

Impact on Budget:

The 2016-17 Biennial Budget assumed that a portion of this bonding transaction (\$30 million) would occur in late 2015 and a second issue would occur later. The actual bond sale is now anticipated to be a single \$50 million issue completed in January or February 2016. There are two relatively minor impacts on the 2016-2017 budget from this transaction. It does not make sense to change the 2016-2017 budget at this late point in the budget preparation cycle for these small amounts.

- 1) The debt service assumptions (principal and interest payments) in the budget reflect the smaller \$30 million rather than \$50 million. The annual difference is in interest expense relatively small (less than \$1 million per year). These deviations will be addressed in the quarterly financial reporting and by using District's budget management tools (e.g., line item waiver, additional spending authority) if the need arises.
- 2) Under GASB accounting rules, bond issuance transaction costs must be recorded as period expense – earlier rules allowed these costs to be amortized. The 2014-2015 budget was prepared before this rule was changed, so it did not include any period expense for bond issuance. The Board granted \$550,000 in additional spending authority for 2015 related to the \$30 million issue anticipated at that time. Since the bond sale will now occur in 2016, that spending authority will remain unused. However, there are no issuance costs included in the 2016 budget. Consequently, today's action will include a request for \$760,000 in additional spending authority in 2016 for a \$50 million issue.

General Fund Operating Budget			
Budget Year	Funds Requested	Funds Included (Over) / Under in the Budget	Funds Included (Over) / Under Budget
2016	\$760,000	\$0	(\$760,000)

Additional spending authority requested: \$760,000

Impact on Reserves: The bond financing is expected to reimburse approximately \$23 million of transmission project expenditures to the Strategic Reserves shortly after the bonds are issued. This is the amount that has been expended for these projects from the Strategic Reserves since January 2014, the effective date of the Reimbursement Resolution related to this bond financing.

Impact on Rates: None. Published rates anticipate that this bond financing will be completed. The bond financing will help prevent an increase in rates beyond the published rates associated with funding the transmission projects.

LINKAGE TO STRATEGIC PLAN, POLICY, STATUTE OR GUIDING PRINCIPLE:

CAWCD Board of Directors 2010 Strategic Plan:

- Project Reliability: Effectively Operate and Maintain CAP Assets
- Finance: Financing Major Expenditures

PREVIOUS BOARD ACTION/ACTIVITY:

February 7, 2013	Board approved the Palo Verde-Morgan transmission project
May 2, 2013	Board approved the ED2-Saguaro Rebuild transmission project
November 7, 2013	Board approved the CAP 2014-2015 Biennial Budget
February 6, 2014	Board received a report and presentation on the potential to issue bonds for CAP capital projects
March 6, 2014	Board adopted reimbursement resolution for an anticipated revenue bond financing for CAP transmission capital projects
April 17, 2014	FAP Committee was updated on status of bonding
June 5, 2014	Board approved the Final 2015-2020 Water Rate Schedule
January 22, 2015	FAP Committee was updated on status of bonding
February 5, 2015	Board approved the Hassayampa Tap transmission project
May 21, 2015	FAP Committee recommended that the Board Approve 2015 Additional Spending Authority in the Amount of \$550,000 for Bond Issuance Costs
June 4, 2015	Board approved 2015 Additional Spending Authority in the Amount of \$550,000 for Bond Issuance Costs
September 3, 2015	Board reviewed transmission project status
October 15, 2015	FAP recommends approval of the transmission bonds

ISSUE SUMMARY/DESCRIPTION:

The CAWCD Board has approved three major transmission capital improvement projects with a total capital cost of over \$50 million. Two of these projects, the APS Palo Verde to Morgan project and the Hassayampa Tap project are related to closing a physical gap in the CAP transmission system and providing an interconnect to the Palo Verde electricity market trading hub, both of which will greatly improve the reliability of the transmission system and help to keep costs as low as possible. The third project, the Electrical District (ED) 2 to Saguaro transmission line rebuild, is also a reliability improvement and will replace the aging, failure-prone wooden transmission poles with steel poles.

Since each of these projects was originally approved, the cost estimates for each project have been revised, but the aggregate total remains within approved levels. A summary of the projects appears below:

<u>Project</u>	<u>Board Approval</u>	<u>Approval Amount (\$M)</u>	<u>Current Estimate (\$M)</u>
PV-Morgan	February 7, 2013	\$40.5	\$29.1
ED2-Saguaro	May 2, 2013	\$11.8	\$11.0
Hassayampa Tap	February 5, 2015	<u>\$14.1</u>	<u>\$16.0</u>
		\$66.4	\$56.1

As outlined above the rationale for the bonding is that the significant amount of expenditures related to these projects takes place over a relatively short period of time. Normally, capital expenditures are funded through the "Big R" rate component of the Fixed OM&R Water Delivery Rate paid by customers. Because capital projects are "lumpy," the Big R rate component is smoothed as part of CAWCD's forward published rate process to avoid rate shock and provide predictability to customers. However, over \$50 million in capital expenditures in 5-6 years for these projects would require either a significant increase in Big R or a significant reduction in CAWCD's Strategic Reserves.

As a municipal corporation under Arizona Revised Statutes, CAWCD has access to the municipal bond market and is authorized to issue revenue bonds. These transmission projects are an ideal fit for revenue bonding.

Over the past two years, CAWCD staff has been working with expert advisors Piper Jaffray and Co. (Financial Advisor) and Gust Rosenfeld P.L.C. (Bond Counsel) to define an appropriate financing structure. These are the same advisors that have worked with CAWCD on previous bond issues, the last of which was in 2001.

Originally, the thought was that the financing could be split into two approximately equal issues a couple of years apart, e.g., a ~\$25 million issue in 2015 or 2016 and another one of about the same size in 2017 or 2018. However, as the likelihood increases of interest rates being raised by the Federal Reserve in the next few months, it makes more sense to combine the funding in a single issue, as the impact of a higher interest rate on a later issue eliminates any advantage of delaying part of the financing.

In early 2014, the Board approved a reimbursement resolution that will allow bond proceeds from the financing that ultimately occurs to be reimbursed to CAWCD for the amounts that have been spent out of Strategic Reserves for these projects.

The recommended financing is a single \$50 million issue of 20-year revenue bonds, callable after 10 years, with flat amortization. While discussions with the rating agencies are ongoing, and the final credit ratings will not be obtained until later in the year, the expectation is that CAWCD will receive a rating that will conservatively allow a coupon rate of 5% or less, and the financial projections accompanying this brief are based on this assumption. The borrowing will include sufficient funds to establish the required reserves and pay transaction costs. Financing assumptions will be more fully explained during the Board presentation.

