imposed under the discharge requirements order or whether such new conditions, if any, would impose additional operating constraints on the Sanitary District's Wastewater System or result in additional costs to the Wastewater System.

There are numerous federal and State laws and regulations governing disposal and beneficial use of wastewater biosolids. The principal federal regulations governing disposal and beneficial use of biosolids are contained in 40 CFR Part 503. The principal State guidelines are contained in the Department of Health Services' Manual of Good Practice for Landspreading of Sewage Sludge. The federal regulations were published in 1993 after more than a decade of development. They provide detailed requirements on treatment, management methods, monitoring, and recordkeeping for sludge disposal or beneficial use through land application (including compost and other biosolid products), surface disposal (including sludge monofills), and incineration. The main disposal method that the regulations do not cover is co-disposal with municipal solid waste in landfills. That disposal method is covered in 40 CFR Part 258, which requires only that the biosolids be nonhazardous and that they be sufficiently dewatered.

State regulations provide for comprehensive regulation of landfilling in California, including disposal of biosolids to landfills with municipal solid waste. These regulations classify landfills and identify what type of waste may be sent to each class. The principal state regulatory agencies dealing with biosolids are RWQCBs. The RWQCBs are involved in both land application projects and in landfill projects. The California Integrated Waste Management Board, established by 1989 legislation (AB 939) to regulate solid waste disposal, is also involved in landfill projects.

The Sanitary District provides for such disposal by contracting with a licensed hauler which delivers the biosolid waste for disposal at regulated landfills or through landspreading.

Need for the Project

Water Quality

Project work must be performed in order to satisfy Title 40 of the Code of Federal Regulations, Part 133, (40 CFR 133), the Clean Water Act regulation governing secondary sewage treatment facilities. The existing Wastewater System is experiencing an organic loading capacity problem and during peak flow periods experience occasional daily flows higher than the permitted 80,000 gpd.

By design, Ponds 1 - 6 currently allow for some seepage, though studies indicate that ponds 1 & 2 are likely sealed by sludge accumulation, and that underlying soils are clay, thus little seepage is expected to deeper groundwaters. Seven groundwater monitoring wells are sampled quarterly over the past few years.

The proposed alternatives for Byron each propose either a zero (0) discharge to surface or groundwater, or a limited discharge through percolation of treated wastewater, and therefore, will correct any potential violation of the Basin Plan for protecting groundwaters from degradation.

The project also is needed in order for the system to comply with Title 23 of the California Code of Regulations, Division 3, Chapter 9, (Waste Discharge Reports and Requirements), Section 2232 - Ensuring Adequate Capacity.

System Infiltration and Inflow

A review of past studies, Sanitary District record's for repair and maintenance, and monitoring of influent flows indicate no significant problem with infiltration or inflow of the collection system. Several sections of the sewer mains have experienced periodic back up, but appear to function as designed. The District will be undertaking a complete assessment of the collection, including video footage and inspection of the system. Wet weather and dry weather flows do not differ by any significant amount. Some of the lowest average monthly flows occur in the wet weather season.

Cost Allocations

The Byron Sanitary District's wastewater treatment facilities were designed to serve a residential population with just a few commercial users. This is still true today, and projected growth is still projected with users discharging residential strength sewage, therefore the current practice of allocating costs based on equivalent dwelling unit is considered fair and equitable to the members of the District.

Rate equity is achieved when the annual revenue requirements have been allocated to users in proportion to the costs of treatment and conveyance of individual users.

Costs are incurred in meeting two types of expenses: capital expenses (such as debt service and capital reserves) and O&M costs. Both costs must be allocated to the various customers.

Allocation of both capital and O&M expenses involves a two-step process. The first step is to use wastewater characteristics to identify and allocate costs for collection, treatment, and disposal. The wastewater characteristics (or treatment parameters) are flow, BOD, and SS. The unit costs of treatment are then determined for each of the three sewage loadings and infiltration/inflow (III). The second step is to multiply customer's loadings by the calculated unit costs to allocate user charge revenues by customer or customer class.

Operating costs are allocated to users according to annual usage of the wastewater facilities. Capital costs are allocated to users according to the capacity reserved in the plant for that particular user or user group. In the case of Byron Sanitary District, all capital costs are spread equitably among all user groups based on allocated EDU's.

Rate Setting Process

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the Sanitary District's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES

AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIII C and XIII D.” Proposition 218 conditions the imposition or increase of any wastewater service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the Sanitary District. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the Sanitary District no later than the end of the protest hearing by a majority of owners of the identified parcels, the Sanitary District may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the Sanitary District can approve a rate increase not to exceed the rate increase detailed in the protest form. The Sanitary District followed the Proposition 218 process in connection with its rate increases approved on May 21, 2007. No majority protest was received in connection with the rate process. See also “RISK FACTORS – Rate Process.”

Management

The Sanitary District has primary responsibility for the management of the System. The Sanitary District currently employs a Wastewater Operator, licensed as a Grade II State Wastewater Treatment Plant Operator. Upon completing the proposed Wastewater Project, the Sanitary District anticipates the addition of additional personnel to operate the facility.

Flood Conditions

The project is located within the 100-year flood plain. The elevations and location of the treatment facilities are planned to mitigate for a 100-year flood occurrence.

The Sanitary District topography is generally flat to gently sloping, west to east, from an elevation of 26 feet +/- above Mean Sea Level at its eastern end to 75 feet +/- above Mean Sea Level at its western end. This western limit of the Sanitary District is also the edge of the Diablo Mountain Range.

Seismicity

One of the objectives in planning and operating the Wastewater Enterprise is to minimize potential impacts on service availability and financial resources arising from natural disasters such as earthquakes. To date, there has not been significant damage to the Enterprise or significant impairment of its ability to provide services as a result of seismic activity.

Soil liquefaction is a phenomenon in which a loose-to medium-dense saturated granular soil undergoes reduction of internal strength as a result of increased pore water pressure generated by shear strains with the soil mass. This behavior is most commonly induced by strong groundshaking associated with earthquakes. The site is underlain by clay. The Sanitary District engineer has judged that these materials have a low potential for liquefaction. During the final design, the potential for liquefaction will be checked by drilling borings to confirm subsurface conditions.

Archaeological and Historic Sites

As distinct from historical resources, no archaeological places or sites have been identified in the area of the Byron Wastewater Facilities site. Construction crews will be required by the construction specifications to cease excavating operations immediately and contact Contra Costa County if evidence of a potential archaeological site is encountered during construction so that a proper investigation may be made and appropriate preservation measures taken if necessary.

In addition, all of the construction is to be performed in the same locations as existing facilities; therefore, it is not expected that anything of archeological significance will be discovered. As stated above, it will be specified in the construction contract documents, that should artifacts or unusual amounts of shell, bone, or stone be uncovered during construction, then excavation should be halted, the county notified and a qualified archeologist consulted for advice.

FINANCIAL RESULTS OF THE WASTEWATER SYSTEM

Audited Financial Statements

Tables on the following pages present summaries of financial data relating to the Sanitary District's Wastewater Enterprise Fund for the Fiscal Years ended June 30, 2003 through 2007.

The audit reports state that the financial statements were examined in accordance with generally accepted auditing standards and contain opinions that the financial statements present fairly the financial position of the various funds maintained by the Sanitary District. The reports include certain notes to the financial statements which may not be fully described below under the subheading "Significant Accounting Policies" or in the footnotes to the Tables. Such notes constitute an integral part of the audited financial statements. See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE SANITARY DISTRICT FOR FISCAL YEAR 2006-2007." Copies of these statements are available on request from the Sanitary District's Finance Department.

Significant Accounting Policies

The Sanitary District uses enterprise funds to account for their financial position and the results of their operations. Enterprise funds are a type of proprietary fund, and are used to account for operations that are financed and operated in a manner similar to private business enterprises.

Table 8 presents a five-year summary of the revenues, expenses and fund balances of the Wastewater Enterprise Fund for the Fiscal Years ending June 30, 2003 through June 30, 2007.

Table 8
BYRON SANITARY DISTRICT
STATEMENT OF REVENUES AND EXPENSES
Fiscal Years Ending June 30, 2003 through June 30, 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
OPERATING INCOME					
Expenses:					
Directors Fees	\$6,350	\$5,733	\$8,875	\$5,450	\$4,525
Outside Services	15,000	6,605	11,385	12,000	18,000
Legal & Accounting	47,475	8,922	4,500	11,856	10,246
Repairs and Maintenance	24,267	30,612	22,157	51,035	43,863
Depreciation	2,186	2,362	4,030	4,602	4,526
Insurance	2,493	3,483	3,374	3,613	3,511
Utilities	1,966	2,051	1,716	2,158	1,927
Dues and Subscriptions	1,347	155	1,943	530	598
Collection System	735	3,206	485	3,622	--
Consulting/Engineering	19,011	10,169	33,241	74,280	--
Miscellaneous	3,070	1,337	3,726	2,297	4,594
Permits	--	--	6,235	6,447	7,107
Analytical Services	33,477	14,569	20,560	17,755	14,228
Equipment Rental	--	<u>26,564</u>	<u>3,911</u>	--	--
Total Expenses	\$157,377	\$115,228	\$126,138	\$196,275	\$113,125
Revenues:					
Sewer Use Fees	\$152,871	\$150,138	\$153,321	\$171,034	\$212,124
Connection Fees	1,500	10,420	--	3,000	--
Franchise Fees	3,495	3,913	4,242	4,217	6,719
Inspection Fees	50	200	--	815	250
Permit Fees	370	60	--	--	--
Plant Capacity	13,055	28,000	--	--	--
Property Taxes	23,403	25,354	13,256	921	36,313
Miscellaneous	<u>4,095</u>	<u>5,482</u>	<u>20,947</u>	<u>6,650</u>	<u>89</u>
Total Revenues	<u>\$198,839</u>	<u>\$223,567</u>	<u>\$191,766</u>	<u>\$186,637</u>	<u>\$255,495</u>
Net Operating Income	\$41,462	\$108,339	\$65,628	(\$9,638)	\$142,370
NON-OPERATING INCOME					
Revenues:					
Grant	--	--	--	--	89,023
Interest	<u>2,799</u>	<u>2,786</u>	<u>4,522</u>	<u>8,829</u>	<u>14,040</u>
Total Non-Operating Income	<u>2,799</u>	<u>2,786</u>	<u>4,522</u>	<u>8,829</u>	<u>103,063</u>
NET INCOME	<u>\$44,261</u>	<u>\$111,125</u>	<u>\$70,150</u>	<u>\$(809)</u>	<u>\$245,453</u>

Source: Byron Sanitary District Audited Financial Statements

OVERLAPPING DEBT OF THE SANITARY DISTRICT

Direct and Overlapping Bonded Debt

The following Table 9 sets forth the statement of the Sanitary District's direct and overlapping bonded indebtedness, as of August 1, 2007, and as prepared by California Municipal Statistics, Inc., Oakland, California (the "Debt Report"). The Debt Report is included for general information purposes only. The Sanitary District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Sanitary District in whole or in part. Such long-term obligations generally are not payable from revenues of the Sanitary District (except as indicated) nor are they necessarily obligations secured by land within the Sanitary District. In many cases, long-term obligations issued by public agency are payable only from the general fund or other revenues of such public agency.

**Table 9
BYRON SANITARY DISTRICT
SERIES 2007A REVENUE BONDS**

DIRECT AND OVERLAPPING BONDED DEBT		
2006-07 Assessed Valuation: \$44,666,314		
<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		
	<u>% Applicable</u>	<u>Debt 8/1/07</u>
Bay Area Rapid Transit District	0.011%	\$ 7,405
Contra Costa Community College District	0.035	39,162
Liberty Union High School District	0.351	212,399
Byron Union School District	1.602	156,996
East Bay Regional Park District	0.016	<u>26,607</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$442,569
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Contra Costa County General Fund Obligations	0.035%	\$103,255
Contra Costa County Pension Obligations	0.035	180,499
Contra Costa County Board of Education Certificates of Participation	0.035	315
Contra Costa County Community College District Certificates of Participation	0.035	408
Liberty Union High School District Certificates of Participation	0.351	7,441
Byron Sanitary District	100.	<u>0</u> (1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$291,918
COMBINED TOTAL DEBT		\$734,487 (2)
 (1) Excludes sewer revenue bonds to be sold.		
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.		
 <u>Ratios to Assessed Valuation:</u>		
Combined Direct Debt	-	%
Total Overlapping Tax and Assessment Debt	0.99%	
Combined Total Debt.....	1.64%	
STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$0		

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The Sanitary District is of the opinion that the wastewater service and user charges imposed by the Sanitary District do not exceed the costs the Sanitary District reasonably bears in providing the wastewater service. 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 the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C 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 XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” In *Bighorn-Desert View Water Agency v. Verjil* (“Bighorn”), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24,

2006, the petitioner sought to establish his right to reduce a local water agency's water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of "fee" or "charge" in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the Sanitary District could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the Sanitary District's wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of the Installment Payments securing the Bonds. Though the use of the initiative power is arguably limited in the case of levies directly pledged to bonded indebtedness, such as the fees and charges imposed by the Sanitary District for services of the Wastewater System that are pledged to the payment of the Installment Payments securing the Bonds, there can be no assurance that the voters of the Sanitary District will not seek to approve an initiative which attempts to reduce the fees and charges imposed by the Sanitary District for services of the Wastewater System that are pledged to the payment of the Installment Payments securing the Bonds.

Article XIID established procedural requirements for imposition of assessments, which are defined as any charge on real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements include the conducting of a public hearing and an election by mailed ballot, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The Sanitary District does not currently impose standby charges or assessments for its Wastewater System.

Article XIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, with respect to fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIID defines "fee" or "charge" to mean levies (other than ad valorem or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a "property-related service."

One of the requirements of Article XIID is that, before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. At the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of the identified parcels, an agency may not impose the fee or charge.

In *Richmond et al. v. Shasta Community Services District* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIII D. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIII D, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The Sanitary District believes that it has complied with the procedures required by Article XIII D, as such Article has been construed by the California Supreme Court, in connection with the increases in the Wastewater fees and charges approved by the Board of Directors of the Sanitary District on May 21, 2007. See “THE WASTEWATER ENTERPRISE – Wastewater User Rate and Information” herein.

In addition to the procedural requirements of Article XIII D, under Article XIII D, all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards:

- (1) Revenues derived from the fee or charge cannot exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- (4) No 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. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments).
- (5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

The Sanitary District believes that its wastewater fees and charges comply with the foregoing standards. The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “BONDOWNERS’ RISKS – Rate Process” herein.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Sanitary District's revenues or ability to increase revenues.

BOND OWNERS' RISKS

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

Net Revenues; Rate Covenant

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

Sanitary District Expenses

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

Insurance

The Installment Sale Agreement requires the Sanitary District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the Enterprise in the event of damage or destruction to such portion of the Enterprise. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the Sanitary District. Significant damage to the Sanitary District could result in a lack of the ability to generate sufficient Net Revenues to repay the Bonds.

Limitations on Remedies and Bankruptcy

The ability of the Sanitary District to increase wastewater services charges and to comply with its covenants under the Indenture and to generate Net Revenues sufficient to pay the Installment Payments in

amounts sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the Sanitary District and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture and the Installment Sale Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture and the Installment Sale Agreement, the rights and obligations under the Bonds, the Indenture and the Installment Sale Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by the Law Offices of Cameron A. Weist, Bond Counsel, concurrently with the issuance of the Bonds, will also state that the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition of fees and charges by the Sanitary District relating to the Wastewater System under Article XIIC and XIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

In the event the Sanitary District fails to comply with its covenants under the 2007 Installment Sale Agreement or to pay Installment Payments securing the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and the Installment Sale Agreement could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and the Installment Sale Agreement may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the Sanitary District were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

Project Contingencies

The current cost estimate for the Sanitary District’s Wastewater Project assumes no delays in construction resulting from such matters as strikes, flooding, extraordinary weather conditions, shortages or delays in receipt of equipment or materials, shortages of labor or other similar matters. No assurances can be given that actual construction costs will not exceed this estimate. In the event actual construction costs are greater than estimated, such additional costs may be financed through the issuance of additional Parity Obligations. The issuance of future additional Parity Obligations may require significant rate increases.

Such rate increases could increase the likelihood of nonpayment. Failure of completion of the Project as a result of construction delays, increased costs or other factors could also negatively affect the willingness of ratepayers to pay wastewater service charges. These factors could impair the ability of the Sanitary District to collect System Net Revenues in an amount sufficient to provide for the timely payment of the Installment Payments securing the Bonds.