Financing documentation has been prepared by staff and the financing advisors. Drafts of the key documents are included in the packet accompanying this brief.

The document authorizing the bond sale and finalization and approval of necessary documentation is **Ordinance 2015-01**, a draft of which is included in the packet accompanying this brief.

Various vendors and service firms are required for the financing in addition to the financial advisor and bond counsel. Firms have been selected based on current or previous business relationships with CAWCD and the recommendations of the financial

advisor and bond counsel. All of the firms selected are pre-qualified under State of Arizona contracts. None of the individual service provider contracts are expected to exceed the Board approval threshold of \$250,000. All of the service provider contracts will be managed within the additional \$760,000 spending authority requested for 2016. A list of the service providers and anticipated contract amounts is included in the attached presentation and will more fully be explained in the briefing.

The packet accompanying this brief includes:

- PowerPoint presentation
- Pro-forma example financing schedules
- Financing timetable
- Draft Ordinance
- Draft Master Indenture of Trust
- Draft First Supplemental Indenture of Trust
- Draft Preliminary Official Statement

SUGGESTED MOTION:

I move that the Board of Directors:

- (i) Approve Ordinance No. 2015-01 authorizing and approving the issuance of not to exceed \$50,000,000 principal amount of CAWCD Water Delivery O&M Revenue Bonds; authorizing execution and delivery of a Master Indenture of Trust, First Supplemental Indenture of Trust, Preliminary Official Statement and Official Statement substantially in the forms presented; and authorizing certain other matters related thereto; and
- (ii) Approve additional spending authority for 2016 in the amount of \$760,000 for transaction expenses.



CAP
CENTRAL ARIZONA PROJECT
YOUR WATER. YOUR FUTURE.

Authorizing Ordinance
Water Delivery O&M Revenue Bonds

CAWCD Board Meeting
November 5, 2015

Transmission Project Overview

- APS Palo Verde – Morgan Transmission Line
 - Approved by the Board February 7, 2013 (\$40.5 M)
 - Closes a gap in the CAP transmission system and provides interconnection between the Palo Verde hub and the Navajo Southern transmission system
- Electrical District (ED) 2 – Saguaro Rebuild
 - Approved by the Board May 2, 2013 (\$11.8 M)
 - Rebuild aging and unreliable transmission line that serves Brady, Picacho and Red Rock Pumping Plants
- Hassayampa Tap – Sun Valley Interconnect
 - Approved by the Board February 5, 2015 (\$14.1 M)
 - Connects the PV-Morgan line to the CAP transmission system between the Hassayampa Pumping Plant and the APS Sun Valley substation

11/5/2015

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Transmission Project Overview

- Spending forecasts among the projects has shifted, but the total is approximately \$8-10 M less than approved projects in aggregate
 - \$56.1 million vs. Authorized Project Total \$66.4 M
 - Hassayampa Tap Project estimate under revision
- Over \$50 million in spending in 5-6 years for these three projects
 - Significant impacts on CAP reserves and "Big R" Water Delivery Rate Component (pay-as-you-go)
 - \$6-7/acre-foot per year for 5-6 years in addition to forward rate for "Big R" of \$24/acre-foot
- Revenue Bonding evaluated as an alternative to reduce cash flow and spread over a longer period

11/5/2015

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Financing Assumptions

- Single \$50 million bond issue
- 20 year maturity; callable after 10 years
- Level debt service amortization
- Semi-annual interest payments on July 1 & January 1; principal paid on January 1 of each year
- Expected rating of AA- or better
- Anticipated coupon interest rates of 2.5 – 5.0%
- Net interest cost expected to be less than 4.00%
- Bond premium of ~11% (\$5.5 million)
- Required reserve funds and transaction costs included in borrowing (approx. \$4.7 million)

Please refer to the financing summary example in the packet

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Financing Assumptions

- Estimated cost of issuance

Bond counsel	\$ 165,000
Financial advisor	162,500
Feasibility report	50,000
Depository trustee, registrar	4,000
Official statement prep	12,000
Rating agencies (3)	135,000
Underwriter's counsel	45,000
Miscellaneous	<u>1,500</u>
	\$ 575,000
Underwriter's discount	<u>184,500</u>
	<u>\$ 759,500</u>

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Key Documents – Included in Packet

- Ordinance – Approval and Authorization to proceed with the bond sale
 - Preliminary Official Statement*
 - Master Indenture of Trust*
 - First Supplemental Indenture of Trust*
- * The Ordinance will authorize the Board President and the General Manager to execute final versions

11/5/2015

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Service Providers

- Financial Advisor – Piper Jaffray & Co.*
 - Bond Counsel – Gust Rosenfeld P.L.C.*
 - Lead Underwriter – Bank of America Merrill Lynch*
 - Co-Underwriter – RBC Capital Markets, LLC*
 - Underwriter’s Counsel – Greenburg Traurig, LLP*
 - Indenture Trustee – National Bank of Arizona (Zions Bank)*
 - All service providers were selected based on current/ prior business relationships and experience with CAWCD
- * All service providers are pre-qualified under State of Arizona contracts

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Schedule – Key Dates

- | | |
|------------------------------------|------------------------------|
| • November 5 | CAP Board Approval |
| • Mid-December | Rating |
| • Mid-January | Bond Pricing |
| • Late January | Sign Bond Purchase Agreement |
| • Late January -
Early February | Closing |

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[Questions/Comments](#)

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Water Delivery O&M Revenue Bonds, Series 2016
Example - 7/1/17 First Principal Payment

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SOURCES AND USES OF FUNDS

Central Arizona Water Conservation District
Water Delivery O&M Revenue Bonds, Series 2016
Example - 7/1/17 First Principal Payment

Dated Date 02/03/2016
Delivery Date 02/03/2016

Sources:

Bond Proceeds:	
Par Amount	49,200,000.00
Premium	5,471,266.45
	54,671,266.45

Uses:

Project Fund Deposits:	
Project Fund	50,000,000.00
Other Fund Deposits:	
Debt Service Reserve Fund	3,911,000.00
Delivery Date Expenses:	
Cost of Issuance	575,000.00
Underwriter's Discount	184,500.00
	759,500.00
Other Uses of Funds:	
Deposit to Debt Service Fund	766.45
	54,671,266.45

BOND PRICING

Central Arizona Water Conservation District Water Delivery O&M Revenue Bonds, Series 2016 Example - 7/1/17 First Principal Payment

Bond Component	Maturity Date	Amount	Rate	Yield	Price	Yield to Maturity	Call Date	Call Price	Call Date for Arb Yield	Call Price for Arb Yield	Premium (-Discount)
Serial Bonds:											
	01/01/2017	1,510,000	2.500%	0.650%	101.677						25,322.70
	01/01/2018	1,695,000	2.500%	1.050%	102.735						46,358.25
	01/01/2019	1,735,000	3.000%	1.450%	104.401						76,357.35
	01/01/2020	1,790,000	3.000%	1.700%	104.898						87,674.20
	01/01/2021	1,845,000	4.000%	1.950%	109.554						176,271.30
	01/01/2022	1,915,000	4.000%	2.200%	109.924						190,044.60
	01/01/2023	1,995,000	4.000%	2.450%	109.797						195,450.15
	01/01/2024	2,075,000	5.000%	2.650%	116.670						345,902.50
	01/01/2025	2,175,000	5.000%	2.850%	116.811						365,639.25
	01/01/2026	2,285,000	5.000%	2.950%	117.503						399,943.55
	01/01/2027	2,400,000	5.000%	3.100%	116.103	C 3.236%	01/01/2026	100.000	01/01/2026	100.000	386,472.00
	01/01/2028	2,520,000	5.000%	3.250%	114.724	C 3.479%	01/01/2026	100.000	01/01/2026	100.000	371,044.80
	01/01/2029	2,645,000	5.000%	3.350%	113.815	C 3.648%	01/01/2026	100.000	01/01/2026	100.000	365,406.75
	01/01/2030	2,780,000	5.000%	3.450%	112.914	C 3.796%	01/01/2026	100.000	01/01/2026	100.000	359,009.20
	01/01/2031	2,915,000	5.000%	3.550%	112.023	C 3.927%	01/01/2026	100.000	01/01/2026	100.000	350,470.45
	01/01/2032	3,065,000	5.000%	3.650%	111.139	C 4.044%	01/01/2026	100.000	01/01/2026	100.000	341,410.35
	01/01/2033	3,215,000	5.000%	3.700%	110.701	C 4.115%	01/01/2026	100.000	01/01/2026	100.000	344,037.15
	01/01/2034	3,375,000	5.000%	3.750%	110.264	C 4.180%	01/01/2026	100.000	01/01/2026	100.000	346,410.00
	01/01/2035	3,545,000	5.000%	3.800%	109.830	C 4.239%	01/01/2026	100.000	01/01/2026	100.000	348,473.50
	01/01/2036	3,720,000	5.000%	3.850%	109.397	C 4.293%	01/01/2026	100.000	01/01/2026	100.000	349,568.40
											5,471,266.45

Dated Date	02/03/2016	
Delivery Date	02/03/2016	
First Coupon	07/01/2016	
Par Amount	49,200,000.00	
Premium	5,471,266.45	
Production	54,671,266.45	111.120460%
Underwriter's Discount	(184,500.00)	(0.375000%)
Purchase Price	54,486,766.45	110.745460%
Accrued Interest		
Net Proceeds	54,486,766.45	

BOND DEBT SERVICE

Central Arizona Water Conservation District
 Water Delivery O&M Revenue Bonds, Series 2016
 Example - 7/1/17 First Principal Payment

Dated Date 02/03/2016
 Delivery Date 02/03/2016

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
07/01/2016			925,750.28	925,750.28	
01/01/2017	1,510,000	2.500%	1,125,912.50	2,635,912.50	3,561,662.78
07/01/2017			1,107,037.50	1,107,037.50	
01/01/2018	1,695,000	2.500%	1,107,037.50	2,802,037.50	3,909,075.00
07/01/2018			1,085,850.00	1,085,850.00	
01/01/2019	1,735,000	3.000%	1,085,850.00	2,820,850.00	3,906,700.00
07/01/2019			1,059,825.00	1,059,825.00	
01/01/2020	1,790,000	3.000%	1,059,825.00	2,849,825.00	3,909,650.00
07/01/2020			1,032,975.00	1,032,975.00	
01/01/2021	1,845,000	4.000%	1,032,975.00	2,877,975.00	3,910,950.00
07/01/2021			996,075.00	996,075.00	
01/01/2022	1,915,000	4.000%	996,075.00	2,911,075.00	3,907,150.00
07/01/2022			957,775.00	957,775.00	
01/01/2023	1,995,000	4.000%	957,775.00	2,952,775.00	3,910,550.00
07/01/2023			917,875.00	917,875.00	
01/01/2024	2,075,000	5.000%	917,875.00	2,992,875.00	3,910,750.00
07/01/2024			866,000.00	866,000.00	
01/01/2025	2,175,000	5.000%	866,000.00	3,041,000.00	3,907,000.00
07/01/2025			811,625.00	811,625.00	
01/01/2026	2,285,000	5.000%	811,625.00	3,096,625.00	3,908,250.00
07/01/2026			754,500.00	754,500.00	
01/01/2027	2,400,000	5.000%	754,500.00	3,154,500.00	3,909,000.00
07/01/2027			694,500.00	694,500.00	
01/01/2028	2,520,000	5.000%	694,500.00	3,214,500.00	3,909,000.00
07/01/2028			631,500.00	631,500.00	
01/01/2029	2,645,000	5.000%	631,500.00	3,276,500.00	3,908,000.00
07/01/2029			565,375.00	565,375.00	
01/01/2030	2,780,000	5.000%	565,375.00	3,345,375.00	3,910,750.00
07/01/2030			495,875.00	495,875.00	
01/01/2031	2,915,000	5.000%	495,875.00	3,410,875.00	3,906,750.00
07/01/2031			423,000.00	423,000.00	
01/01/2032	3,065,000	5.000%	423,000.00	3,488,000.00	3,911,000.00
07/01/2032			346,375.00	346,375.00	
01/01/2033	3,215,000	5.000%	346,375.00	3,561,375.00	3,907,750.00
07/01/2033			266,000.00	266,000.00	
01/01/2034	3,375,000	5.000%	266,000.00	3,641,000.00	3,907,000.00
07/01/2034			181,625.00	181,625.00	
01/01/2035	3,545,000	5.000%	181,625.00	3,726,625.00	3,908,250.00
07/01/2035			93,000.00	93,000.00	
01/01/2036	3,720,000	5.000%	93,000.00	3,813,000.00	3,906,000.00
	49,200,000		28,625,237.78	77,825,237.78	77,825,237.78