Permits and Regulation

The wastewater operations of the Sanitary District are subject to discharge permits from the RWQCB, as the enforcement agency for federal and State discharge requirements. The major Wastewater System permit is the Waste Discharge Requirements for the domestic wastewater treatment facility. The Sanitary District's Waste Discharge Requirements for the Project are subject to future application to, and approval by, the RWQCB. In addition, such permit will be modified from time to time to provide for increased capacity or other changes in the Sanitary District's treatment and disposal strategies. The Sanitary District is unable to predict at this time what additional conditions, if any, will be imposed under the discharge requirements order or whether such new conditions, if any, would impose additional operating constraints on the Sanitary District's Wastewater System or result in additional costs to the Wastewater System.

In the event that the federal government, acting through the USEPA, or the State, acting through the RWQCB or the Department of Health Services, or additional federal or State agencies, should impose stricter water quality standards upon the Wastewater System, the Sanitary District's expenses could increase accordingly and rates and charges would have to be increased significantly to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the Sanitary District to generate System Net Revenues in the amounts required by the Installment Sale Agreement to pay the Installment Payments.

Natural Disasters

The area in and surrounding the Sanitary District, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires and seismic activity that could negatively affect the value of the Improvements, as well as other assets of the Sanitary District. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Improvements and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the Sanitary District or other public agencies.

The Sanitary District expects that one or more of these conditions will occur from time to time, and, even if design criteria have been implemented to mitigate certain geologic events, such conditions may nevertheless result in damage to Sanitary District assets. If there were to be an occurrence of severe seismic activity or flooding in the area of the Sanitary District, there could be an interruption in the service provided by the Wastewater Enterprise resulting in a temporary reduction in the amount of Net Revenues available to pay Installment Payments.

Loss of Tax-Exemption

As discussed under the caption “TAX MATTERS” herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the Sanitary District in violation of its covenants in the Installment Sale Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Rate Process

The passage of Proposition 218 by the California electorate, which added Articles XIIC and XIID to the California Constitution, affects the Sanitary District’s ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the Sanitary District to generate System Net Revenues in the amounts required by the Installment Sale Agreement to pay the Installment Payments. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIIC and XIID.”

The Sanitary District’s ability to comply with the rate covenant under the Installment Sale Agreement may also be limited by the provisions of Proposition 218. The Law Offices of Cameron A. Weist, Bond Counsel, will state in its opinion with respect to the Bonds that the enforceability of the Installment Sale Agreement is subject to the limitations on the imposition by the Sanitary District of certain fees and charges relating to the Wastewater System under Articles XIIC and XIID of the California Constitution. See “APPENDIX E – FORM OF OPINION OF BOND COUNSEL” herein. The Sanitary District’s ability to comply with the rate covenant may also be adversely affected by other factors as described in this Official Statement.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The Sanitary District does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Limited Obligation

The obligation of the Sanitary District to pay the Installment Payments securing the Bonds is a limited obligations of the Sanitary District and is not secured by a legal or equitable pledge or charge or lien upon any property of the Sanitary District or any of its income or receipts, except the System Net Revenues. The obligation of the Sanitary District to make the Installment Payments does not constitute an obligation of the Sanitary District to levy or pledge any form of taxation or for which the Sanitary District has levied or pledged any form of taxation.

Secondary Market for Bonds

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

THE AUTHORITY

The Byron Bethany Joint Powers Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, effective April 16, 2007 by and between the Sanitary District and the Byron Bethany Irrigation District and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"). The Authority is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the "Bond Law") to borrow money for the purpose, among other things, of financing and refinancing public capital improvements of the Sanitary District.

FINANCIAL REPORT

The Sanitary District's financial statements for the Fiscal Year ended June 30, 2007 were prepared by Griffin & Poka, Inc., Certified Public Accountants, Martinez, California, and excerpts from such report are contained in Appendix B hereto. The financial report should be read in its entirety. At the time of the execution and delivery of the Bonds, the Sanitary District will certify that there has been no material adverse change in the Sanitary District's financial position since June 30, 2007. The information set forth herein does not purport to be a summary of the Sanitary District's financial report.

TAX MATTERS

In the opinion of the Law Offices of Cameron A. Weist, Scotts Valley, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings, and the Bonds are "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Internal Revenue Code of 1986 (the "Code") such that, in the case of certain financial institutions (within the meaning of section 265(b)(5) of the Code), a deduction for federal income tax purposes is allowed for 80 percent of that portion of such financial institution's interest expense allocable to interest payable on the Bonds.

If the initial offering price to the public (excluding Bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes “original issue discount” for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes “original issue premium” for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

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

The proposed form of the opinion of Bond Counsel is attached as Appendix E.

CERTAIN LEGAL MATTERS

The Law Offices of Cameron A. Weist, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. The Law Offices of Cameron A. Weist is also serving as Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and issuance of the Bonds. Certain legal matters will be passed upon for the Sanitary District by its general counsel.

CONTINUING DISCLOSURE

The Sanitary District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Sanitary District’s Wastewater Enterprise by not later than nine months following the end of the Sanitary District’s Fiscal Year (currently, the Sanitary District’s fiscal year ends on June 30) (the “Annual Report”), commencing with the report of Fiscal Year ending June 30, 2007, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the Sanitary District 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 C – FORM OF CONTINUING DISCLOSURE CERTIFICATE,” 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, as amended.

LITIGATION

To the best knowledge of the Sanitary District, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending with respect to which the Authority or the Sanitary District has been served with process or threatened against or affecting the Sanitary District, which would adversely impact the Authority's or the Sanitary District's ability to complete the transactions described in or contemplated by the Indenture or this Official Statement, to restrain or enjoin collection of the Gross Revenues of the Wastewater Enterprise or any payments under the Indenture, or in any way contesting or affecting the validity of the Bonds, the Indenture, the Installment Sale Agreement, or the transactions described in this Official Statement.

ABSENCE OF RATINGS

Neither the Sanitary District nor the Authority has made, and neither contemplates making, application to any rating organization for any rating on the Bonds.

UNDERWRITING

The Bonds are being purchased by Sutter Securities Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$2,622,375 (which price is equal to the \$2,750,000 aggregate principal amount of the Bonds, less Original Issue Discount of \$75,625, and less Underwriter's Discount of \$52,000).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. 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 Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the Sanitary District.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the Sanitary District (including financial statements of the Sanitary District's Wastewater Enterprise), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2007 is contained in APPENDIX B.

The execution of this Official Statement and its delivery have been authorized by the Authority and the Sanitary District.

BYRON BETHANY JOINT
POWERS AUTHORITY

By: /s/ Rick Gilmore
Executive Director

BYRON SANITARY DISTRICT

By: /s/ Richard Erickson
General Manager

APPENDIX A

SUMMARY OF LEGAL DOCUMENTS

DEFINITIONS OF CERTAIN TERMS

Unless otherwise defined in this Official Statement, the following terms have the following meanings when used in this Official Statement, including this summary.

“Accountant” means any firm of independent certified public accountants selected by the Sanitary District in its sole discretion.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Bonds” means all bonds ranking on a parity with the Bonds originally issued under the Indenture, issued in accordance with Sections 3.06 and 3.07 of the Indenture.

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

“Agent of the Authority” means the Sanitary District pursuant to its appointment as the agent of the Authority by the provisions of Section 3.5 of the Installment Sale Agreement.

“Agreement” means that certain Joint Exercise of Powers Agreement, effective April 16, 2007, by and between the Sanitary District and the Irrigation District creating the Authority, together with all amendments thereof and supplements thereto.

“Authority” means the Byron Bethany Joint Powers Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

“Authorized Representative” means: (a) with respect to the Authority, its President, Vice President, Treasurer, Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its President, Vice President, Treasurer or Executive Director and filed with the Sanitary District and the Trustee; and (b) with respect to the Sanitary District, its President, Vice President, General Manager, Finance Director, Secretary or any other person designated as an Authorized Representative of the Sanitary District by a Certificate of the Sanitary District signed by its President, Vice President, General Manager or Finance Director, Secretary and filed with the Authority and the Trustee.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means the Law Offices of Cameron A. Weist, or other firm of nationally-recognized attorneys experienced in the issuance of obligations the interest on which is excludable from

gross income under Section 103 of the Code.

“Bond Fund” means the fund by that name established pursuant to Section 5.01 of the Indenture.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of the Act, as in existence on the Closing Date or as thereafter amended from time to time.

“Bonds” means the \$[Bond Amount] aggregate principal amount of Byron Bethany Joint Powers Authority, Series 2007A Revenue Bonds (Wastewater Enterprise Project), authorized by and at any time Outstanding pursuant to the Bond Law and the Indenture, and to the extent required by any Supplemental Indenture includes any Additional Bonds authorized by and at any time Outstanding pursuant to the Indenture and such Supplemental Indenture.

“Bond Year” means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on August 1, 2008.

“Business Day” means any day other than Saturday, Sunday or holiday or a day on which the Trustee or its affiliates or banks in San Francisco, California, are not required or authorized to remain closed.

“Certificate,” “Request” and “Requisition” of the Authority or the Sanitary District mean, respectively, a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative or in the name of the Sanitary District on its own behalf or as agent of the Authority by the Sanitary District's Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02 of the Indenture, each such instrument shall include the statements provided for in Section 1.02 of the Indenture.

“Sanitary District” means the Byron Sanitary District, a municipal corporation and sanitary district organized under the Constitution and laws of the State.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate executed by the Sanitary District and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the

Sanitary District and the Authority, initial fees and expenses of the Trustee, compensation to any financial consultants or underwriters, rating agency fees, municipal bond insurance and surety bond premiums, other legal fees and expenses, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.03 of the Indenture.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts with respect to the Bonds, including any Additional Bonds:

(a) The principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period;

(b) The minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Defeasance Obligations” means:

(a) cash;

(b) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series);

(c) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(d) The interest component of Resolution Funding Corporation strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(e) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P, provided that, if the issue is rated only by S&P (i.e., there is no Moody’s rating), then the pre-refunded municipal bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals; and

(f) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the Treasury itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed Title XI financings of the U.S. Maritime Administration; (vii) project notes, local authority bonds, new communities debentures and U.S.

public housing notes and bonds of the U.S. Department of Housing and Urban Development.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.03.

“Depository System Participant” means any participant in the Depository's book-entry system.

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

“Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the Sanitary District, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the Sanitary District, now or hereafter existing, used or pertaining to the disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting wastewaters, outfall, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Event of Default” means any of the events specified in Section 7.01 of the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Sanitary District and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TGRS), or obligations the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the Sanitary District, as applicable, as its official fiscal year period.

“Improvements” means the land, improvements and other property described more fully in Exhibit B attached to the Installment Sale Agreement and by this reference incorporated herein, as such description may be amended by the Sanitary District from time to time pursuant to and in accordance with Section 3.2 of the Installment Sale Agreement. The precise identification of the Improvements or any component thereof shall be determined by reference to the Plans and Specifications therefor.

“Indenture” means the Indenture of Trust made and entered into as of August 1, 2007, by and between the Authority and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions thereof.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the Sanitary District, and who, or each of whom-

(a) is in fact independent and not under domination of the Authority or the Sanitary District;

(b) does not have any substantial interest, direct or indirect, in the Authority or the Sanitary District; and

(c) is not connected with the Authority or the Sanitary District as an officer or employee of the Authority or the Sanitary District but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the Sanitary District.

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

“Installment Payment Date” means not later than five (5) Business Days prior to each February 1 and August 1, commencing not later than five (5) Business Days prior to February 1, 2008.

“Installment Payment Default Event” means any of the events specified in Section 8.1 of the Installment Sale Agreement.

“Installment Payments” means the aggregate amount of all the payments required to be paid by the Sanitary District pursuant to Section 4.4 of the Installment Sale Agreement, as quantified in Exhibit A to the Installment Sale Agreement.

“Installment Sale Agreement” or “Wastewater Installment Sale Agreement” means the Wastewater Installment Sale Agreement, dated as of August 1, 2007, by and between the Authority and the Sanitary District, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

“Interest Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Interest Payment Date” means each February 1 and August 1, commencing February 1, 2008.

“Maximum Annual Debt Service” means, as of the date of any calculations, the largest annual Debt Service during the current or any future Bond Year.

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

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.03(a).

“Office” means with respect to the Trustee, the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, California 94111; or such other office designated by the Trustee from time to time in writing to the Authority and the Sanitary District.

“Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the Authority) selected by the Authority. If and to the extent required by the provisions of Section 1.02 of the Indenture, each Opinion of Counsel shall include the statements provided for in Section 1.02 of the Indenture.

“Original Purchaser” means Sutter Securities Incorporated, as the first purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds or Additional Bonds, means (subject to the provisions of Section 11.09) all Bonds or Additional Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds or Additional Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds or Additional Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02, including Bonds or Additional Bonds (or portions thereof) described in Section 11.10; and

(c) Bonds or Additional Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds or Additional Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” or “Bond Owner,” whenever used herein with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

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

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value (the Trustee is entitled to rely upon any investment direction provided to it in accordance with the Indenture as a certification that such investment constitutes a Permitted Investment):

(a) Federal Securities;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the U.S. Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds or guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financings of the U.S. Maritime Administration; (viii) project notes, local authority bonds, new communities debentures and U.S. public housing notes and bonds of the U.S. Department of Housing and Urban Development;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); (iv) senior debt obligations of the Student Loan Marketing Association; (v) obligations (but only the interest component of stripped obligations) of the Resolution Funding Corporation; and (vi) consolidated system wide bonds and notes of the Farm Credit System;

(d) money market funds (including funds of the Trustee or its affiliates) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G”, “AAAm”, or “AAm”, and, if rated by Moody’s, rated Aaa, Aa1 or Aa2, including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services;

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, which have a maturity of one year or less, which are issued by commercial banks, including affiliates of the Trustee, savings and loan associations or mutual savings banks, and such collateral must be held by a third party, and the Trustee on behalf of the Bond Owners must have a perfected first security interest in such collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation;

(g) investment agreements, including guaranteed investment contracts, which, (i) so long as any Bond insured by the Bond Insurer is Outstanding, at the time of execution are approved by the Bond Insurer

and, thereafter, (ii) are general obligations of an entity whose long term debt obligations, or claims paying ability, respectively, is rated in one of the two highest rating categories by Moody's or S&P;

(h) commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P;

(i) bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies;

(j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) repurchase agreements which are for 30 days or less or, if longer, which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date, which satisfy the following criteria:

(i) repurchase agreements must be between the Trustee and (A) a primary dealer on the Federal Reserve reporting dealer list which falls under the jurisdiction of the Securities Investors Protection Corporation and which are rated "A" or better by Moody's and S&P, or (B) a bank rated "A" or better by Moody's and S&P;

(ii) the written repurchase agreement contract must include the following: (A) securities acceptable for transfer, which may be direct U.S. government obligations, or federal agency obligations backed by the full faith and credit of the U.S. government; (B) the term of the repurchase agreement may be up to 30 days; (C) the collateral must be delivered to the Trustee or a third party acting as agent for the Trustee simultaneous with payment (perfection by possession of certificated securities); (D) the Trustee must have a perfected first priority security interest in the collateral; (E) the collateral must be free and clear of third-party liens and, in the case of a broker which falls under the jurisdiction of the Securities Investors Protection Corporation, are not subject to a repurchase agreement or a reverse repurchase agreement; (F) failure to maintain the requisite collateral percentage, after a two day restoration period, will require the Trustee to liquidate the collateral; (G) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest (unless the securities used as collateral are obligations of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, in which case the collateral must be equal to 105% of the amount of cash transferred by the Trustee to the dealer bank or securities firm under the repurchase agreement plus accrued interest). If the value of securities held as collateral falls below 104% of the value of the cash transferred by the Trustee, then additional cash and/or acceptable securities must be transferred; and

(iii) a legal opinion must be delivered to the Trustee to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds;

(l) pre-refunded municipal bonds rated “Aaa” by Moody's and “AAA” by S&P; provided, however, pre-refunded municipal bonds rated by S&P only (i.e., no Moody's rating) are acceptable if such pre-refunded municipal bonds were pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipal bonds;

(m) the Local Agency Investment Fund of the State of California, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to deposit and withdraw from such investment directly in its own name; and

(n) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4, of the Government Code of the State of California, as it may be amended (“CAMP”); and

“Principal Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Project” mean, the wastewater system facilities and improvements to be acquired or constructed and equipped by the Authority and sold to the Sanitary District pursuant to the Installment Sale Agreement, including the Improvements, all as more particularly described in Exhibit B to the Installment Sale Agreement and, with respect to any Additional Bonds, the project, facilities or improvements to be financed with the proceeds of such Additional Bonds.