BOND SUMMARY STATISTICS

Central Arizona Water Conservation District Water Delivery O&M Revenue Bonds, Series 2016 Example - 7/1/17 First Principal Payment

Dated Date	02/03/2016
Delivery Date	02/03/2016
Last Maturity	01/01/2036
Arbitrage Yield	3.256479%
True Interest Cost (TIC)	3.689212%
Net Interest Cost (NIC)	3.979505%
All-In TIC	3.807594%
Average Coupon	4.880966%
Average Life (years)	11.920
Weighted Average Maturity (years)	11.981
Duration of Issue (years)	9.149
Par Amount	49,200,000.00
Bond Proceeds	54,671,266.45
Total Interest	28,625,237.78
Net Interest	23,338,471.33
Total Debt Service	77,825,237.78
Maximum Annual Debt Service	3,911,000.00
Average Annual Debt Service	3,908,633.59
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	3.750000
Total Underwriter's Discount	3.750000
Bid Price	110.745460

Bond Component	Par Value	Price	Average Coupon	Average Life	PV of 1 bp change
Serial Bonds	49,200,000.00	111.120	4.881%	11.920	37,373.65
	49,200,000.00			11.920	37,373.65

	TIC	All-In TIC	Arbitrage Yield
Par Value	49,200,000.00	49,200,000.00	49,200,000.00
+ Accrued Interest			
+ Premium (Discount)	5,471,266.45	5,471,266.45	5,471,266.45
- Underwriter's Discount	(184,500.00)	(184,500.00)	
- Cost of Issuance Expense		(575,000.00)	
- Other Amounts			
Target Value	54,486,766.45	53,911,766.45	54,671,266.45
Target Date	02/03/2016	02/03/2016	02/03/2016
Yield	3.689212%	3.807594%	3.256479%

Agenda Number 6.b.i.
Attachment 3.

October 5, 2015

\$50,000,000*
Central Arizona Water Conservation District
Water Delivery O&M Revenue Bonds, Series 2016

FINANCING TIMETABLE

September 2015							October 2015							November 2015							December 2015							January 2016						
Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa
		1	2	3	4	5					1	2	3	1	2	3	4	5	6	7			1	2	3	4	5						1	2
6	7	8	9	10	11	12	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	18	19	20	21	22	23	24	22	23	24	25	26	27	28	20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30				25	26	27	28	29	30	31	29	30						27	28	29	30	31			24	25	26	27	28	29	30
																												31						

LEGEND

CAWCD = Central Arizona Water Conservation District	TST = Trustee
GR = Gust Rosenfeld	UN = Underwriters
PJ = Piper Jaffray & Co.	UC = Underwriters' Counsel
GRG = Galardi Rothstein Group	

Date	Completed	Event	Responsibility
Tuesday, August 4	✓	Distribute Draft Bond Documents and Preliminary Official Statement (POS) to Working Group	GR
Week of August 10	✓	Meeting at CAWCD to review Bond Documents and Draft POS	CAWCD, PJ, GR
Tuesday, August 18	✓	Comments due on Bond Documents and POS	CAWCD, GR, PJ
Thursday, August 20	✓	Distribute Draft POS and Bond Documents to Working Group	GR
Thursday, August 27	✓	Comments due on POS and Bond Documents	CAWCD, GR, PJ
Tuesday, September 22	✓	Select Underwriting Syndicate	CAWCD
Monday, September 28	✓	Distribute Draft POS and Bond Documents to Financing Team	GR
Monday, October 5		Comments due on Bond Documents and POS	All
Tuesday, October 6		Distribute Draft POS and Bond Documents to Financing Team and Finance, Audit & Power Committee	GR, CAWCD
Thursday, October 15		Presentation to the Finance, Audit & Power Committee	CAWCD
Monday, October 19		Comments due on Bond Documents and POS	All
Wednesday, October 21		Distribute Bond Documents and draft POS to CAWCD Board and Finance Team	GR, PJ, CAWCD
Week of October 26th		Meeting to Review Rating Presentation and Feasibility Study	CAWCD, PJ

* Preliminary - subject to change.

\$50,000,000*
Central Arizona Water Conservation District
Water Delivery O&M Revenue Bonds, Series 2016

FINANCING TIMETABLE

September 2015							October 2015							November 2015							December 2015							January 2016						
Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa	Su	M	Tu	W	Th	F	Sa
		1	2	3	4	5					1	2	3	1	2	3	4	5	6	7			1	2	3	4	5						1	2
6	7	8	9	10	11	12	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	18	19	20	21	22	23	24	22	23	24	25	26	27	28	20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30				25	26	27	28	29	30	31	29	30						27	28	29	30	31			24	25	26	27	28	29	30
																												31						

Date	Completed	Event	Responsibility
Monday, November 2		Comments due on POS	All
Wednesday, November 4		Distribute Draft POS to Finance Team	GR
Thursday, November 5		CAWCD Board Meeting to Approve Authorizing Ordinance	CAWCD, GR, PJ
Tuesday, November 10		Comments due on POS,	All
Tuesday, November 10		Distribute Draft Feasibility Study	GRG
Thursday, November 12		Distribute Draft POS, Bond Documents and Rating Presentation to Rating Agencies	PJ, CAWCD
Tuesday, November 24		Distribute Draft POS to Finance Team	GR
Week of December 7		Rating Agency Presentations	CAWCD, PJ
Tuesday, December 15		Due Diligence Conference Call Final comments due on POS and Bond Documents	All
Thursday, December 17		Receive Bond Ratings	CAWCD, PJ
Monday, January 4		Electronic Posting of the POS	PJ, GR
January 11, or January 18		Pre-Pricing Conference Call	UND, CAWCD, PJ
Week of January 11, or January 18		Bond Pricing	UND
TBD		Sign Bond Purchase Agreement	CAWCD, UND
TBD		Pre-closing	All
TBD		Closing	All

* Preliminary - subject to change.