“Project Costs” means the costs of acquisition, construction, implementing and equipping the Project or the application of the proceeds of any Additional Bonds to the costs and expenses which are incidental or related to the acquisition and construction of additions to the Project, as applicable, by the Authority, including amounts payable to the Sanitary District by the Authority as reimbursement for any of the foregoing.

“Project Fund” means the fund by that name established pursuant to Section 3.04 of the Indenture.

“Qualified Reserve Account Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or claims paying ability of such insurance company is AAA or better from S&P and AAA or better from Moody's and, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture.

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

“Redemption Fund” means the fund by that name established pursuant to Section 5.07 of the Indenture.

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.06 of the Indenture for the registration and transfer of ownership of the Bonds.

“Reserve Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service; unless, with respect to the issuance of Additional Bonds, it is determined to maintain a pooled Reserve Account, then it shall mean, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds and Additional Bonds, (ii) 125% of average annual debt service on the Bonds and Additional Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

“Revenues” means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments payable pursuant to the Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, and prepayments of Installment payments), but excluding any Additional Payments, and (b) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture.

“S&P” means Standard and Poor’s Ratings Services, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Sinking Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“State” means the State of California.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Sections 103, 141, 148 and all related sections of the Code.

“Term Bonds” means the Bonds maturing August 1, 20__, and any Additional Bonds which are

subject to mandatory Sinking Account redemption prior to their stated maturity dates.

“Term of the Installment Sale Agreement” means the time during which the Installment Sale Agreement is in effect, as provided in Section 4.2 of the Installment Sale Agreement.

“Trustee” means Deutsche Bank National Trust Company, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in Section 8.01 of the Indenture.

THE INDENTURE

The following is a summary of certain provisions of the Indenture and does not purport to be a complete restatement thereof. Reference is hereby made to the Indenture for the complete terms thereof.

Project Fund. The Trustee shall establish and maintain a separate fund to be known as the “Project Fund.” Except as otherwise provided herein, moneys in the Project Fund shall be used solely for the payment of Project Costs. The Trustee shall disburse moneys from the Project Fund to pay Project Costs with respect to the acquisition, construction or improvement of the Project, including sites therefor, upon receipt of a Requisition of the Authority or the Sanitary District, as agent of the Authority, which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, (iv) that each obligation mentioned therein is a proper charge against the Project Fund, and has not been the basis of any previous disbursement, and (v) that the amount of such disbursement is for a Project Cost as defined in the Indenture; and (b) specifies in reasonable detail the nature of the obligation. Upon payment of all Project Costs, as certified by the Authority or the Sanitary District as agent of the Authority, the Project Fund shall be closed and all amounts remaining therein shall be transferred by the Trustee to the Bond Fund (to be credited in payment of applicable Installment Payments as directed by the Authority or the Sanitary District to the Trustee).

Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the “Costs of Issuance Fund”. The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the Authority or of Requisitions of the Sanitary District as agent of the Authority stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. Upon the Request of the Sanitary District as agent of the Authority, but in no event later than 180 days after the issuance of the Bonds, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Project Fund.

Validity of Bonds. The validity of the authorization and issuance of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the Authority or the Trustee with respect to or in connection with the Installment Sale Agreement. The recital contained in the Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of their validity and of compliance with the provisions of law in their issuance.

Issuance of Additional Bonds. In addition to the Bonds authorized to be issued under the Indenture,

the Authority may, by Supplemental Indenture, establish one or more other issues of Additional Bonds on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of Section 3.07 of the Indenture, and subject to the following specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) Such Additional Bonds shall have been authorized to finance additional Project Costs relating to the Enterprise including, without limitation, the financing of improvements to the Project, and the issuance thereof shall have been determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.

(b) The Authority shall be in compliance with all covenants and undertakings set forth in the Indenture.

(c) The Supplemental Indenture authorizing issuance of such Additional Bonds shall require that the balance on deposit in the Reserve Account upon delivery of said Additional Bonds is a sum at least equal to the Reserve Requirement of the Bonds and said Additional Bonds.

(d) Such Additional Bonds shall be equally and ratably secured with all other Bonds authorized under the Indenture, without preference or priority.

(e) The Authority shall have entered into an amendment to the Installment Sale Agreement, as a Parity Obligation within the meaning of such Installment Sale Agreement, in and by which the Sanitary District obligates itself in the manner provided in such Installment Sale Agreement to make payments for acquisition of the subject Project at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Installment Sale Agreement.

Proceedings for the Issuance of Additional Bonds. Whenever the Authority shall have determined to issue Additional Bonds pursuant to Section 3.06 of the Indenture, the Authority shall enter into a Supplemental Indenture determining that the issuance of such Additional Bonds is necessary for the purposes specified in Section 3.06 of the Indenture, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof. Before such Additional Bonds shall be issued and delivered, the Authority shall file the following documents with the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing such Additional Bonds.

(b) An opinion of Bond Counsel stating: (i) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (ii) that the issuance of the Additional Bonds is authorized by the Bond Law and the Indenture; (iii) that the Additional Bonds, when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of the Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (iv) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; and (v) that the issuance of such Additional Bonds will not, of itself,

cause interest on the Bonds to become includable in gross income for federal income tax purposes.

(c) A Certificate of the Authority certifying that the requirements set forth in Section 3.06 of the Indenture have been either met or provided for, together with a copy of the amendment to the Installment Sale Agreement required by Section 3.06 of the Indenture.

Pledge and Assignment; Bond Fund.

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are hereby pledged to secure the payment of the principal of, premium (if any) and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Installment Sale Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of Article VIII of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Sanitary District under the Installment Sale Agreement.

(c) All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Installment Sale Agreement to be deposited in the Redemption Fund shall be promptly deposited in such Fund. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Allocation of Revenues. Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) After taking into account any moneys then on deposit in the Interest Account, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account, to be at least equal to the amount of interest becoming due and payable on such Interest Payment

Date on all Bonds then Outstanding.

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of the Term Bonds required to be redeemed on the next succeeding August 1 pursuant to Section 4.01(a) of the Indenture and, if applicable, any Supplemental Indenture.

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement.

Application of Interest Account. All amounts in the Interest Account, shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(a) of the Indenture and, if applicable, any Supplemental Indenture.

Application of Reserve Account.

(a) All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to Section 4.01(a) of the Indenture, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal and interest on the Bonds. On the date on which all Bonds shall be retired under the Indenture or provision made therefor pursuant to Article X of the Indenture, any moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the Sanitary District as a refund of overpaid Installment Payments. The Authority shall cause the Sanitary District to use the proceeds of any such refund in a manner which does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds.

(b) If at any time the amount on deposit in the Reserve Account is less than the Reserve Requirement, the Trustee shall promptly notify the Sanitary District in writing of the amount of such deficiency and the Sanitary District shall pay to the Trustee the amount of such deficiency as provided in Section 4.5(b) of the Installment Sale Agreement. Any amounts on deposit in the Reserve Account at any time in excess of the Reserve Requirement shall be transferred by the Trustee to the Bond Fund, as provided in Section 5.08 of the Indenture.

(c) If, on any date, moneys on deposit in the Reserve Account, together with amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Bonds, including all principal thereof, and interest thereon, the Trustee shall, upon written request of the Authority, transfer all amounts then on deposit in the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of the Bonds in accordance with the provisions of Section 4.01(b) of the Indenture. Any amounts remaining in the Reserve Account upon payment in full of all Outstanding Bonds, shall be withdrawn by the Trustee and paid to the Sanitary District as a refund of overpaid Installment Payments. The Authority shall cause the Sanitary District to use the proceeds of any such refund in a manner which does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds.

(d) The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Account, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Account Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Account Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Authority to the Trustee of written calculation of the amount permitted to be released from the Reserve Account (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Account to the Project Fund to be used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Account Credit Instrument as shall be required to maintain such Qualified Reserve Account Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under Section 5.06 of the Indenture. Upon the expiration of any Qualified Reserve Account Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Account Credit Instrument with a new Qualified Reserve Account Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Account Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Account Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture shall be pro-rata with respect to each such instrument.

Application of Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium (if any) on the Bonds to be redeemed pursuant to Section 4.01(b) and 4.01(c) of the Indenture, as the case may be, provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may, at the direction of the Sanitary District or the Authority, apply amounts deposited or otherwise to be deposited in the Redemption Fund to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest on Bonds, which is payable from the Interest Account) as shall be directed pursuant to a Request of the Authority or a Request of the Sanitary District, as agent of the Authority.

Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to

the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the Authority pursuant to a Request of the Sanitary District as agent for the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions may be oral if promptly confirmed in writing), except that moneys in the Reserve Account shall not be invested in Permitted Investments having a maturity of more than five (5) years, unless any such Permitted Investment is described in clause (g) of the definition thereof. In the absence of any such directions from the Sanitary District as agent for the Authority, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the Bond Fund, except that interest or gain from investment or amounts in the Costs of Issuance Account and the Project Fund shall be retained in the applicable account or fund and used for the purposes thereof, and interest or gain derived from the investment of the amount in the Reserve Account shall be retained therein unless such amount equals the Reserve Requirement and any amount, no later than the Business Day immediately preceding each Interest Payment Date, in the Reserve Account in excess of the Reserve Requirement shall be deposited in the Bond Fund. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. With respect to any Permitted Investment for which the Trustee or an affiliate shall provide services, the Trustee shall be entitled to its customary fees including any investment management fees. The Trustee shall incur no liability for losses arising from any investments, provided they are made in accordance with Section 5.08 of the Indenture. The Authority (and the Sanitary District by its execution of the Installment Sale Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Sanitary District the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Sanitary District will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Authority and the Sanitary District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee may make any investments under the Indenture through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund shall be valued at the original cost thereof (excluding any brokerage commissions and excluding any accrued interest).

Except as otherwise provided in the following sentence, the Sanitary District covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually)

investments in the Reserve Account shall be valued at their present value (within the meaning of Section 148 of the Code). The Trustee shall have no duty to determine Fair Market Value or present value of such investments.

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal of and interest on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in Section 6.02 of the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

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

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

Accounting Records. The Trustee shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Installment Sale Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the Sanitary District, during business hours and under reasonable circumstances.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part, except as provided herein with respect to the Bonds and any Additional Bonds.

No Arbitrage. The Authority shall not take, or permit to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

Compliance with Rebate Requirements. The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investments earnings, if any, to the federal government.

Private Activity Bond Limitation. The Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Continuing Disclosure. Pursuant to Section 5.11 of the Installment Sale Agreement, the Sanitary District has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds and neither the Authority nor the Trustee shall have any liability to the Owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the Sanitary District to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order. The Trustee shall have no duties or liabilities with respect to any such Continuing Disclosure Certificate.

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

The Authority may at any time amend the Installment Sale Agreement pursuant to Section 7.4 thereof for the purpose of providing for the issuance or incurrence of Parity Obligations (as defined therein), including for the purpose of providing for the issuance of Additional Bonds pursuant to Section 3.06, without the consent of the Trustee. Except for such amendment pursuant to the preceding sentence, the Authority shall not amend, modify or terminate any of the terms of an Installment Sale Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if (a) in the opinion of Bond Counsel, such amendment, modification or termination will not materially adversely affect the interests of the Bond Owners, or (b) the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time

hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

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

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of or premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

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

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

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

(e) The occurrence and continuation of an “Event of Default” within the meaning of Section 8.1 of the Installment Sale Agreement.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, but subject to Section 7.11 of the Indenture, the Trustee may, and at the written direction of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Authority and the Sanitary District, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Sanitary District shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its attorneys, agents, and advisors) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the Sanitary District and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon. With respect to determinations made in this paragraph, the Trustee shall be entitled to indemnification under the Indenture, as provided in Section 8.06 of the Indenture.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the reasonable opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including internal costs of administration and in-house counsel and reasonable fees and disbursements of its outside counsel) incurred in and about the performance of its powers and duties under the Indenture. Any such costs and expenses are deemed to be reasonable costs of administration under the Indenture or as required under the Federal Bankruptcy Act;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is hereby irrevocably appointed (and the

successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Counsel to the Trustee is not counsel to the Bondholders and communications between the Trustee and such counsel are privileged. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture, the Act, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction. Further, should two or more Owners give the Trustee instructions, as provided in the Indenture, which conflict, the Trustee need not follow such instructions.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreement or any applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Sale Agreement or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in Section 7.06 of the Indenture or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as herein provided, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the Authority's cure or the waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied duties or covenants whatsoever shall be read into the Indenture against the Trustee at any time. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise, as a reasonable person would exercise or

use under the circumstances in the conduct of his or her own affairs.

(b) The Authority may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of Section 8.01 of the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and the Sanitary District and thereupon shall appoint, with the written consent of the Sanitary District, a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the Authority and the Sanitary District and by giving the Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the Authority shall promptly appoint, with the written consent of the Sanitary District, a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bond Owner (on behalf of himself and all other Bond Owners) may petition a federal court or any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the Request of the Authority or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection of the Indenture, the Authority shall mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts under the Indenture to each rating agency which is then rating the Bonds and to the Bond Owners at the addresses shown on the Registration Books. If the Authority fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Authority.

(e) Any Trustee appointed under the Indenture shall be a corporation or association organized and doing business under the laws of any state or the United States of America or the District of Columbia, authorized under such laws to exercise corporate trust powers, which shall have (or, in the case of a corporation included in a bank holding company system, the related bank holding company shall have) a combined capital and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or State authority, so long as any Bonds are Outstanding. If such corporation publishes a report of condition at least annually pursuant to law or to the requirements of any supervising or examining authority above referred to, then, for the purpose of subsection (e) of the Indenture, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e) of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified in that Section.

Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Liability of Trustee.

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall have no responsibility or liability for the correctness of the same and makes no representations whatsoever as to the validity or sufficiency of the Indenture, the Bonds or the Installment Sale Agreement, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated in the Indenture in connection with the respective duties or obligations herein or in the Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct. The Trustee may become the Owner of Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

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

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture. Where the Trustee is given permissive right to do things enumerated in the Indenture, such right shall not be construed as a duty.

(e) Except with respect to a Debt Service payment Event of Default under Section 7(a) of the Indenture or an Installment Payment “Default Event” under Section 8.1(a) of the Installment Sale Agreement, the Trustee shall not be deemed to have knowledge of any Event of Default under the Indenture or any “Event of Default” under Section 8.1 of the Installment Sale Agreement or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default under the Indenture or any “Event of Default” under Section 8.1 of the Installment Sale Agreement unless and until the corporate trust officer responsible for the administration of this trust shall have received written notice thereof, at its corporate trust office in San Francisco, California. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the Authority or the Sanitary District of any of the terms, conditions, covenants or agreements in the Indenture under the Installment Sale Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain or inquire as to the performance or observance by the Sanitary District and the Authority of the terms, conditions, covenants or agreements set forth in the Installment Sale Agreement, other than the covenants of the Sanitary District to make Installment Payments to the Trustee when due and to file with the Trustee when due, such reports and certifications as the Sanitary District is required to file with the Trustee thereunder.

(f) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers.

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee such security or indemnity as the Trustee determines is reasonable against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee under the Indenture shall be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not therein expressly so provided, every provision of the Indenture and the Installment Sale Agreement relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of Section 8.01(a), this Section 8.03 and Section 8.04 of the Indenture.

(i) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Indenture.

(j) The Trustee makes no representation or warranty, expressed 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 for the use contemplated by the Authority or the Sanitary District 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 Sale Agreement or the Indenture for the existence, furnishing or use of the Project.

Amendments Permitted.

(a) The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each rating agency then rating the Bonds and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, without the consent of any Bond Owners, if the Trustee has been furnished an Opinion of Counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification

under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code;

(v) to authorize the issuance of Additional Bonds pursuant to Section 3.06 of the Indenture; or

(vi) to comply with the requirements of a provider of a Qualified Reserve Account Credit Instrument.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of Section 9.01 of the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to Article IX of the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Discharge of Indenture. The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(a) by paying or causing to be paid the principal of, as applicable, and interest on the Bonds, or any portion thereof, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or Federal Securities in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem all Bonds, or any portion thereof then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the Bonds, or any portion thereof then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the

Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture with respect to the Bonds so paid or delivered for cancellation, as applicable, shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee shall take all such actions and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, including, without limitation, the selection by lot of the Bonds of any maturity that is to be defeased in part, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the Sanitary District as an Installment Payment refund.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

INSTALLMENT SALE AGREEMENT

The following is a summary of certain provisions of the Installment Sale Agreement and does not purport to be a complete restatement thereof. Reference is hereby made to the Installment Sale Agreement for the complete terms thereof.

Acquisition and Construction of the Improvements. The Authority agrees to use its best efforts to supervise and provide for, or cause to be supervised and provided for, the Acquisition and Construction of the Improvements in accordance with Plans and Specifications, purchase orders, construction contracts and other documents relating thereto and approved by the Sanitary District pursuant to all applicable requirements of law; however, In no event shall the Authority be liable for incidental, indirect, special or consequential damages in connection with or arising out of such supervision. Direct payment of the Project Costs shall be made from amounts on deposit in the Project Fund, pursuant to Section 3.04 of the Indenture. All contracts for, and all work relating to, the Acquisition and Construction of the Improvements shall be subject to all applicable provisions of law relating to the acquisition and construction of public works by the Sanitary District. The Authority expects that the Acquisition and Construction of the Improvements will be completed on or before August 1, 2010; provided, however, that the failure to complete any Improvements by the estimated Completion Date thereof shall not constitute an Event of Default under the Installment Sale Agreement or a grounds for termination thereof, nor shall such failure result in the diminution, abatement or

extinguishment of the obligations of the Sanitary District under the Installment Sale Agreement to pay the Installment Payments allocable to such Improvements.

The Sanitary District shall have the right from time to time in its sole discretion to amend the description of the Improvements to be financed and sold by the Authority under the Installment Sale Agreement.

Upon the completion of the Acquisition and Construction of the Improvements or any component thereof, but in any event not later than thirty (30) days following such completion, the Sanitary District Representative shall execute and deliver to the Trustee and the Authority a Written Certificate which (a) states that the Acquisition and Construction of the Improvements or such portion thereof have been substantially completed, (b) identifies the total Project Costs thereof, and (c) identifies (i) the amounts, if any, to remain on deposit in the Project Fund for payment of Project Costs thereafter intended to be requisitioned by the Authority and (ii) the amounts, if any, to be transferred to the Bond Fund. Upon the filing with the Trustee of the final Written Requisition for payment of Project Costs, the Trustee shall close the Project Fund.

Acquisition and Sale of Improvements. Under the Installment Sale Agreement the Authority sells the Improvements to the Sanitary District and the Sanitary District purchases the Improvements from the Authority, upon the terms and conditions set forth in the Installment Sale Agreement.

Term. The Term of the Installment Sale Agreement shall commence on the Closing Date, and shall end on the date on which the Sanitary District shall have paid all of the Installment Payments, Additional Payments and all other amounts due and payable under the Installment Sale Agreement. The provisions of Section 4.2 of the Installment Sale Agreement are subject in all respects to any other provisions of the Installment Sale Agreement relating to termination with respect to the Improvements or any portion thereof.

Title. Upon the Completion Date of each component of the Improvements, title to such component shall be deemed conveyed to and vested in the Sanitary District. The Authority and the Sanitary District shall execute, deliver and cause to be recorded any and all documents necessary to convey such title to the Sanitary District.

Pledge of Net Revenues. All of the Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Installment Payments on a parity with any Parity Obligations, and except as otherwise provided in the Installment Sale Agreement, the Net Revenues shall not be used for any other purpose so long as any of the Installment Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues for the payment of the Installment Payments in accordance with the terms of the Installment Sale Agreement.

Deposits into Utility Fund; Transfers to Make Installment Payments. All of the Gross Revenues shall be deposited by the Sanitary District immediately upon receipt in the Utility Fund. The Sanitary District covenants and agrees that all Net Revenues will be held by the Sanitary District in the Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority under the Installment Sale Agreement) and the Bond Owners, and for the benefit of the owners of any Parity Obligations. The Sanitary District will segregate within an account in the Utility Fund, the amount required to be transferred to the Trustee on the next occurring Installment Payment Date. On or before each Installment Payment

Date, the Sanitary District shall withdraw from the Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Net Revenues which, together with the balance then on deposit in the Bond Fund, the Interest Account, the Sinking Account and the Principal Account, but excluding the Reserve Account (other than amounts resulting from the prepayment of the Installment Payments pursuant to Article IX of the Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the Sanitary District shall withdraw from the Utility Fund such amounts at such times as shall be required to: (i) pay all Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Account, including any amount required as a result of the expiration of a Qualified Reserve Account Credit Instrument, the notice of which deficiency shall have been given by the Trustee to the Sanitary District and the Bond Insurer pursuant to Section 5.06 of the Indenture; and (iv) pay all other amounts when and as due and payable under the Installment Sale Agreement.

Other Uses of Gross Revenues Permitted. The Sanitary District shall manage, conserve and apply the Gross Revenues on deposit in the Utility Fund in such a manner that all deposits required to be made pursuant to the Installment Sale Agreement will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred and be continuing under the Installment Sale Agreement, the Sanitary District may use and apply moneys in the Utility Fund for (i) the payment of Additional Payments, (ii) the payment of any subordinate obligations or any unsecured obligations, (iii) the acquisition and construction of extensions and betterments to the Enterprise, (iv) the prepayment of any obligations of the Sanitary District relating to the Enterprise, or (v) any other lawful purposes of the Sanitary District, including, but not limited to, deposits to the Rate Stabilization Fund in accordance with Section 4.7(c) of the Installment Sale Agreement.

Budget and Appropriation of Installment Payments. During the Term of the Installment Sale Agreement, the Sanitary District shall adopt and make all necessary budgets and appropriations of the Installment Payments from the Net Revenues, and shall, upon written request, furnish to the Trustee a Written Certificate stating that the Installment Payments have been included in the final budget of the Sanitary District for the current Fiscal Year. In the event any Installment Payment requires the adoption by the Sanitary District of any supplemental budget or appropriation, the Sanitary District shall promptly adopt the same. The covenants on the part of the Sanitary District contained in the Installment Sale Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Sanitary District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Sanitary District to carry out and perform the covenants and agreements in the Installment Sale Agreement.

Covenant Regarding Gross Revenues. The Sanitary District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and Improvements furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues which are sufficient to pay the following amounts in the

following order of priority:

(i) All Operation and Maintenance Costs estimated by the Sanitary District to become due and payable in such Fiscal Year;

(ii) The Installment Payments and the principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or such principal and interest on Parity Obligations are payable from the proceeds of the Bonds or Parity Obligations, or from any other source of legally available funds of the Sanitary District which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Account to the full amount of the Reserve Requirement; and

(iv) All Additional Payments and other payments required to meet any other obligations of the Sanitary District which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Revenues during such Fiscal Year, including payments with respect to subordinate obligations .

Covenant Regarding Net Revenues. The Sanitary District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and improvements furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues at least equal to one hundred twenty five percent (125%) of the total Installment Payments and payments with respect to all Parity Obligations coming due and payable in such Fiscal Year.

Rate Stabilization Fund. The Rate Stabilization Fund is not pledged to secure payment of the Installment Payments. Amounts in the Rate Stabilization Fund shall be applied solely for the uses and purposes set forth in the Installment Sale Agreement. The Sanitary District shall have the right to deposit into the Rate Stabilization Fund from time to time any amount of funds which are legally available therefor; provided that deposits for each Fiscal Year may be made until (but not after) one hundred twenty (120) days following the end of such Fiscal Year.

For the purpose of computing the amount of Gross Revenues for any Fiscal Year, or the amount of Net Revenues for any Fiscal Year, the Sanitary District shall be permitted to transfer amounts on deposit in the Rate Stabilization Fund to the Utility Fund, such transfers to be made until (but not after) one hundred twenty (120) days after the end of such Fiscal Year. In addition, the Sanitary District shall be permitted to withdraw amounts on deposit in the Rate Stabilization Fund for any other lawful purpose.

Notwithstanding the foregoing, amounts on deposit in the Rate Stabilization Fund and transferred to the Utility Fund shall be accounted separately from all other amounts deposited in the Utility Fund and, if such amounts shall become available to the Sanitary District in accordance with paragraph (c) of Section 4.5 of the Installment Sale Agreement, such amounts may not again be deposited in the Rate Stabilization Fund.

Issuance of Parity Obligations. The Sanitary District shall have the right from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the Sanitary District shall deem advisable, but only upon compliance with the following conditions which are hereby made conditions

precedent to the issuance of Parity Obligations:

(a) No Event of Default shall have occurred and be continuing;

(b) The Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the Sanitary District for the most recent completed Fiscal Year for which audited financial statements are available, or for any more recent consecutive twelve (12) month period selected by the Sanitary District at its option, in either case verified by a certificate or opinion of an Independent Accountant or Fiscal Consultant, plus the Additional Revenues, at least equal one hundred twenty five percent (125%) of the amount of Maximum Annual Debt Service with respect to the Installment Payments and all Parity Obligations then outstanding (including the Parity Obligations then proposed to be issued);

(c) Upon the issuance of such Parity Obligations a reserve fund shall be established for such Parity Obligations in an amount at least equal to the lesser of (i) Maximum Annual Debt Service on such Parity Obligations, or (ii) the maximum amount then permitted under the Code.

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

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

Operation of Enterprise. The Sanitary District covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order. The Sanitary District covenants that, in order to fully preserve and protect the priority and security of the Bonds, the Sanitary District shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien granted under the Installment Sale Agreement, or which may otherwise impair the ability of the Sanitary District to pay the Installment Payments in accordance with the Installment Sale Agreement.

Public Liability and Property Damage Insurance. The Sanitary District shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, a standard comprehensive general insurance policy or policies in protection of the Authority, the Sanitary District, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned

by reason of the operation of the Enterprise. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Sanitary District, and may be maintained in whole or in part in the form of self-insurance by the Sanitary District, subject to the provisions of Section 5.5 of the Installment Sale Agreement, or in the form of the participation by the Sanitary District in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Casualty Insurance. The Sanitary District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Installment Sale Agreement, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the Sanitary District and may be maintained in whole or in part in the form of self-insurance by the Sanitary District, subject to the provisions of Section 5.5 of the Installment Sale Agreement, or in the form of the participation by the Sanitary District in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise shall be Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Enterprise or otherwise as permitted by the Installment Sale Agreement.

Insurance Premiums; Self-Insurance. The Sanitary District shall pay or cause to be paid when due the premiums for all insurance policies required by the Installment Sale Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. In the event that any insurance required pursuant to Sections 5.3 or 5.4 of the Installment Sale Agreement shall be provided in the form of self-insurance, the Sanitary District shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the Sanitary District maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the Sanitary District, the Sanitary District shall not be obligated to make any payment with respect to any insured event except from Net Revenues or from such reserves.

Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain shall be Gross Revenues and shall be used for the acquisition or construction of improvements and extension of the Enterprise or otherwise as permitted by the Installment Sale Agreement.

Events of Default Defined. The following events shall be Events of Default under the Installment Sale Agreement:

(a) Failure by the Sanitary District to pay any Installment Payment when and as the same become due and payable under the Installment Sale Agreement.

(b) Failure by the Sanitary District to pay any Additional Payment when due and payable under the Installment Sale Agreement, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the Sanitary District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Sanitary District by the Authority or the Trustee; provided, however, that if the Sanitary District shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default under the Installment Sale Agreement if the Sanitary District shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

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

(e) The occurrence and continuation of any event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations.

Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VIII of the Indenture, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

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

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners under the Installment Sale Agreement, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged under the Installment Sale Agreement, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid Installment Payments shall have been so declared due and

payable pursuant to the preceding clause (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Sanitary District shall deposit with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the rate of ten percent (10%) per annum and the reasonable fees and expenses of the Trustee (including any reasonable fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. As provided in Section 8.6 of the Installment Sale Agreement, the Trustee shall be required to exercise the remedies provided in accordance with the Indenture.

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

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE SANITARY DISTRICT
FOR FISCAL YEAR ENDING JUNE 30, 2007**

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BYRON SANITARY DISTRICT

AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2007**

**PREPARED BY
GRIFFIN & POKA, INC.
CERTIFIED PUBLIC ACCOUNTANTS
900 COURT STREET
MARTINEZ, CA 94553
(925) 228-2800**

BYRON SANITARY DISTRICT

JUNE 30, 2007

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BYRON SANITARY DISTRICT

**BOARD OF DIRECTORS
JUNE 30, 2007**

BOARD OF DIRECTORS

G. Lee Cummings	President
Danny Hamby	Member
Bill Leighton	Member
Mike Nisen	Member
Bruce Stuart	Member

GENERAL MANAGER

Richard Erickson

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Byron Sanitary District
P.O. Box 636
Oakley, CA 94561

We have audited the accompanying balance sheet of Byron Sanitary District as of June 30, 2007, and the related statements of revenues and expenses, changes in fund equity, and cash flows for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Property, plant and equipment acquired prior to July 1, 1955 and the accumulated depreciation on these items have not been recorded, as explained in Note 3.

In our opinion, except for the effects of the lack of cost information on property, plant and equipment acquired prior to July 1, 1955, as explained in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Byron Sanitary District as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

GRIFFIN & POKA, INC.
CERTIFIED PUBLIC ACCOUNTANTS

August 14, 2007

BYRON SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

This report of the District's annual financial condition presents our overview of the District's financial performance during the fiscal year that ended on June 30, 2007. Please review it in conjunction with the financial information compiled by Griffin & Poka accounting firm.

The accounting methods used in the District's report are similar to those used by private sector firms. These statements offer short-term financial information about its activities for the fiscal year July 1, 2006 through June 30, 2007. The primary purpose of this statement is to provide information about the District's revenues and funds utilized for the 2006-2007 financial periods.

FYE 2007

Current Assets:	\$ 535,578
Property/Equipment	<u>93,416</u>
Total Assets	<u>\$ 628,994</u>
Liabilities:	
Account Payable	\$ 16,858
Retained Earnings	598,383
Appropriated Retained Earnings	<u>13,753</u>
Total Liabilities and Fund Equity	<u>\$ 628,994</u>

The total revenues for the year-end 2007 were \$358,558 and total expenses were \$113,125. The net income for year ending June 30, 2007 was \$245,433 of which \$89,023 was a grant fund reimbursement for a portion of the District's engineering costs associated with the planned rehabilitation of the District's improvements. As of June 30, 2007 the District has received \$59,889 from the grant and has a grant receivable of \$29,134. The District continues to maintain no long-term debt and consistently meets its monthly liabilities net 15 days. As of June 30, 2007 the District's cash totaled \$497,138. The majority of the cash is reserved for future capital improvements

The General Manager remains employed full time to oversee the operations and maintenance on a daily basis at the Camino Diablo facility along with maintaining the collection system. The Plant Operator, Grade II continues to oversee the facility and works toward a continued incident-free record.

Under the Small Systems Grant Program the District has received \$59,889 in reimbursements from that grant with an additional \$29,134 balance due for the planning phase. The State Water Resources Board Financial Division has indicated they will issue a contract for the design and construction phase concurrently since we filed our Notice of Exemption from the California Environment Quality Act (CEQA) on June 18, 2007. The District has been notified by the State Water Resources Board that it will fund up to \$2 million of our \$2.6 million dollar project of a reimbursement basis. However the District must proceed within the Time Schedule Order issued by the Regional Water Quality Control Board. In order to maintain the project without delay the District has secured bond funding inclusive of the Proposition 218 process. This measure will provide for an increase in the current rate schedule for its customers and a board approved Resolution has been passed for an application of Series 2007A Revenue Bonds. Once grant funding is received from the State Water Resources Board the District will pay down the Revenue Bond.

The General Manager continues to improve procedure regarding safety, maintenance, reporting, and inspections of the underground collection systems.

The facility continues to maintain its long-term record with our Insurance Carrier absent of any loss i.e. injury or other agency entry access problems and continues to operate in a responsible manner. The General Manger has been working closely with Contra Costa County Public Works to keep Fisk Creek clear, work with the Vector Control to insure access and availability for spraying due to the reporting of the West Nile virus and mosquito concern.

BYRON SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

FACILITY OPERATIONS OVERVIEW

Water Quality: The ground water monitoring results indicate either non-detected or very low levels of Nitrate as N, Ammonia as N and total fecal coliform bacteria, thus demonstrating negligible pollution to the groundwater in the area. Both values fall below permitted levels. PH Levels remain within the permit requirements of 6.5-8.5.

Storage Levels: The storage levels within the ponds are maintained to anticipate wet weather seasonal changes. Adequate capacity is maintained for a 100-year rainfall occurrence. The minimum freeboard levels are permitted at 2 feet. The ponds average over 3-5 feet of freeboard regularly, including the rainy season. The effluent dispersal system on the current 7.5 acres is rarely utilized. The WDR permit allows for capacity of 80,000 gallons per day. Actual flows average of 67,500 gpd, well below permit limits. The facility remains in operational order without incident.