**Agenda Number 6.b.i.
Attachment 4.**

ORDINANCE NO. 2015-01

AN ORDINANCE OF THE BOARD OF DIRECTORS OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT AUTHORIZING AND APPROVING THE ISSUANCE OF NOT TO EXCEED \$50,000,000 AGGREGATE PRINCIPAL AMOUNT OF THE DISTRICT'S WATER DELIVERY O&M REVENUE BONDS, IN ONE OR MORE SERIES; AUTHORIZING EXECUTION AND DELIVERY OF AN INDENTURE OF TRUST AND A FIRST SUPPLEMENTAL INDENTURE OF TRUST PURSUANT TO WHICH THE BONDS ARE TO BE ISSUED; AUTHORIZING AN AWARD OF THE CONTRACT FOR THE PURCHASE OF THE BONDS; AUTHORIZING CERTAIN DOCUMENTS IN CONNECTION WITH THE ISSUANCE OF THE BONDS, SECURING SALE OF THE BONDS; RATIFYING ALL PRIOR ACTS WITH RESPECT TO THE BONDS; APPROVING AND ADOPTING ISSUANCE AND POST-ISSUANCE COMPLIANCE PROCEDURES RELATING TO TAX-EXEMPT BONDS, TAX CREDIT BONDS AND OTHER TAX-EXEMPT FINANCINGS AND CONTINUING DISCLOSURE POLICIES; AND AUTHORIZING CERTAIN OTHER MATTERS RELATING THERETO.

WHEREAS, Central Arizona Water Conservation District (the "*District*") (capitalized terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture, defined below) is a multi-county water conservation district, a tax-levying public improvement district of the state and a municipal corporation organized and existing under the authority of Arizona Revised Statutes, Title 48, Chapter 22 (the "*Act*"); and

WHEREAS, the District is authorized pursuant to the provisions of the Act to issue bonds and other obligations payable from the net revenues of the District derived from the fixed water operation and maintenance charges ("*Fixed O&M*") and a portion of the replacement charges ("*Replacement Charges*") of the System (together, the "*Pledged Revenues*"). Revenues do not include any income or moneys derived from taxes or assessments authorized by the Act, Power Revenues, Replacement Charges, other than that portion of the Replacement Charges attributable to debt service for the Bonds (each as defined in the Indenture), or the proceeds or investment income of any bonds of the district, other than the Bonds; and

WHEREAS, the District's Board of Directors (the "*Board*") has determined to finance various capital improvements of the District with such bonds and other obligations (the "*Project*"), including without limitation capital improvements and construction related to the District's Palo Verde to Morgan transmission line project, Hassayampa tap connection project and ED2 to Saguaro transmission line rebuild project; and

WHEREAS, said bonds, if issued, shall be issued pursuant to an Indenture of Trust, to be dated as of the initial issuance of bonds to be issued thereunder (the "*Master Indenture*"), to be entered into by the District and a bank having trust powers, as Trustee (the "*Trustee*"), which shall provide the terms and conditions for the issuance and securing of the District's Water Delivery O&M Revenue Bonds (the "*Bonds*") and any additional bonds and obligations issued thereafter; and

WHEREAS, the Bonds, if any, are to be issued under and pursuant to the Master Indenture, as supplemented by the First Supplemental Indenture of Trust to be dated as of the initial issuance of the Bonds (the "*First Supplemental Indenture*"), to be entered into by the District and the Trustee (with such changes, insertions and deletions as are made pursuant to this Ordinance, the Master Indenture and the First Supplemental Indenture and any subsequent supplemental indentures entered into by the District and the Trustee thereafter are referred to herein collectively, as the "*Indenture*"); and

WHEREAS, the Bonds, if any, may be payable from and secured by a pledge and assignment of the Trust Estate on a parity with all other Parity Obligations hereafter issued and Outstanding under the Indenture; and

WHEREAS, the District intends to negotiate a bond purchase agreement (the "*Bond Purchase Agreement*") with Bank of America Merrill Lynch and RBC Capital Markets, LLC (collectively, the "*Underwriter*" or "*Underwriters*"). The Underwriters are hereby selected by the Board of Directors. The Bond Purchase Agreement shall be approved and executed by the President of the Board of Directors (the "*President*"), the General Manager and the Deputy General Manager, Finance and Administration (the "*Deputy General Manager*") for the sale of the Bonds.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF DIRECTORS OF CENTRAL ARIZONA WATER CONSERVATION DISTRICT, as follows:

Section 1. The President, the General Manager and the Deputy General Manager are authorized to execute the Bond Purchase Agreement for the sale of the Bonds or such other obligations to be issued.

Section 2. The Master Indenture, the First Supplemental Indenture, the Tax Certificate and the Bonds shall be approved by the President, the General Manager and the Deputy General Manager. The President, the General Manager and the Deputy General Manager (each an "*Authorized Officer*") is each hereby authorized to execute and deliver the Master Indenture, the First Supplemental Indenture, the Bond Purchase Agreement, the Continuing Disclosure Undertaking, the Tax Certificate, and the Bonds, in the name of and on behalf of the District, in substantially the forms as specified with such changes, insertions and deletions as may be approved by the Authorized Officers executing the respective documents, said execution being conclusive evidence of such approval, and the Secretary of the District is hereby authorized to attest thereto.

Section 3. The issuance of the Bonds on the terms and conditions set forth in the First Supplemental Indenture, and subject to the parameters specified in this Ordinance, is hereby authorized and approved. The aggregate principal amount of the Bonds shall not exceed Fifty Million Dollars (\$50,000,000). The Bonds may be authorized in one or more series and shall bear interest at either a fixed or variable rate as to be determined. The Bonds will be dated as provided and will bear interest at the rates determined in accordance with the interest rates for the Bonds set forth in the Bond Purchase Agreement for the Bonds submitted by the Purchaser, but in no event shall the interest rate on any Bonds exceed six percent (6%) per annum. The Bonds shall have a final maturity not later than January 1, 2036. The Bonds will mature on the date or dates provided in, will be issued in the form provided in, will have the Sinking Fund Installments, if any, specified in, will be subject to redemption as provided in, will be paid on the dates and at the times, and will have such other terms as shall be provided in, the First Supplemental Indenture as the same is completed as provided in this Ordinance. The Bonds shall initially be in denominations of \$5,000 and any integral multiple thereof within each maturity. The Bonds shall be initially registered in the name of CEDE & CO., as the nominee of the Depository Trust Company ("*DTC*") and may be registered in such other names only as specifically provided in the First Supplemental Indenture. The Bonds shall be initially issued as book-entry bonds under the book-entry-only system of DTC.

Section 4. The proceeds of the sale of the Bonds shall be used to finance the Project and to pay certain costs of issuance all as shall be set forth further in the First Supplemental Indenture.

Section 5. The District's President, the General Manager and the Deputy General Manager shall cause a preliminary official statement to be prepared. Either the General Manager or

Deputy General Manager are authorized to deem the preliminary official statement "final" for all purposes under the Securities and Exchange Commission's rule 15c2-12 (the "*Rule*") and are also authorized to deem the official statement "final" for the rule. The Official Statement for the Bonds, in substantially the form of the Preliminary Official Statement with the final maturity amounts and interest rates, and such other information as may be needed, shall be completed and delivered to the Purchaser within seven (7) days from the date of the Bond Purchase Agreement. The President of this Board or the General Manager is authorized to approve and execute such Official Statement and any amendment or supplement thereto, in the name and on behalf of the District, and thereupon to cause the Official Statement and any such amendment or supplement to be delivered to the Purchaser. The Official Statement may have such changes, insertions and deletions as may be approved by the authorized officer executing said Official Statement and as are consistent with the determinations of the terms of the Bonds made pursuant to this Ordinance, said execution being conclusive evidence of such approval.

Section 6. The District's President, the General Manager and the Deputy General Manager acting singly, be and each of them hereby is authorized to execute and deliver any and all documents (including, without limitation, all documents submitted to the meeting at which this Ordinance was adopted) and instruments and to do and cause to be done any and all acts and things necessary or convenient in carrying out the transactions contemplated by the documents and instruments approved or authorized by this Ordinance, including without limitation, entering into any tax agreements or agreements with respect to continuing disclosure required by the Rule and making any determinations or submission of any documents or reports which are required by any rule or regulation of any governmental entity in connection with the issuance and sale of the Bonds and the authorization, execution, delivery and performance by the District of its obligations under the documents and instruments approved or authorized by this Ordinance. Each and every covenant and condition contained in the Bonds, the Master Indenture, the First Supplemental Indenture, the Official Statement, and any and all documents and instruments necessary or convenient in carrying out the transactions contemplated by this Ordinance are hereby deemed necessary and appropriate to achieve the purposes for which the Bonds are issued and for the security of the Owners of the Bonds. The General Manager or Deputy General Manager is authorized to sign any and all documents necessary for issuing said Bonds, consistent with the Act.

Section 7. The District covenants that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the United States Internal Revenue Code. The District shall not directly or indirectly use or permit the use of any proceeds of the Bonds in such a manner that would adversely affect the exclusion of interest on any Bonds from gross income under Section 103 of the Internal Revenue Service Code (the "*Code*"). The District shall not directly or indirectly use or permit the use of any proceeds of any Bonds, or of any facilities financed or refinanced thereby, or other funds of the District, or take or omit to take any action that would cause any Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of this Section it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be directed in such instructions.

The District specifically covenants that:

- (a) It will pay or cause to be paid all Rebate Requirements.

(b) It will determine the amount of the Rebate Requirement and cause the same to be deposited in the Rebate Fund. Subject to the provisions of this Section, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America, and the District and the Owners of the Bonds shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund in Permitted Investments as directed in writing by the District.

Section 8. Zions First National Bank is hereby selected by the Board as Trustee for the Bonds (the "*Trustee*") and authority is granted to the General Manager and Deputy General Manager to execute an agreement with the Trustee. Bank of America Merrill Lynch and RBC Capital Markets, LLC are hereby selected as Underwriters and authority is granted to execute a Bond Purchase Agreement pursuant to Section 1 of this Ordinance.

Section 9. All actions heretofore taken by the Board or any officer, representative, attorney or agent of or for the District in connection with the issuance and sale of the Bonds, the Project or the authorization, execution, delivery, or performance of the District's obligations under the documents and instruments approved or authorized by this Ordinance and the other actions contemplated by this Ordinance are hereby ratified, approved and confirmed.

Section 10. The District's General Manager, is hereby designated the District's authorized representative for all purposes of the Master Indenture and the First Supplemental Indenture. The District reserves the right to change the authorized representative at any time while the Bonds are outstanding. For all purposes of the Indenture, the District's General Manager will cause to be completed, executed and filed with the United States Internal Revenue Service (the "*IRS*"), IRS form 8038-G pertaining to the Bonds, and to file a report concerning the issuance of the Bonds with the Arizona Department of Revenue, as required by A.R.S. § 35-502.

Section 11. The form of Issuance and Post-Issuance Compliance Procedures Relating to Tax-Exempt Bonds, Tax Credit Bonds, and other Tax-Exempt Financings and Continuing Disclosure Policies in substantially the form attached hereto as Exhibit A is hereby approved, and District staff shall follow the procedures set forth therein as it relates to issuance and post-issuance compliance procedures.

Section 12. The Board hereby finds and determines that the recitals contained hereinabove are true and correct.

Section 13. This Ordinance shall become effective immediately upon its passage and thereupon and thereafter the same shall be in full force and effect.

PASSED AND ADOPTED this 5th day of November, 2015.

**CENTRAL ARIZONA WATER
CONSERVATION DISTRICT**

By: _____
President, Board of Directors

ATTEST:

Secretary, Board of Directors

APPROVED AS TO FORM

GUST ROSENFELD P.L.C.

Timothy A. Stratton
Bond Counsel to the District

CERTIFICATION

I, _____, Secretary of the Board of Directors of Central Arizona Water Conservation District, hereby certify that the foregoing Ordinance was adopted by the Board of Directors of Central Arizona Water Conservation District on November 5, 2015, and that the vote was ___ ayes, ___ nays, ___ abstained, ___ were absent, and that ___ members of the Board of Directors were present thereat.

DATED this 5th day of November, 2015.

Secretary, Board of Directors

EXHIBIT A

**ISSUANCE AND POST-ISSUANCE COMPLIANCE PROCEDURES
RELATING TO TAX-EXEMPT BONDS, TAX CREDIT BONDS,
AND OTHER TAX-EXEMPT FINANCINGS
AND CONTINUING DISCLOSURE POLICIES
FOR CENTRAL ARIZONA WATER CONSERVATION DISTRICT**

Date of Implementation: _____, 2016

A. TAX COMPLIANCE POLICIES

I. INTRODUCTION

Many conditions, restrictions and requirements must be complied with to permit and preserve the tax-exempt treatment of revenue bonds, lease-purchase agreements and other tax-exempt financings by the Central Arizona Water Conservation District (the "District"). Prior to issuance, the District and its bond counsel will review the facts and the reasonable expectations to determine if the issue will comply with these conditions, restrictions and requirements at the time of issuance. There are certain actions the District must do after issuance to preserve the favorable tax treatment and certain actions of the District after issuance can adversely affect the tax treatment. In addition, the District must maintain proper records to demonstrate compliance. Because tax benefits may be critical to the investors' decision to purchase the obligations or other obligations, the District covenants to the bond purchasers to comply with all of the conditions, restrictions and requirements throughout the life of the obligations.