Watershed and Grounds: The General Manager has been working with Contra Costa County Public Works to clear and maintain the storm drains adjacent to the facility and have been assured by Public Works that any remaining work will be completed prior to the winter rains. A joint meeting with Mr. Rob Tavenier, Contra Costa County Engineer, BSD and Reclamation District 800 resulted in the removal of a large beaver dam blockage within Fisk Creek to allow storm runoff to flow naturally through Fisk Creek on out into the Delta. To date the beaver dam blockage located on Fisk Creek has been partially addressed by Reclamation District 800. Within the last few weeks Public Works has submitted another work order requesting their return to complete the process. As of this writing that has not occurred.

The General Manager also met with Mr. Ken Head, Contra Costa County Works regarding new signs to deter the public from traveling to the dead end street where the facility is located. Public works continues to have problems with dumping in the area, and BSD has requested new signs to be placed properly along the roadway to prevent excess traffic and limit the possibility of further disposal dumping at the end of the road.

Pipeline Repair: The Orin Allen Youth facility experienced a pipeline incident, which constituted the replacement of 60 feet of pipeline from the Orin Allen facility to BSD's trunk line. Although it was a County issue, due to the potential emergent situation BSD's General Manager contacted the designated County contractor, notified Public Works and assisted in overseeing the project and the replacement of the pipe to assure proper placement and that the facility services would not be interrupted.

ADMINISTRATIVE OPERATIONS:

11/6/06 BSD's engineering firm submitted a revised Preliminary Engineering Report to the Regional Water Quality Control Board and received concurrence from the Regional Water Boards regulatory administrative staff.

12/13/06 BSD Directors voted unanimously to select Cameron Weist, Esq. as the District's Bond Council from available legal counsel.

1/10/07 BSD Board receives notification from the Water Quality Control Board Engineer George Lockwood has accepted the position of Chief of another Division and our temporary Project Engineer will be Mark List, P.E until a new assignment can be completed.

2/6/07 Preliminary meetings begin between BSD staff and Byron Bethany Irrigation District Executive Director to review the possibility of a Joint Powers Agreement.

3/14/07 BSD Directors voted to recommend a Joint Powers Authority with the Byron Bethany Irrigation District.

3/15/07 Letter of Intent to Byron Bethany Irrigation District delivered to Byron Bethany Irrigation District Board of Directors for consideration.

3/20/07 Byron Bethany Water District voted unanimously to confirm the formation of a Joint Powers Agreement. The purpose for creating the Byron Bethany Joint Powers Authority is to jointly exercise the powers set forth in both the JPA law and the Bonding Pooling Act to assist each agency to complete financing through the issuance of Bonds or other instruments of indebtedness for necessary capital improvements. The Governing Board will be comprised of a five-member legislative body consisting of 3 members from the Byron Bethany Irrigation District and two members from the Byron Sanitary District. The Board has also assigned an Executive Director and a Treasurer/Auditor from each agency.

4/4/07 BSD executed the Proposition 218 process and staff completed a detailed letter of explanation to all customers outlining the obligation of a Municipal Bond with explanation of the funding amount, how it will be used, a rate increase schedule and supplied information for the procedure to submit written protest of the proceedings and rate increase prior at the posted Public Hearing scheduled on 5/21/07.

BYRON SANITARY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

4/4/07 BSD contacted the local newspaper and requested two separate Legal Notices be published regarding the notification of the rate increase and the Public Hearing on 5/21/07.

4/9/07 The Byron Bethany Joint Powers Authority held its first Board of Directors meeting and confirmed Officers comprised of both entities.

4/9/07 President Cummings and staff met with Sutter Securities a San Francisco Securities Company to confirm and review the necessary information needed to start the underwriting process and meet the standards for the company to move forward to secure Municipal Bond funding.

4/21/07 BSD Posted a 2nd Notice of Informational Meeting at the scheduled Byron Day and the upcoming Public Hearing of 5/21/07

4/28/07 BSD participated in the Byron Community Day with other County Agencies and gave an informational speech of the Proposition 218 proceedings and information to the public of what the District customers should expect as far as rate increases and facility changes.

5/1/07 BSD is notified that Mark List, temporary Project Engineer has been transferred to another unit and no new Project Engineer has been assigned.

5/4/07 BSD receives notification from the Water Quality Control Board that Mark List, P.E. has transferred to another unit. Further notification of our new Project Engineer will be forthcoming.

5/7/07 BSD finally received a review from the Water Quality Control Board of the 1st Water Balance Test and re-submitted a revised independent Water Balance Test to address any questions or concerns of the Water Quality Control Board. Nolte Engineering has been in contact with the Water Quality Control Board Director, Region 5 and they have informed him they are extremely understaffed and have been delayed in completing administrative tasks.

5/11/07 At the regular meeting of the Board of Directors BSD held a 2nd informational meeting for the public to comment and ask questions. No written objections were received as of that date.

5/21/07 BSD held the Public Hearing to open and formally count the letter of objection, and address the residents from the community concerns and answer the public's questions with regard to increased rates and upgrades. BSD had their Bond Council, Nolte Engineering and Sutter Securities representatives present to give details of the procedures that will be followed and address the public. After public comment and several questions from the public, a count was requested of written protests and none were received. The Byron Sanitary District's Board unanimously passed two Resolutions. One confirming the rate increases and effective dates and a second Resolution giving authority for BSD staff to proceed to work with Bond Counsel, Cameron Weist, Sutter Securities Senior Underwriter, Frank Soriano to proceed with the process seeking issuance of the Series 2007A Revenue Bonds with an efficient interest rate to support the issuance of the Series 2007A Revenue Bonds with an efficient interest rate to support the community project and bring back to the Board of Directors for final approval.

The Byron Sanitary District continues to stay in compliance with the Regional Water Quality Control Board's Time Schedule Order with monthly monitoring reports and testing requirements set by this State agency. There have been intermittent challenges in the process moving forward since the regulatory staff at the Regional Board has unfortunately been changed twice since November 2006 and their continuing efforts to address an understaffing problem. Nolte Engineering is completing preliminary design work, and the full design process and construction will proceed as soon as the funding is secured. This will afford the District to continue its efforts to service the current and future needs of the community.

Respectfully,

G. Lee Cummings
President

Carol A. Jackson
Secretary

BYRON SANITARY DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Current Assets:

Cash in bank - checking Bank of America	\$	280	
Cash in bank - checking Bank of Agriculture		342	
Cash in bank - savings Bank of Agriculture		293,320	
Cash - L.A.I.F. (Note 3)		<u>203,196</u>	
Total cash and cash equivalents	\$	497,138	
Accounts receivable		5,000	
Interest receivable		2,645	
Grant receivable		29,134	
Prepaid insurance		<u>1,661</u>	
Total current assets			\$ 535,578

Property, Plant and Equipment: (Note 4)

Land	\$	73,950	
Work in progress - Wastewater facilities upgrade		234,667	
Sewage treatment and collection facilities		<u>200,010</u>	
Total property, plant and equipment	\$	508,627	
Less: Accumulated depreciation		<u>(180,544)</u>	
Net property, plant and equipment			<u>328,083</u>

TOTAL ASSETS **\$ 863,661**

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$	<u>16,857</u>	
TOTAL LIABILITIES			\$ <u>16,857</u>

Net Assets:

Unappropriated retained earnings	\$	833,051	
Appropriated retained earnings		<u>13,753</u>	
TOTAL NET ASSETS			\$ <u>846,804</u>

BYRON SANITARY DISTRICT
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING INCOME

Expenses:

Directors fees	\$ 4,525	
Outside services	18,000	
Legal & accounting	10,246	
Repairs and maintenance	43,863	
Depreciation	4,526	
Insurance	3,511	
Utilities	1,927	
Dues and subscriptions	598	
Miscellaneous	4,594	
Permits	7,107	
Analytical services	<u>14,228</u>	
Total expenses		\$ 113,125

Revenues:

Sewer use fees	\$ 212,124	
Property taxes	36,313	
Franchise fees	6,719	
Permit and inspection fees	250	
Miscellaneous	<u>89</u>	
Total revenues		<u>255,495</u>
Net operating income		\$ 142,370

NON-OPERATING INCOME

Revenues:

Grant	\$ 89,023	
Interest	<u>14,040</u>	
Total non operating income		<u>103,063</u>
Net income		\$ <u><u>245,433</u></u>

BYRON SANITARY DISTRICT
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	Unappropriated Retained Earnings	Appropriated Retained Earnings	<u>Totals</u>
Balance - July 1, 2006	\$ 475,281	\$ 13,753	\$ 489,034
Prior period adjustment (note 7)	112,337		112,337
Net income (loss)	<u>245,433</u>	<u> </u>	<u>245,433</u>
Balance - June 30, 2007	<u>\$ 833,051</u>	<u>\$ 13,753</u>	<u>\$ 846,804</u>

The accompanying notes are an integral part of this statement.

BYRON SANITARY DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash receipts:		
Customers	\$	250,670
Property taxes		
Miscellaneous		89
Total cash receipts		\$ 250,759
Cash payments for operating expenses		(116,664)
Net cash provided (used) by operating activities		134,095

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Grant income		59,889
Interest income		14,040
Net cash provided by Non-Capital Investing Activities		73,929

CASH FLOWS FROM INVESTING ACTIVITIES:

Capital expenditures	\$	(234,667)
Prior period adjustment for capital expenditures	\$	112,337
Net cash provided by Investing Activities		(122,330)

CASH FLOWS FROM FINANCING ACTIVITIES:

Net cash provided by Financing Activities		0
---	--	---

NET CHANGE IN CASH AND CASH EQUIVALENTS

\$ 85,694

Cash & cash equivalents at beginning of year

411,444

Cash & cash equivalents at end of year

\$ 497,138

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Net income (loss)		\$ 142,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	\$	4,526
Increase in accounts receivable		(4,272)
Increase in interest receivable		(464)
Decrease in prepaid insurance		180
Decrease in accounts payable		(8,245)
Total adjustments		(8,275)
Net cash provided (used) by operating activities		\$ 134,095

The accompanying notes are an integral part of this statement.

BYRON SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - ACCOUNTING POLICIES

Byron Sanitary District uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

NOTE 2 - BASIS OF PRESENTATION

The accompanying financial statements of the District have been prepared in conformity with United States General Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board (GASB). In June 1999 GASB issued Statement 34 title "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". For Byron Sanitary District, implementation of the Statement requirements became effective with the fiscal year ended June 30, 2004. The changes in presentation are discussed below.

Management's Discussion and Analysis: GASB Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities. This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Financial Statements: GASB Statement 34 defines major funds and requires that major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds are combined and reported in a single column, regardless of their fund type.

Byron Sanitary District maintains only one fund and it is reported as a proprietary fund.

Infrastructure: GASB Statement 34 requires disclosure of infrastructure items under several reporting options. Infrastructure is defined as capital assets of a relatively permanent nature that have longer estimated lives (50 or more years) than ordinary capital assets. Infrastructure items are to be reported at historical costs (purchase price). Management may elect to use either a basic approach, depreciating the asset over its expected life, or a modified approach, which requires establishing an asset management system and making a condition assessment every three years.

The District elected to use the basic approach. Under the basic approach all new infrastructure, including improvements that increase capacity or efficiency or lengthen the life of the asset, is booked, its useful life is estimated and the asset is depreciated over its useful life.

NOTE 3 - CASH AND INVESTMENTS

The Board of Directors of the District has reserved a portion of the revenue received for capital outlay. The capital outlay reserve, reported on the balance sheet as appropriated retained earnings, is included in the amount on deposit with the Local Agency Investment Fund.

Under the California Government Code, banks and savings and loans associations are required to secure deposits made by state of local government units by pledging government securities as collateral. The market value of pledged securities must equal at least 100% of the total amount deposited by the public agencies.

All cash investments held by the financial institutions are fully insured or collateralized.

Investments are carried at cost. The difference between cost and fair value is immaterial.

	<u>Cost</u>	<u>Fair Value</u>
LAIF	\$203,196	\$203,104

BYRON SANITARY DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Prior to July 1, 1955, the District maintained no accounting records for property, plant and equipment. Therefore, the statements include only those assets purchased subsequent to that date. Fixed assets are recorded at cost and depreciated on a straight line rate.

NOTE 5 - COMPLIANCE WITH STATE WATER QUALITY CONTROL BOARD

The Minutes of the Board of Directors show ongoing discussions aimed at bringing the District into compliance with waste discharge standards mandated by the State Water Quality Control Board. The District has considered a number of alternatives, such as connecting to Discovery Bay, implementing a package plant to treat effluents and modification of existing ponds.

Following extensive discussions and studies, the Board voted to implement the alternative 2B, rehabilitation of existing facilities that has an estimated cost of \$2.5 million, which was approved by the California Regional Water Quality Control Board. Of that expected cost the sum of \$2.0 million will be funded by a Small Community Wastewater Grant Program administered by the State Water Resources Control Board. The additional funds needed will be provided by a combination of rate increases and the use of the District's available cash resources. Concurrently, the District Board is investigating the feasibility of issuing a bond to provide immediate funds.

NOTE 6 - ACCOUNTS RECEIVABLE AND GRANT RECEIVABLE

Byron Sanitary District receives quarterly franchise fees from Brentwood Disposal. According to Brentwood Disposal there was a computer entry error that deleted approximately 30- 40 clients of Byron over the last five years. As of June 30, 2007 the District's management estimates that they will receive \$5,000 or more from Brentwood Disposal which includes the first and second quarter 2007 and past due amount owed to the District.

This year the District received a grant from the State of California for the planning stage in the amount of \$89,023. The District expects to receive the rest of the grant after all documentation is turned in to the State for reimbursement. At June 30, 2007 the District has a grant receivable of \$29,134.

NOTE 7 - PRIOR PERIOD ADJUSTMENT

An adjustment was made in the current fiscal year to retained earnings in the amount of \$112,337. This amount was originally recorded as engineering fees in prior years. These fees were for the planning stage of the Wastewater Facilities Upgrade and are now reclassified as work in progress on the statement of net assets.

BYRON SANITARY DISTRICT

COMMENTS

GENERAL ORGANIZATION AND DESCRIPTION

The District was formed on April 12, 1948 under the provisions of sections 6400-6916 of the Health and Safety Code. The District operates a central sewage system in the Byron area of Contra Costa County.

ACCOUNTS AND RECORDS

All District obligations are paid directly by the District. The Contra Costa County Auditor-Controller sends payments for fees due to the District, along with property tax settlement statements every April, June and December.

INSURANCE COVERAGE

The District had the following insurance coverage at June 30, 2007, contracted with the California Sanitation Risk Management Authority:

Comprehensive General Liability (property damage deductible \$1,000)	\$	1,000,000
General Aggregate and Completed Operations		3,000,000
Errors and Omissions Liability – per occurrence (deductible \$10,000) (employment practice deductible \$10,000)		1,000,000
Hired and Non-Owned Automobile Liability		1,000,000

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

[\$Bond Amount]
BYRON BETHANY JOINT POWERS AUTHORITY
(Contra Costa County, California)
SERIES 2007A REVENUE BONDS
(Wastewater Enterprise Project)
Bank Qualified

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the Byron Sanitary District (the “Sanitary District”) in connection with the issuance of \$ _____ Byron Bethany Joint Powers Authority, Series 2007A Revenue Bonds (Wastewater Enterprise Project) (the “Bonds”) by the Byron Bethany Joint Powers Authority (the “Authority”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of August 1, 2007, by and between the Authority and Deutsche Bank National Trust Company (the “Trustee”). The Bonds have been issued by the Authority to provide funds to finance certain facilities which constitute part of the wastewater enterprise of the Sanitary District, to be sold to the Sanitary District pursuant to an Installment Sale Agreement, dated as of August 1, 2007, by and between the Authority and the Sanitary District (the “Agreement”). Pursuant to the Agreement, the Sanitary District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Sanitary District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

“*Annual Report*” shall mean any Annual Report provided by the Sanitary District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Dissemination Agent*” shall mean Deutsche Bank National Trust Company, or any successor Dissemination Agent designated in writing by the Sanitary District and which has filed with the Sanitary District a written acceptance of such designation.

“*Listed Events*” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“*National Repository*” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Information on the National Repositories as of a particular date is available on the Internet at www.sec.gov/consumer/nrmsir.htm.

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

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

Section 3. Provision of Annual Reports.

(a) The Sanitary District shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the Sanitary District’s Fiscal Year, commencing with the report for the 2006-07 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the Sanitary District shall provide the Annual Report to the Dissemination Agent (if other than the Sanitary District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Sanitary District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the Sanitary District’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

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

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

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

Section 4. Content of Annual Reports. The Sanitary District’s Annual Report shall contain the following information:

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

Accounting Standards Board. If the Agency'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.