Failure to comply may cause the District to be (a) liable to the bondholders, (b) subject to enforcement action by the IRS and (c) subject to enforcement action by the Securities Exchange Commission. Therefore, it is important that the District take the necessary action to ensure compliance with the conditions, restrictions and requirements applicable to each bond or other financing.

To ensure compliance, the District must identify a single person with overall compliance responsibility. The General Manager, or his or her designee, will be the responsible person and is referred to in these procedures as the "Bond Compliance Official." Anyone with any questions about the obligations, the proceeds of the obligations, the facilities financed with the obligations or compliance with the conditions, restrictions and requirements should discuss them with the Bond

Compliance Official who shall, as necessary, discuss them with bond counsel. The Bond Compliance Official shall meet with bond counsel to discuss these requirements and from time to time any changes in these requirements. In the event the District fails to comply with these procedures, the Bond Compliance Official shall meet with bond counsel as soon as practicable after the discovery of the failure to comply in order to discuss the steps required to correct the noncompliance.

1. INVESTMENT OF PROCEEDS UNTIL EXPENDED.

Detailed records of investments and earnings will be made and kept by the District with respect to all bond proceeds.

Generally, proceeds of obligations cannot be invested at a yield higher than the bond yield unless during certain specific temporary periods. Therefore, prior to closing, the Bond Compliance Official will determine with bond counsel which funds do or do not qualify for a temporary period. Qualifying information will be set out in a tax certificate. No proceeds will be invested at a yield higher than the bond yield unless they qualify. If the actual facts regarding the use of proceeds changes from what was reasonably expected at closing, the Bond Compliance Official will discuss those changes with bond counsel to see if the temporary periods are changed.

Bond proceeds include the amount received from the sale of the obligations, amounts held in a payment or reserve fund for the obligations *and investment earnings on those amounts*.

The proceeds will not be invested in any investment where a yield cannot be determined.

Any investment in a guaranteed investment contract or similar investment agreement will only be made in compliance with the bidding requirements as reviewed by bond counsel.

Bond proceeds will be invested so that they can be tracked separately from any other funds of the District. The District will work with the registrar, trustee or other applicable person or entity to be sure that invested earnings are properly allocated between bond proceeds and other funds.

2. USE OF PROCEEDS.

Detailed records will be made and kept by the District with regard to the use of bond proceeds. For each expenditure, the amount, date of and purpose will be recorded. If the project is also funded with non-bond proceeds, the records will reflect an allocation of expenditures between bond proceeds and other funds. No proceeds will be used to reimburse an expenditure made prior to the issue date of the obligations unless the reimbursement requirement, including the prior declaration of intent to reimburse, has been fully complied with and evidence of such compliance is

maintained. The District's Board of Directors by taking action, or the General Manager, or his or her designee, is authorized to complete the declaration of intent to reimburse.

The District is expected to exercise diligence to expend the proceeds, to enter into within six months of the issue date a binding contract to expend at least 10% of the proceeds and to have expended most of the proceeds within three years. After the third anniversary of the issue, any remaining proceeds in the construction account must be yield restricted.

The Bond Compliance Official shall periodically review the progress of the projects and the expenditure of proceeds to ensure timely expenditure of proceeds.

3. USE OF BOND FINANCED FACILITIES.

Detailed records of the use of proceeds will identify those facilities that are financed in whole or in part with bond proceeds and must reflect the allocation of bond proceeds and other funds used. Any sale or lease to, or other agreement for use by, a private party in a trade or business can adversely affect the tax status of the obligations. The District will not sell or lease any bond financed property or enter into any agreement with non-governmental entities for use or management of any bond financed property without a thorough review by the Bond Compliance Official and bond counsel. While not a comprehensive list, the Bond Compliance Official will review the following types of transactions with bond counsel prior to entering into any agreement with non-governmental entities or persons: (a) the sale or lease of any bond financed property, (b) any management contracts with a food service provider or book store, (c) any research agreement and (d) public-private partnerships. The Bond Compliance Official shall periodically review the use of all bond financed facilities to ensure compliance with the private use restrictions. In the event the District takes action that causes the obligations to meet the private business tests or private loan financing test, the Bond Compliance Official shall meet with bond counsel as soon practicable after the issue is discovered to discuss the steps required to correct the noncompliance, including, if necessary, redeeming or defeasing all of the obligations that meet the private business tests or private loan financing test.

4. ARBITRAGE REBATE.

Any time that bond proceeds are permitted to be invested at a yield higher than the bond yield, the amount earned over the bond yield is arbitrage. With certain exceptions, the District is obligated to pay over (rebate) to the United States any arbitrage earned. The District will keep complete and accurate records of all investments of bond proceeds and all information supporting any applicable exceptions to the rebate requirement and will retain or ensure that the registrar or trustee has retained a professional rebate consultant to review the records and prepare a report so that

the District or the registrar or trustee can make any necessary rebate payments. Unless exempt, the District must, at a minimum, make payments at every fifth anniversary of the issue and upon final payment. The Bond Compliance Official will review any exemption prior to each fifth anniversary and upon final payment to determine if any facts have changed which might eliminate the exemption.

5. RECORD RETENTION.

All records concerning the bond issue, including

- a) the transcript of the original proceedings,
- b) investment of proceeds,
- c) use and allocation of proceeds, including the declaration of intent to reimburse,
- d) non-governmental use of bond financed property,
- (e) payment of principal and interest on the obligations,
- f) the interest rate or rates on the obligations from time to time, if variable,
- g) compliance with reimbursement requirements,
- h) refunding of all or part of the obligations, and
- i) payment of arbitrage rebate or information supporting any exemption to rebate

shall be kept for the life of the obligations plus three years (and in compliance with any State of Arizona records retention policies) and, if the obligations are refunded, for the life of all of the refunding obligations plus three years (and in compliance with any State of Arizona records retention policies).

B. CONTINUING DISCLOSURE POLICIES

The District is required to file audited financial statement and certain financial and operating information and operating data required by existing continuing disclosure certificates. Compliance includes ensuring that all of the tables and information required by the Continuing Disclosure Certificates are included in, or filed with, the District's Comprehensive Annual Financial Report, or filed separately in each case, no later than [[June 30]] of each fiscal year while the District's obligations require a [[June 30]] filing date.