(ii) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information with respect to the Sanitary District's wastewater enterprise showing:

(a) Annual sewer service charges per Equivalent Single-Family Dwelling Unit ("ESD") for the prior Fiscal Year;

(b) "Annual Wastewater Revenues" for the prior Fiscal Year in the format of the table by that name in the Official Statement relating to the Bonds;

(c) Largest ten users of the Wastewater Enterprise, based on annual billings for the prior calendar year;

(d) Any additional indebtedness incurred during the prior Fiscal Year which is payable from revenues of the Wastewater Enterprise on a parity with the Bonds; and

(e) Total Net Revenues received by the Sanitary District during the prior Fiscal Year, and the amount of debt service coverage provided thereby (expressed as a percentage of total Net Revenues to total debt service on the Bonds and any Parity Obligations in such Fiscal Year).

In addition to any of the information specifically required to be provided under provisions of this Section, the Sanitary District shall provide such further information, if any, as may be necessary to make the statements of specifically required information, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Sanitary District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Sanitary District 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 Sanitary District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(i) Principal and interest payment delinquencies;

- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) Modifications to rights of security holders;
- (viii) Contingent or unscheduled bond calls;
- (ix) Defeasances; and
- (x) Release, substitution, or sale of property securing repayment of the securities.

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

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

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

Section 7. Dissemination Agent. The Sanitary District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Deutsche Bank National Trust Company.

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

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time

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

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

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

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

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

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

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

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

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

Section 13. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the Sanitary District to be an obligated person as defined in the Rule, nothing contained herein shall be construed to require the Sanitary District to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate shall be deemed to obligate the Sanitary District to disclose information concerning any owner of land within the Sanitary District except as required as part of the information required to be disclosed by the Sanitary District pursuant to Section 4 and Section 5 hereof.

Date: August __, 2007

BYRON SANITARY DISTRICT

By: _____
General Manager

Accepted and Acknowledged:

DEUTSCHE BANK NATIONAL TRUST
COMPANY, as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Byron Bethany Joint Powers Authority

Name of Bond Issue: Byron Bethany Joint Powers Authority Series 2007A Revenue Bonds (Wastewater Enterprise Project) (the "Bonds").

Date of Issuance: August __, 2007

NOTICE IS HEREBY GIVEN that the Byron Sanitary District (the "Sanitary District") has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture of Trust authorizing the issuance of the Bonds and the related Installment Sale Agreement. The Sanitary District anticipates that the Annual Report will be filed by _____.

Dated: _____

BYRON SANITARY DISTRICT

By _____

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APPENDIX D

GENERAL INFORMATION REGARDING THE SANITARY DISTRICT AND SURROUNDING AREA

Disclaimer

The following information, unless otherwise cited, was directly transcribed from material provided by the Byron Sanitary District (the “District”), the County of Contra Costa (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the District, the County and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision. The Bonds are not a debt of the District, the County or the State of California (the “State”) or any of the State’s Political Subdivisions; and neither the District, the County, the State nor any of the State’s Political Subdivisions are liable therefore.

THE DISTRICT

In General

The community of Byron is located in eastern Contra Costa County in the Central Valley region of California, approximately 25 miles west of Stockton, approximately 15 miles east of Antioch and approximately 15 miles north of Livermore. The city of Brentwood is approximately 6 miles northwest of Byron along State Highway 4. Temperatures are fairly mild year-round, average highs are between 65 and 75 degrees in the summer, and average lows are between 52 and 65 degrees during the remainder of the year. Average annual rainfall, mostly occurring between December and March, is approximately 10 inches per year.

The Byron Sanitary District is a public entity established under the jurisdiction of the Sanitary District Act of 1923 (California Health and Safety Code Section 6400 et seq.). It was formed pursuant to a resolution of the County Board of Supervisors, executed by that Board and filed with the County Clerk on April 12, 1948. The District operates and maintains the wastewater system for the community. The District serves approximately 152 residences, a 540-student school, the Contra Costa County Boy’s Ranch, and 19 commercial facilities for a total of 173 users. This is equal to 366 equivalent dwelling units.

Byron itself is an unincorporated community located in a suburban and agricultural area of eastern Contra Costa County. The town center is a small business district that serves a community population of approximately 1,000. The residential areas are a grid of neighborhood streets surrounding the town center. In order to preserve the small-town atmosphere of the community, all planned future development is to be confined to areas immediately adjacent to areas that have already been developed. Growth is anticipated as moderate within the service area of the District.

Byron Hot Springs

The community of Byron is also home to the somewhat well-known and historical Byron Hot Springs, an abandoned resort which was a famous retreat that attracted many famous moviestars and athletes in the early 1900's. The first hotel was built in 1889 and was a three-story wood building, with a few cottages scattered nearby, as well as a laundry, gas plant and ice plant, all of which were destroyed by fire on July 25, 1901. A second hotel, also three stories, but made of stucco was constructed 1901-1902. The third and final hotel, a four-story brick structure was built in 1913 after another fire that took place the previous year. In 1938 it closed, due to a series of lawsuits, probably brought about by the Great Depression, but was purchased by the government in 1941 and became a military interrogation camp housing both German and Japanese prisoners of war, known as Camp Tracy, until 1945, when orders were sent to dismantle it. The Byron Hot Springs property was put up for sale and purchased by the Greek Orthodox Church. It served as the Monastery St. Paul for several years. It then changed hands several times both as a resort, country club and private residence. It is currently privately owned. Plans have materialized to rebuild Byron Hot Springs, as stated at byronhotsprings.com. In 2005, a Victorian-era carriage house on the property was burned to the ground. The hotel itself sustained some fire damage, but still stands.

Commercial Presence

Since the early 1900s, a silica sand industry, now the Unimin Corporation located on the west side of Byron, has been in the business of mining the mile-wide belt of silica sand that extends from Byron to the City of Concord, a distance of twenty-one miles. The raw material is used for the manufacture of glass containers.

The Byron Airport, dedicated in 1994, consists of approximately thirteen hundred acres and is one of the Bay Area's biggest general aviation airports. Space is available for expansion to accommodate smaller commercial carriers. In 1998, the Contra Costa Water District completed construction of the Los Vaqueros Reservoir, a short distance from Byron.

Description of Byron Planning Area

The Byron Planning Area is comprised of approximately 40,000 acres and surrounds the District, Entirely unincorporated, the Byron Planning Area, is generally bounded by Balfour Road and State Route 4 on the north end, Walnut Blvd. and Sellers Avenue on the west, Old River and the San Joaquin County line on the east, and the Alameda County line on the south. The City of Brentwood is located northwest of Byron, sharing the common planning area boundaries of Balfour Road, Walnut Blvd. and State Route 4. Knightsen, an unincorporated community located north of Byron, shares the Balfour Road boundary. Discovery Bay, also unincorporated, is located approximately two miles northeast of Byron and shares the common planning area boundary of State Route 4 and Bixler Road. Currently, the existing town of Byron consists of approximately 250 acres.

Demographics

As of the 2000 census, there were 916 people, 286 households, and 203 families residing in the District. The population density was 139.2/km (360.1/mi). There were 309 housing units at an average density of 47.0/km (121.5/mi). The racial makeup of the area was 75% White, 4.37% Black or African

American, 1.09% Native American, 2.18% Asian, 0.44% Pacific Islander, 14.74% from other races, and 2.18% from two or more races.

There were 286 households out of which 36.4% had children under the age of 18 living with them, 53.8% were married couples living together, 11.5% had a female householder with no husband present, and 28.7% were non-families. 22.0% of all households were made up of individuals and 9.8% had someone living alone who was 65 years of age or older. The average household size was 2.85 and the average family size was 3.36.

Population age characteristics was spread out with 35.0% under the age of 18; 9.1% from 18 to 24; 28.2% from 25 to 44; 18.8% from 45 to 64; and 9.0% who were 65 years of age or older. The median age was 31 years. For every 100 females there were 129.0 males. For every 100 females age 18 and over, there were 105.2 males.

The median income for a household in the area was \$35,938, and the median income for a family was \$44,306. Males had a median income of \$42,639 versus \$28,889 for females. The per capita income for the area was \$21,231. About 15.6% of families and 14.9% of the population were below the poverty line, including 33.3% of those under age 18 and none of those age 65 or over.

THE COUNTY

In General

The County was incorporated in 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Martinez as the County seat. It is one of the nine counties in the San Francisco-Oakland Bay Area. The County covers about 733 square miles and extends from the northeastern shore of the San Francisco Bay easterly about 50 miles to San Joaquin County. The County is bordered on the south and west by Alameda County and on the north by the Suisun and San Pablo Bays. The western and northern shorelines are highly industrialized, while the interior sections are suburban/residential, commercial and light industrial. The County contains 19 incorporated cities, including Richmond in the west, Antioch in the northeast, and Concord in the center.

A large part of the County is served by the San Francisco Bay Area Rapid Transit District ("BART"), which has enabled the expansion of both residential and commercial development throughout much of the County. In addition, economic development along the Interstate 680 corridor in the County has been substantial and has accounted for significant job creation in the Cities of Concord, Walnut Creek and San Ramon.

County Government

The County has a general law form of government. A five-member Board of Supervisors, each member of which is elected to a four-year term, serves as the County's legislative body. Also elected are the County Assessor, Auditor-Controller, Clerk-Recorder, District Attorney-Public Administrator, Sheriff-Coroner and Treasurer-Tax Collector. A County Administrator appointed by the Board of Supervisors runs the day-to-day business of the County. The current County Administrator is John B. Cullen.

Population

The County is the ninth most populous county in California, with its population reaching approximately 1,029,377 as of January 1, 2006. This represents an increase of approximately 4.7% compared to the County's population as of January 1, 2002. The availability of rapid transit, close proximity to major employment hubs in San Francisco and Oakland, and relatively affordable existing and new housing have combined to attract more residents to the County over the past decade.

While population grew in every city in the County during the last decade, population growth has been strongest in unincorporated areas as well as in the eastern portion of the County, particularly in Antioch and Brentwood.

Construction Activity

The value of residential building activity increased by approximately 37% in calendar year 2005 from calendar year 2004 levels. The increase was due to the unprecedented number of building permits issued in the prior year for residential construction primarily in Antioch, Brentwood, Pittsburg, and Oakley compared to the actual rate of construction.

Within the County, Antioch, Brentwood, Oakley and Pittsburg accounted for approximately 46% of all new homes constructed in the County during the first eight months of calendar year 2005.

The following Table provides a summary of residential building permit valuations and number of new dwelling units authorized in the County since calendar year 2001.

County of Contra Costa Residential Building Permit valuations Calendar Years 2001 Through 2005

Valuation (\$ in thousands)		Number of New Dwelling Units		
Calendar Year	Residential (New)	Single Family	Multiple Family	Total
2001	\$917,085	4,152	984	5,136
2002	1,219,608	5,076	729	5,805
2003	1,263,360	4,965	1,930	6,895
2004	1,113,572	4,222	1,261	5,483
2005	1,525,515	5,452	860	6,312

Source: Construction Industry Research Board.

An approximately 5,979 acre development located east of the City of San Ramon will add 11,000 new homes in the County. The development known as "Dougherty Valley" is expected to be constructed in nine phases with complete buildout in 2015. All phases of construction of Dougherty Valley have been approved by the County and approximately 8,900 homes have been constructed to date.

On August 1, 2000 the Board of Supervisors unanimously adopted an amendment to the Contra Costa County General Plan, 1995-2010, modifying the boundaries of the County's Urban Limit Line. This action reduced the growth limit line by 22 square miles, by removing approximately 14,000 acres from

future development. The two regions primarily affected by this amendment were eastern Contra Costa County and the Tassajara Valley in the south-central part of the County. Two cities within the County lost lawsuits challenging the environmental justifications for the boundary shift.

On November 8, 2005 the voters of the City of Antioch and the City of Pittsburg passed Measure K and Measure P, respectively. These Measures established Urban Limit Lines for each City and prohibit future urban development unless an amendment to the Urban Limit Line is approved by the voters of the respective city. In Antioch, the approval of Measure K also reduces the aggregate number of planned housing units, limits the annual number of housing units to be constructed to 600, and requires additional developer contributions to roadway construction and school improvements. In the City of Pittsburg, Measure P also "prezoned" certain land within the new urban limit line but outside of current City limits to permit future annexation.

Transportation

Availability of a broad transportation network has been one of the major factors in the County's economic and population growth. Interstate 80 connects the western portion of the County to San Francisco and the central portion of the County to Sacramento and points north via Interstate 5, the major north-south highway from Mexico to Canada. Interstate 680 connects the central County communities to the rest of the Bay Area and portions of the Central Valley of the State via State Routes 4 and 24, the County's major east-west arteries.

Caltrans is currently widening Interstate 80 in the western portion of the County at a cost of \$200 million, has constructed a replacement span on the Carquinez Bridge on Interstate Highway 80 and is constructing a new span parallel to the existing Benicia - Martinez Bridge on Interstate Highway 680 at a cost of \$1.1 billion. The Benicia - Martinez Bridge project, which includes a new five lane bridge and rail span to accommodate future light rail, a new 17-lane toll plaza, and a two-way bike pedestrian lane, is expected to be completed in December 2007.

Ground transportation is available to County residents from the following service providers:

- Central Contra Costa Transit Authority provides local bus service to the central area of the County including Walnut Creek, Pleasant Hill and Concord,
- BART connects the County to Alameda County, San Francisco and Daly City and Colma in San Mateo County with two main lines, one from the San Francisco area to Richmond and the other to the Concord/Walnut Creek/Pittsburg/Bay Point area. BART has 43 stations and 104 miles of roadway in its system. BART completed an extension to the San Francisco International Airport which opened in June 2003.
- AC Transit, provides local bus service and connects Contra Costa communities to San Francisco and Oakland.
- Other bus service is provided by Greyhound.
- Commuter rail service is provided by the Capital Corridor, with daily runs between the Bay Area and Sacramento that stop at the new intermodal facility in Martinez, the County seat.
- The Santa Fe and Union Pacific Railroads' main lines serve the County, both in the industrial coastal areas and the inland farm section.

Commercial water transportation and docking facilities are available through a number of port and marina locations in the County. The Port of Richmond on San Francisco Bay and several privately owned industrial docks on both San Pablo and Suisun Bays serve the heavy industry located in the area. The Port of Richmond, owned and operated by the City of Richmond, covers 202 acres and handles nearly 20 million metric tons of cargo annually. The majority of the shipments are bulk liquids, primarily crude oil, with the remainder consisting of scrap metal, autos, and gypsum rock.

Major scheduled airline passenger and freight transportation for County residents is available at either Oakland or San Francisco International Airports, located about 20 and 30 miles, respectively, from the County. In addition there are two general aviation fields, one located in Byron and the other in Concord.

Environmental Control Services

Water. The East Bay Municipal Utilities District ("EBMUD") and the Contra Costa County Water District ("CCCWD") supply water to the County. EBMUD supplies water to the western part of the County, including Alamo, Crockett, Danville, Diablo, Hercules, Lafayette, Moraga, Orinda, Pinole, portions of Pleasant Hill, Richmond, Rodeo, San Pablo, San Ramon Selby and portions of Walnut Creek. Approximately 89% of its supply is from the Mokelumne River watershed stored at the 69.4 billion gallon capacity Pardee Dam in Lone, California. EBMUD is entitled to 325 million gallons per day under a contract with the State Water Resources Control Board, plus an additional 119 million gallons per day in a single dry year under a contract with the U.S. Water and Power Resources Service (formerly the U.S. Bureau of Reclamation).

CCCWD obtains its water from the Sacramento-San Joaquin Delta and serves approximately 500,000 customers in the central and eastern part of the County, including Antioch, Bay Point, Clayton, Clyde, Concord, Martinez, Oakley, portions of Pleasant Hill, Pittsburg and portions of Walnut Creek. It is entitled under a contract with the U.S. Water and Power Resources Service to purchase 195,000 acre-feet per year. Water purchased by CCCWD has ranged between 80,000 and 110,000 acre-feet annually. In addition, a number of industrial users and several municipalities draw water directly from the San Joaquin River under their own riparian rights, so that actual water usage in the service area averages about 125,000 acre-feet annually. To provide expanded water storage capacity, CCCWD constructed the Los Vaqueros Reservoir with a capacity of 100,000 acre-feet south of the City of Antioch. In spring 2004, the voters within CCCWD approved the preparation of an economic analysis, a technical feasibility report and environmental review to expand the reservoir. It is expected that a draft feasibility report and an environmental impact statement/ environmental impact report will be completed in late 2007.

Sewer. Sewer services for the County are provided by approximately 20 sanitation districts (including the District) and municipalities. Federal and State environmental requirements, plus grant money available from these two sources, resulted in upgrading, expanding and/or building new facilities by approximately 14 agencies.

Flood Control. The Contra Costa County Flood Control District (the "Flood Control District") has been in operation since 1951 to plan, build, and operate flood control projects in unincorporated areas of the County except for the Delta area on its eastern border. The Delta is interspersed with inland waterways that

fall under the jurisdiction of the U.S. Army Corps of Engineers and the State Department of Water Resources. The Flood Control District is responsible for meeting requirements set forth by the Environmental Protection Agency ("EPA") with respect to addressing potential pollutants in nonspecific groundwater runoff. The County is not presently able to estimate the cost of compliance with EPA requirements, although such costs may be significant.

Education and Health Services

Education. Public school education in the County is available through nine elementary school districts, two high school districts and seven unified school districts. These districts provide 145 elementary schools, 45 middle, charter, junior high and intermediate schools, 29 high schools, and a number of preschools, adult schools, and special education facilities. In addition, there are 110 private schools with six or more students in the County. According to data from the County of Contra Costa Office of Education, school enrollment as of Fiscal Year 2005-06 numbered 165,785 students in public schools and 10,397 in regular graded private schools.

Higher education is available in the County through a combination of two-year community colleges and four-year colleges. The Contra Costa County Community College District has campuses in Richmond, Pleasant Hill and Pittsburg. California State University East Bay (formerly California State University Hayward) operates a branch campus, called Contra Costa Center, in the City of Concord where late afternoon and evening classes in business, education and liberal arts are offered. St. Mary's College of California, a four-year private institution, is located on a 100-acre campus in Moraga. Also located within the County is the John F. Kennedy University with campuses in Pleasant Hill and Pittsburg and the UC Berkeley Extension, Contra Costa Center in San Ramon. In addition, County residents are within easy commuting distance of the University of California, Berkeley.

Health Services. There are 12 privately operated hospitals and two public hospitals located in the County, with a combined total of approximately 1,900 beds. Four of the private hospitals are run by Kaiser Permanente, the largest health maintenance organization in the United States. Kaiser has opened a new hospital in Richmond with new critical care beds, surgical suites and a full service emergency department. The Walnut Creek-based John Muir/Mt. Diablo Health System operates hospitals at its Walnut Creek and Concord Campuses and outpatient services at its Brentwood Campus and in Rossmoor.

Contra Costa Regional Medical Center. The public hospital is Contra Costa Regional Medical Center ("CCRMC"), a 164-bed facility that the County rebuilt and re-opened to the public in 1998 on the existing campus in Martinez. Since completion of the hospital in 1998, the County added a public health/clinical laboratory in 2001 on the CCRMC campus, converted the former Los Medanos Hospital into the Pittsburg Health Center, completed construction of an ambulatory care clinic on the campus of CCRMC, expanded clinics in Antioch, Concord and Brentwood and is in the planning stage of replacing a clinic in Richmond and constructing expansions to the clinics on the CCRMC campus and at the Pittsburg Health Center.

Doctors Medical Center. Doctors Medical Center is operated by the West Contra Costa Health Care District (the "Health Care District"). This 247 bed facility is located in a region of the County with a population of approximately 250,000, a large portion of whom are low income. Doctors Medical Center, located in the western portion of the County, provides medical services to the general public and, is a

critical component of the County Emergency Medical Services system.

In September 2006, the Health Care District declared a financial emergency and authorized the filing of a bankruptcy petition in an effort to keep the hospital open. On September 19, 2006 and September 26, 2006 the Board of Supervisors received updates from the Health Care District regarding possible closure of the hospital. On October 1, 2006 the Health Care District filed a voluntary petition for Chapter 9 bankruptcy protection. On October 31, 2006, the Board of Supervisors approved the general structure of a recovery plan to maintain services at Doctors Medical Center. The participants in the recovery plan are the County, the Health Care District, the physician groups that independently admit patients to the hospital, the State and the bankruptcy court and all participants have approved the general structure. The recovery plan, in part, includes: (i) execution of a joint powers financing agreement between the County and Doctors Medical Center to establish a joint management board on which the County will have majority representation; (ii) execution of an agreement between the County and the Health Care District for the temporary transfer, in installments, from the County General Fund, through June 30, 2007 of up to \$10 million to the State's General Fund, which funds will be matched by the federal government and used by the State to provide enhanced Medi-Cal payments to Doctors Medical Center; and (iii) annual reallocation of approximately \$2.5 million of ad valorem property tax revenues that would otherwise be allocated to the Health Care District in each of four successive years commencing with the Fiscal Year beginning July 1, 2007, to the County, to repay the County's transfer discussed in (ii) above. On February 5, 2007 the board of directors of the Health Care District unanimously approved the creation of the joint powers authority. On February 6, 2007 the Board of Supervisors unanimously approved the creation of the joint powers authority. The County is permitted to end its participation in the joint powers authority at any time with 90 days notice.

The recovery plan has been executed by each participant. If the recovery plan is not successful and Doctors Medical Center is closed, demand at the County public hospital (described below) and other hospitals in the area is expected to increase. The County is unable to predict the eventual impact future closure of Doctors Medical Center, if it occurs, would have on the financial condition of the County.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

August __, 2007

Byron Bethany Joint Powers Authority
3944 Main Street
Byron, CA 94514

OPINION: \$ _____ Byron Bethany Joint Powers Authority
 (Contra Costa County, California)
 Series 2007A Revenue Bonds
 (Wastewater Enterprise Project)

Members of the Authority:

We have acted as bond counsel to the Byron Bethany Joint Powers Authority (the "Authority") in connection with the issuance by the Authority of \$ _____ Byron Bethany Joint Powers Authority Series 2007A Revenue Bonds (Wastewater Enterprise Project) (the "Bonds"), pursuant to the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law"), and pursuant to an Indenture of Trust, dated as of August 1, 2007, by and between the Authority and Deutsche Bank National Trust Company, as trustee (the "Indenture"). The Bonds have been issued by the Authority to provide funds to finance and refinance certain facilities which constitute part of the wastewater enterprise of the Byron Sanitary District, California (the "Sanitary District"), to be sold to the Sanitary District pursuant to an Installment Sale Agreement, dated as of August 1, 2007, by and between the Authority and the Sanitary District (the "Agreement"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California with the full power to enter into the Indenture and the Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Indenture and the Agreement have been duly approved by the Authority and constitute valid and binding special obligations of the Authority enforceable against the Authority in accordance with their

respective terms. The Indenture creates a valid first and exclusive lien on and pledge of the Revenues (as such term is defined in the Indenture) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Indenture subject to no prior lien granted under the Bond Law.

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

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

5. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

LAW OFFICES OF CAMERON A. WEIST

APPENDIX F

CONSULTING ENGINEER'S REPORT

BYRON SANITARY DISTRICT

**Consulting Engineers Report
Wastewater Revenue Program**

Relating to the

**BYRON BETHANY JOINT POWERS AUTHORITY
(Contra Costa County, California)
SERIES 2007A REVENUE BONDS
(Wastewater Enterprise Project)
Bank Qualified**

AUGUST 2007



BYRON SANITARY DISTRICT

Consulting Engineers Report Wastewater Revenue Program



AUGUST 2007

Prepared for:

Byron Sanitary District
P.O. Box 382
Byron, CA 94514

Prepared by:

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BYRON SANITARY DISTRICT

August 2007

PREFACE

Nolte Associates, Inc. was authorized by the Byron Sanitary District (District) to develop its sewer revenue program as part of the requirements for approval of a State Water Resources Control Board, Small Community Wastewater Grant (SCWG) Program. This report on the District's sewer revenue program involved calculating user charges necessary to meet the District's Wastewater Enterprise Fund's fiscal years 2007 thru 2012 revenue requirements. The study also projects revenue requirements and the resulting sewer rates.

The District's revenue program was initially set in ordinance, later modified to meet changes by use of resolution to meet required fee schedules. As part of the SCWG Program regulations for treatment plants receiving federal and state monies, a revenue program is required to establish and ensure equity among user groups. The regulations require costs to be allocated to loading parameters (flow, biochemical oxygen demand, and suspended solids) and require that all users pay the same unit charges for operating costs. The methodology followed by the District conforms to SWRCB guidelines.

The District is planning for significant facilities upgrade, due in part to requirements from the Regional Water Quality Control Board for possible violations of its Waste Discharge Requirements. To fund these improvements, the District has applied to the SCWG Program and is seeking to issue Revenue Bonds from the private sector. The capital improvements will necessitate adjustments to the existing rate structure and the fee schedule. The District is also reviewing its connection fee schedule.

The purpose of this document is to describe the methodology and figures used in this report. The report involved obtaining financial and operating data for the sewage facilities, determining the costs that need to be recovered through user charges, allocating these costs to customer classes, and recommending revisions to the existing sewer rates.

This document consists of five chapters. Chapter 1 describes the process followed for the sewer rate study. Chapter 2 identifies the users of the system and the wastewater characteristics. Chapter 3 describes the revenue requirements of the system. Chapter 4 reviews the cost allocation procedures. Chapter 5 describes the user charges.

EXECUTIVE SUMMARY

The Byron Sanitary District facilities were originally constructed in 1958, with modest changes over the years, adding two additional evaporation/percolation ponds in 2000, and the addition of a land based dispersal system. Rates were kept to a minimum due to low overhead and operating costs. With changes in regulatory requirements, required improvements to operations, water quality monitoring and inflation issues, rates were adjusted and able to meet full operational and management requirements. The District has no debt, nor has borrowed any funds over the past 20 years for capital improvements.

Because of increased costs related to changes in regulatory requirements, the upgrade of the Wastewater Treatment Plant (WWTP), and the continued escalation of operating costs and a minor population influx, the District is projecting higher revenue requirements than in past years for the Wastewater Enterprise Fund.

This study proposes rate increases that bring the revenues more in line with projected costs. In anticipation of obtaining Revenue Bonds to pay for the improvements, the District has adopted a set of phased rate increases. The rate increase will support the upgrade of the existing treatment facility as needed to meet the regulatory requirements as well as support debt payment on an anticipated revenue bond.

A rate increase was adopted in FY 2005 and implemented in 2006-07 to recover ongoing increases in O&M expenses. An additional rate increase was approved in June 2007, to be implemented in two (2) phases, beginning in FY 2007-08 and FY 2009-10. This two phased rate increase is in part to meet debt requirements of a revenue bond issue, and the full amount is available for this purpose. The rate increases were approved consistent with requirements of California Proposition 218 requirements for public notice and rate payer participation.

As a result of the WWTP upgrade, the District responsibilities of staff will increase and the District will incur additional expenses for debt retirement, establishment of reserve accounts for capital improvements, debt reserve and O&M reserves. Electrical, water quality monitoring and reporting requirements are increasing, and will continue to increase over the foreseeable future. Table 1 shows the current and projected user charges over the next five years.

TABLE 1
CURRENT AND PROPOSED NEW RATES FOR YEARS 2007 - 2012

Average Rates for Fiscal Years 2006-07 through 2012			
Monthly Charges per EDU*			
	<u>Current 2007</u>	<u>2008</u>	<u>2009-2012</u>
Residential	\$61.54	\$61.54	\$87.32
Commercial	\$61.54	\$61.54	\$87.32

All customers are classified by equivalent dwelling units (EDU)

* DISTRICT Ordinance – Section 5, Fees, Rates, Charges, and Billing for Facilities and Services

Table 2 shows selected comparable wastewater user charges for communities similar in size, treatment levels and include debt in user charges.

**TABLE 2
SELECTED COMMUNITIES AND STATEWIDE SURVEY OF SIMILAR AGENCIES**

Classification of System and Service Area	Lowest	Highest	Average	Median
State wide - under 1,000 people		\$231.92	\$37.72	\$29.46
Advanced primary/or primary with some secondary level treatment	\$ 7.50	\$126.00	\$26.17	\$21.65
Contra Costa County - All agencies	\$14.17	\$ 92.08	\$31.47	\$27.89

Similar flow rates & treatment level with less than 1,000 people	MGD	Treatment Level	Debt Included (y/n)	Monthly User Charge
Amador Water Agency-Jackson Pines	0.086	1	n	\$71.75
Bear Valley Water District	0.075	1	n	\$56.00
Knights Landing Service District	0.067	1	n	\$27.00
Lake Canyon CSD 02	0.045	1	y	\$75.00
Madison CSD	0.060	1	n	\$29.00
Pauma Valley CSD	0.070	1	n	\$58.00
South Dos Palos CWD	0.060	1	y	\$32.45
Tulare County Res. Mgmt Agency - Delft	0.045	1	y	\$41.00
Byron Sanitary District 2006-07	0.068	1	n	\$45.00
Byron Sanitary District 2007-08	0.080	<u>1</u>	<u>y</u>	<u>\$61.54</u>
Average monthly user charge				\$49.67

CHAPTER 1

General Overview of the Sewer Rate Determination Process

1.1 Introduction

This chapter outlines the essential steps typically involved in generating a set of wastewater system user charges. The following basic steps used in this process include:

- Estimate annual wastewater system revenue requirements
- Determine revenue (costs) that must be recovered from user charges
- Allocate costs to loading parameters, which usually include flow, biochemical oxygen demand (BOD), and suspended solids (SS)
- Estimate annual wastewater system user or user class sewage loadings/flow rates
- Allocate user charge revenue requirements to system users or user classes

1.2 System Revenue Requirements

The first element of information required is an estimate of sewage revenue that must be generated to cover expected (budgeted) expenditures. Typically, these include operation and maintenance (O&M) expenditures for collection and treatment, general administration expenditures, debt service requirements and reserve accounts for O&M and capital improvements. System revenue requirements are summarized below:

	Collection and Treatment Expenditures
+	General Administration Costs
+	Reserve Accounts
+	Debt Service
	<hr/>
=	System Revenue Requirements (\$/year)

1.3 User Charge Revenues

The portion of annual system revenue requirements to be recovered through user charges depends on a sewage utility's particular policy. Regulations set by the EPA require that a wastewater system generate sufficient revenues from user charges to recover annual system O&M costs. In California, EPA regulations are enforced by the SWRCB. According to the SWRCB's Revenue Program Guidelines, Section 1-4 (A)(1), "the portion of annual revenue requirements which constitute the cost of O&M of the treatment works must be recovered from users by means of a user charge system based on actual use" (1995). The user charge system must result in the distribution of the O&M costs among all users in proportion to their loadings on the treatment works (Clean Water Act, Section 204 (b)(1)(A); 40 CFR 35.2140.

These regulations cover only the allocation of operating costs. The SWRCB “recommends” that capital costs be recovered in proportion to use. Capital costs can be recovered in whatever manner meets public approval. Public notice describing the impacts caused by the deviation from cost of service must be given. Other system revenues (e.g., system development charges) may be used to offset other portions of a system’s total revenue. The makeup of user charge revenue is shown below:

$$\begin{array}{r} \text{System Revenue Requirements} \\ - \quad \underline{\text{General Administration Costs}} \\ = \quad \text{User Charge Revenue Requirements (\$/year)} \end{array}$$

1.4 Allocation of Costs to Sewage Loading Parameters

The next step involves the separation of user charge revenue requirements into system costs that are directly related of the collection, transmission, and treatment of wastewater or those costs that are only indirectly related to wastewater treatment. The latter category typically includes items such as billing costs, auditing costs, and similar types of general administrative expenditures.

An analysis of the wastewater system’s treatment process and engineering judgment is used to allocate a portion of system costs to wastewater loading parameters. The result is an estimate of annual wastewater flow costs, BOD treatment costs, and suspended solids treatment costs.

1.5 Annual Wastewater System Loadings

An analysis of past water consumption records is often used in conjunction with estimates of the pollutant strengths of user (or user class) wastewater flows, can be the basis for estimates of annual system loadings. This method is unavailable to the District due to lack of a community drinking water system.

Flow is measured in millions of gallons. BOD and SS loadings are measured in pounds per million gallons. These estimates should correspond closely to wastewater loadings actually monitored at the system’s wastewater treatment works. Estimates of system flow and total pounds of BOD and SS to be treated can then be matched with cost allocations to determine the unit costs determined to be associated with treatment of SS is divided by estimated annual pounds of SS to provide a unit cost (dollars per pound) for SS treatment.

1.6 Distribution of Treatment Costs to System Users

Estimated annual system loadings are the sum of estimated user or user class loadings. The unit costs of treatment are multiplied by individual user or user class wastewater loadings to allocate a portion of the wastewater system’s revenue requirements to that user or user class.

An equitable distribution of wastewater system costs to each user or user class is achieved using this method. The cost distribution will reflect contributions to the total treatment works loadings.

1.7 Distribution of Other Costs

Before a user charge can be determined, general administration and overhead costs, which should be directly allocated by wastewater loadings, must be assigned to users. Several different methods can be employed. One method of allocating these costs to users (or user classes) is to compute a uniform annual charge per sewer connection. This method can be justified because billings and meter reading costs do not vary from customer to customer.

1.8 Determination of User Charge

A wastewater rate for a user or user class can be computed in one of several ways. Typical types of wastewater rates are a uniform user charge per connection per billing period, a user charge based upon metered water use, or a combination of flat and usage or flow-based rates. The flow-based rate assumes that metered water use is an accurate indicator of a users wastewater flows. An agency may make a wet-weather determination of metered water use, as representative of actual wastewater discharge from a customer.

CHAPTER 2

2.1 Identification and Characteristics of Users

Until the annual and daily wastewater loadings for each user or user class have been estimated or identified, user revenue requirements cannot be equitably allocated to wastewater system users on the basis of their wastewater loadings. Ideally, this requires an estimate of each user's flow rates and strength loadings.

A more practical approach is to establish groups of users (customer classes) having similar flows and wastewater characteristics. Each customer class can then be assigned a share of the system costs based on its proportional contribution to total wastewater system loadings.

For billing purposes, the District currently uses a system of identifying users with a measurement of Equivalent Dwelling Unit (EDU's). District uses a system of identifying users by a variety of types of services, 22 in total, ranging from residential, to commercial, to schools and churches.

All of the types of services are given an EDU level, assuming that sewage strength is typical of all classes, similar to residential sewage strength. Average measured flows show that for each EDU, the District receives 181 gallons per day per unit, and the assumption that wastewater averages 210 milligrams per liter (mg/l) for BOD and 250 mg/L for SS. This flow measurement is comparable to other sanitary Districts in Contra Costa County, and consistent with flow rates and composition of wastewater pursuant to the engineering text, "Small and Decentralized Wastewater Management Systems", Crites & Tchobanoglous, McGraw-Hill Series in Water Resources and Environmental Engineering, 1998.

2.2 Residential/Commercial Wastewater Loadings

The District identifies residential services in four classes of users, residential; multiple unit; mobile home; motel/hotel. There are currently 219 EDU's identified within these classes of users.

To determine classes of users for "commercial", the District assumes a similar sewage strength as residential, and thus divides the systems based on assumed flow rates, based on one (1) EDU = 181 GPD/unit. Typical classes of users include restaurants, bars, churches, schools, small business, service station's and a variety of other classes. The District currently has 84 users in the commercial class and 78 users in the school/boarding school classification.

Form 1: Includes a summary of users and wastewater characteristics identifies all accounts and average daily flows for the District customers.

FORM 1
SUMMARY OF USERS AND WASTEWATER FLOWS

Community: *Byron Sanitary District* Date: August, 2007

A	B	C	D	E
Number of Accounts	Users (User Group)	Actual Average Daily Flow (gallons)	Average Design Flow (gallons)	Annual Volume (gallons)
219	Residential	39,617	39,617	14,460,242
35	Schools	6,332	6,332	2,310,998
43	Boarding Schools	7,779	7,779	2,839,226
84	Commercial	15,196	15,196	5,546,394
381	Sub Totals	68,923	68,923	25,156,859
0	Infiltration/inflow*	0	0	-
61	Future Capacity**	11,035	11,035	4,027,739
442	Totals	79,958	79,958	29,184,597
	Total Permitted Capacity	80,000	80,000	29,200,000

* No measurable infiltration or inflow

** Future Capacity is subject to RWQCB permit approval

2.3 Future Loadings

The District anticipates moderate growth over the next 5–10 years. Planned expansion of the local public school, estimated at an additional 15-20 EDU's may be accommodated within the current capacity. The District is undertaking a significant rehabilitation, with a moderate expansion of 15-20% over existing permitted levels to allow for a capacity cushion for unforeseeable new connections. The actual permitted capacity will be determined by the RWQCB with the submittal of the Report of Waste Discharge. With this rehabilitation project, the District should be able to service foreseeable service connections over the next 5-10 years.

A proposed expansion of the Bay Area Rapid Transit System to a station in Byron would require an analysis to verify capacity. Another planned growth, located outside the District boundaries, includes expansion of the Contra Costa County local airport, with commercial/industrial customers. As this is outside the sphere of influence and District boundaries, an analysis would be required as well as application to LAFCO for either expansion of District service area. These two planned developments would require new funding of any needed system capacity expansion.

CHAPTER 3

3.1 *System Costs and Revenue Requirements*

Before rates and charges for wastewater service can be established, annual revenue requirements must be determined. The annual revenues of a wastewater treatment system must be able to recover the costs of operation, maintenance expenses, and system replacements. Replacements should include expenditures for obtaining and installing equipment and accessories necessary to maintain capacity and performance during the service life of the treatment works. Annual revenue requirements normally also include debt service, reserve for capital improvements and an O&M reserve.

Form 2: Annual OM&R and Non Operating Costs, includes historical expenditures, the 2006-2007 budget, and the approved budget for FY 2008,

FORM 2
ANNUAL OM&R AND NON-OPERATING COSTS

BUDGET ITEM DESCRIPTION	2006/2007 Fiscal ACTUAL BUDGET	2007/2008 APPROVED BUDGET
OPERATING INCOME		
Sewer Service Charge (Cty. Tax Rolls)	227,453	289,000
Inspection Fee	200	500
Permit Issuance Fee	50	200
Sewer Conn/Mo. Serv Fee (Permits)		8,500
Franchise Fees	2,448	4,000
TOTAL OPERATING INCOME	\$ 230,151	\$ 302,200
NON-OPERATING INCOME		
Bank Interest (LAIF)	9,709	9,900
Bank Interest-Other	3,185	3,400
Plant Capacity Fees		8,500
TLC/Sewer Conn Fee/Byron School	7,350	7,350
Miscellaneous (SWRCB Reimbursement)	59,978	21,000
TOTAL NON-OP INCOME	\$ 80,221	\$ 50,150
TOTAL OP & NON-OP INCOME	\$ 310,372	\$ 352,350

FORM 2 continued...
ANNUAL OM&R AND NON-OPERATING COSTS

BUDGET ITEM DESCRIPTION	2006/2007 Income/Expense	2007/2008 FISCAL YEAR APPROVED BUDGET
OPERATING EXPENSE		
MAINTENANCE EXPENSE:		
Equipment Purchases		5,000
O & M Maintenance	539	1,500
Meeting Hall/Annual Rent	0	
Misc. Expense	38	100
Permits & Fees	7,107	8,000
Pump Maintenance Misc.		1,500
Utilities		
PG&E-Facility	883	1,500
PG&E-Street Lighting	199	220
TOTAL MAINTENANCE EXPENSE	\$ 8,767	\$ 17,120
ADMINISTRATIVE EXPENSE:		
Annual Dues/Association Etc.	598	600
Education	538	500
Bank Charges	135	150
CC County Charges	1,116	1,100
Meetings (Director/Other)	4,425	5,500
Newspapers (Legal Notices)	70	150
Office Supplies	1,688	1,700
Postage	491	500
Secretary	17,500	17,500
Miscellaneous	595	700
Telephones Svcs.	849	900
TOTAL ADMINISTRATIVE EXPENSE	\$ 28,006	\$ 29,300
PROFESSIONAL SERVICES		
Audit (Accounting Services)	4,200	4,500
Legal Fee	6,558	20,000
Consulting Services	0	1,600
Analytical Services - Lab Testing	17,307	20,000
Engineering	126,669	180,000

TOTAL PROFESSIONAL SERVICES	\$	154,733	\$	226,100
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FORM 2 continued...
ANNUAL OM&R AND NON-OPERATING COSTS

BUDGET ITEM DESCRIPTION	2006/2007 Income/Expense	2007/2008 FISCAL YEAR APPROVED BUDGET
INSURANCE		
CSRMA- Annual Insurance Premium	3,332	4,200
TOTAL INSURANCE	\$ 3,332	\$ 4,200
CONTRACTOR SERVICES		
Collection System	950	1,000
General Manager	30,000	30,000
Ground Maint. (Spray/Weed Abatement)	600	1,500
Plant Operator	12,000	12,000
Pond Levee Maint&Repair	3	1,100
Pump Maintenance-Misc.	616	1,500
Sludge-Dumpster Removal	0	28,500
TOTAL CONTRACT SERVICES	\$ 44,169	\$ 75,600
TOTAL OPERATING & NON-OP EXPENSES	\$ 239,006	\$ 352,320
NET INCOME	\$ 71,366	\$ 30

3.2 *Operation and Maintenance Costs*

The District historically contracted O&M activities to outside consultants. Over the past two (2) years, the District has maintained as staff a General Manager, District Secretary and a certified operator, on contract. In addition, the District has improved its resources and the ability to implement operation and maintenance tasks to fulfill permit requirements and good operational practices. The District operating budget for FY year 2006-07 closed at \$239,006, which includes \$126,669 for engineering services, primarily to continue planning and design work on the rehabilitation project. Fiscal Year budget for 2007-08 includes \$180,000 for planning and design work, and an increase for legal services to address the project. Of the line items in the budget (Form 2), approximately \$157,320 (which includes a nonrecurring fee of \$28,500 for Sludge Removal) are direct operating expenses and \$195,000 is allocated towards the project expenses.

Operating costs are offset by investment earnings, miscellaneous revenues, and other financing sources. These additional funds help to determine the amount of costs to be recovered from user charges. While not identified in the FY 2007-08 budget under non-operating income, the District does anticipate some reimbursement income from the California State Water Resource Control Board, Small Systems Grant program which total an amount equal to approximately \$1.9 million for the capital improvement project. This amount is not shown in the budget because at the time of budget approval, the District had not received a final approval of the grant amount.

3.3 Capital Improvements

The District is in the process of developing a complete facilities upgrade. Along with the system upgrades, a capital improvement program is being established. FY 2006-07 has allocated approximately 7.5% of the operating budget into a CIP reserve account. Future budgets are scheduled to allocate funds to a CIP reserve account, based on a short term and long term Capital Improvement Plan for a 15 - 20 year period. The District has identified funds for the CIP project as line items for engineering, \$180,000 and approximately \$15,000 in legal expenses directly related to the project.

New capital development fees are collected when new users connect to the system. This has been minimal over the past several years, and the rate of growth is expected to be no greater than 2.4% year, on average over a 20 year projected period.

3.4 Debt Service

The District does not currently have any debt, but anticipates establishing debt to complete the facility upgrades. With this new debt, the District has authorized an increase in sewer user rates to service both the bond payment and a debt reserve. Based on existing allocation of EDU customer levels, for FY year 2007-08 and 2008-09 the District has implemented an increase of \$75,422.40 in annual fees eligible for debt service use. An additional \$117,556.80 in annual fees for FY 2009-10 has also been approved, for additional revenue available for debt service of \$192,979.20 in FY 2009-10 and later. This is subject to change with the completion of the capital project, and the receipt of a new permit for wastewater discharge from the RWQCB with a new capacity allocation.

3.5 Depreciation/Capital Reserves

The District does not currently fund depreciation and had set aside funds for capital reserves in FY 2006-07. Like the majority of municipalities, the District uses a cash basis (as opposed to a utility basis) for determining wastewater user charges. Under the cash basis, capital costs include debt service, any projects funded on a pay-as-you-go basis, and any contribution to capital reserves and O&M reserves. Depreciation is not considered in determining the rates. Under the utility basis, capital costs consist of depreciation and a return on investment on the rate base. This is common for electric utilities, and not for sanitary Districts.

3.6 Revenue Requirements

The budget for FY 2007-08 anticipates funding some of the project expenses directly from the budget and existing reserves, such as engineering and legal services. The current budget requirements for O&M are approximately \$157,320 (which includes a nonrecurring fee of \$28,500 for Sludge Removal). The District anticipates a debt requirement, debt reserve and related expenses to begin in the late FY 2007-08. The allocation to engineering and legal services are eligible for reimbursement through the SWRCB grant program, and when this occurs, the funds can be redirected to debt reserves, including early retirement of debt, a CIP reserve, and as needed for project expenses.

CHAPTER 4

4.1 Cost Allocations

The Byron Sanitary District's wastewater treatment facilities were designed to serve a residential population with just a few commercial users. This is still true today, and projected growth reflects projected users discharging residential strength sewage, therefore the current practice of allocating costs based on equivalent dwelling unit is considered fair and equitable to the members of the District.

Rate equity is achieved when the annual revenue requirements have been allocated to users in proportion to the costs of treatment and conveyance of individual users.

Costs are incurred in meeting two types of expenses: capital expenses (such as debt service and capital reserves) and O&M costs. Both costs must be allocated to the various customers.

Allocation of both capital and O&M expenses involves a two-step process. The first step is to use wastewater characteristics to identify and allocate costs for collection, treatment, and disposal. The wastewater characteristics (or treatment parameters) are flow, BOD, and SS. The unit costs of treatment are then determined for each of the three sewage loadings and infiltration/inflow (I/I). The second step is to multiply customer's loadings by the calculated unit costs to allocate user charge revenues by customer or customer class.

Operating costs are allocated to users according to annual usage of the wastewater facilities. Capital costs are allocated to users according to the capacity reserved in the plant for that particular user or user group. In the case of Byron Sanitary District, all capital costs are spread equitably among all user groups based on allocated EDU's.

4.2 Capital Cost Allocation

The wastewater facilities are undergoing a significant reconstruction. Final design plans are scheduled for completion sometime in this 2007 -08 fiscal year. During this time, the allocation of capital costs will be evaluated in proportion to the various parameters. The useful lives and allocation parameter percentages will follow SWRCB guidelines. The basic parameters to be used will be I/I, flow, BOD and SS.

4.3 Operation and Maintenance Cost Allocation

The SWRCB allows three ways to allocate treatment operating costs to loading parameters: allocating costs equally among parameters (one-third flow, one-third BOD, one-third SS), allocating costs based on actual treatment process, or allocating costs based on the capital cost allocations. The District will be undertaking a review of its current practice of allocating costs evenly across the three parameters of flow, BOD and SS. Collection system and treatment facilities are allocated together. Due to low operating costs and time committed to each parameter, the District has historically allocated all costs based on flow, i.e.: EDU allocation to each customer.

Administrative costs are primarily customer-related and are allocated by the number of customers, i.e.: EDU allocation.

4.4 Unit Costs

The District does not currently allocate costs based on parameter quantities to obtain unit costs. Debt service, O&M costs, public works administration costs are allocated to customer class, on a flat charge per connection and EDU allocation.

4.5 Revenue Requirements

Revenue requirements are allocated to user classes by multiplying the unit costs (flows only) to the customer class. At this time, Form 3, (below) identifies user groups into unit costs, based on a per gallon costs. Projected for FY 2008, the per unit costs to collect, treat and dispose of wastewater is based on a total estimated annual flow of 25,156,859 gallons, with revenue needs of \$352,320 allocated by a total of 381 EDU's, resulting in a cost of \$0.014/gallon.

FORM 3
Summary of Capital Replacement Fund Costs
August-2007

Community: Byron Sanitary District					
			Annual Revenue Needed FY 2008		\$ 352,320
			Annual Volume in Gallons		25,156,859
			Unit Cost (\$/gallons) = per gallon		\$ 0.0140
a	b	c	d	e	
Number of Accounts	Users (User Group)	Annual Volume (Gallons)	Annual Cost (volume x unit cost)	Monthly Cost (annual cost / 12)	
219	Residential	14,460,242	\$ 202,515	\$ 16,876	
35	Schools	2,310,998	\$ 32,365	\$ 2,697	
43	Boarding Schools	2,839,226	\$ 39,763	\$ 3,314	
84	Commercial	5,546,394	\$ 77,677	\$ 6,473	
381	Sub Totals	25,156,859	\$ 352,320	\$ 29,360	
0	Infiltration/inflow*	-			
381	TOTALS**	25,156,859	\$ 352,320	\$ 29,360	

* No measurable infiltration/inflow , either wet weather or dry season
 ** Non-operating revenue excluded

CHAPTER 5

5.1 User Charges

The user charges for the District are based on estimated flows, allocated on a unit basis, using an Equivalent

Dwelling Unit as a base line. Each EDU is charged a flat rate, per month based on this allocation. The current charge, \$61.54/EDU/Month was approved in FY 2007 and implemented for FY 2007-08 and 2008-09. A second phase rate increase was approved for an additional \$25.78, for a total of \$87.32, to be implemented in FY 2009-10, or as needed. The rate increases were approved pursuant to State regulations for compliance with Proposition 218.



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