The annual [[June 30]] date should be put into a docket/diary/tickler system which is maintained by a minimum of two people so that it will not be overlooked. The implementation of these procedures and the follow-through are extremely important. The District will agree to file annual audited financial statements and other financial information in the current Official Statement and has agreed to similar filings in past continuing disclosure certificates. When those listed on

docket/diary/tickler system leave the District's employment new names must be added and the incoming employees who will be responsible for the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") filings should be briefed so that consistency is maintained.

The Municipal Securities Rulemaking Board launched a tool that allows the District to schedule automated e-mail reminders for these annual filings through EMMA. The District can add up to three e-mail recipients, so multiple staff members may be included on the alert. Please see the instructions below:

To schedule the alerts, access EMMA at www.emma.msrb.org and click on the EMMA Dataport tab. Click on the "Login" button and enter your login information (User ID and password). From the Continuing Disclosure tab of the EMMA Dataport Submission Portal, click on "Schedule and manage e-mail reminders for recurring financial disclosures." Click the "Create Reminder" link to access the scheduling form.

Note: Some districts engage auditors or a dissemination agent to actually do the EMMA filings. If the District has such an agreement, the District is still responsible if the auditor or dissemination agent fails to timely file the required annual statement. Thus, even if the auditor or dissemination agent agrees to make the required filings, the District must follow the [[April 15]] schedule, as applicable, and inquire of the District's auditor or dissemination agent to determine if the filing deadline will be met. If the deadline may not be met, it is the District's, and not the District's auditors or dissemination agents, responsibility to file a notice with EMMA indicating that the deadline will not be met and an estimate as to when the audited financial statement and operating data will be filed. In lieu of audited financial statements, unaudited financial statements may be filed until audited financial statements are available.

The District is also required to file notices of "Listed Events" within ten business days of such events or occurrence. Please note: not all of the District's existing continuing disclosure certificates may have the same Listed Events; however, as the Continuing Disclosure Certificate entered into in 2015 will most likely be the broadest; following it will also cover past certificate requirements. There can be no guarantee that the regulations concerning Listed Events (Securities and Exchange Commission Rule 15c2-12) will not change and that additional events may be added in the future. The District should check with its bond counsel at the time future bonds and obligations are issued to determine if the Listed Events have been changed and, if the later

continuing disclosure certificate differs from 2015. The events are listed below (and can also be found in the District's Continuing Disclosure Certificates):

Section 5. Reporting of Listed Events. (as in the Continuing Disclosure Certificate)

This Section 5 shall govern the giving of notices by the District of the occurrence of any of the following events with respect to the obligations. The District shall in a timely manner, not in excess of ten business days after the occurrence of the event, provide notice of the following events with EMMA:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service (the "IRS") of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the obligations;
7. Modifications to rights of bondholders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the obligations, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the District;
13. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action nor the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"Materiality" will be determined in accordance with the applicable federal securities laws.

Note to part 5(12): For the purposes of the event identified in part 5(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Below is a short description of how to file notice of occurrence of "Listed Events" with EMMA:

How to File the Notices:

First, please save the Listed Events notice on your computer. You will also need the information contained in the Listed Events notice, so please print out a copy of the Listed Events notice.

1. Login to EMMA <http://dataport.emma.msrb.org/>
2. Click CREATE Continuing Disclosure Submission
3. Check Event Filing, click Next
4. Check "Type of Event" – In the description box type: "[type of notice]"
5. Check "I don't know my CUSIP -9s" and then use the District's base CUSIP number to find the affected obligations
6. Check "all issues for issuer", click Next
7. Click upload
8. Update contact information, if necessary
9. Upload the Listed Events notice (must be in PDF, word-searchable format)
10. Click preview
11. Publish the documents to EMMA
12. Print receipt and save in your bond documents for the life of the obligations.

Please note there is only a limited save option on EMMA. Therefore the District will not be able to start entering the information, exit and continue later.

Additional note: when filing, EMMA will ask for the District's six digit CUSIP number ("base CUSIP number"). The District's base CUSIP number is _____.

MASTER INDENTURE OF TRUST

by and between

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)**

and

ZIONS FIRST NATIONAL BANK, as Trustee

dated as of January 1, 2016

relating to

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
WATER DELIVERY O&M REVENUE BONDS**

or

WATER DELIVERY O&M REVENUE REFUNDING BONDS

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INDENTURE OF TRUST

Relating to

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)**

WATER DELIVERY O&M REVENUE BONDS

or

WATER DELIVERY O&M REVENUE REFUNDING BONDS

THIS MASTER INDENTURE OF TRUST (this "*Master Indenture*") dated as of January 1, 2016, is entered into by and between **CENTRAL ARIZONA WATER CONSERVATION DISTRICT**, a multi-county water conservation district, a body corporate and political subdivision of the State of Arizona (the "*District*" or "*CAWCD*") and Zions First National Bank, a national banking association duly established and existing under and pursuant to the laws of the United States of America (the "*Trustee*"), authorized to accept and execute trusts of the character set forth in this Master Indenture.

WITNESSETH

WHEREAS, the District has been duly established and is duly existing as a multi-county water conservation district, a body corporate and political subdivision under the laws of the State of Arizona; and

WHEREAS, the District has established and operates the System (all capitalized terms used in these recitals having the meanings given in Section 1.01 hereof) to manage, operate and maintain the Central Arizona Project Canal (CAP) and provide water replenishment services; and

WHEREAS, the District is authorized under the Act to issue bonds, notes or other obligations payable from the revenues of the System to finance the Costs of improvements and additions to the System and to refund any such bonds, notes or other obligations; and

WHEREAS, the District has determined to provide for the issuance from time to time of Bonds, including Refunding Bonds, payable from the Revenues and amounts held in certain Funds maintained under this Master Indenture, and, with respect to each Series of Bonds, from such Credit Support Instrument or Instruments as may be provided for such Series pursuant to the Supplemental Indenture authorizing such Series of Bonds; and

WHEREAS, the District has determined that each Series of Bonds should be issued on the terms and conditions set forth in this Master Indenture as supplemented by a Supplemental Indenture authorizing such Series of Bonds; and

WHEREAS, the Bonds of each Series shall be payable from the Revenues on a parity with other Parity Obligations hereafter issued by the District in accordance with this Master Indenture; and

WHEREAS, the District has determined all acts and things which are necessary in connection with the authorization, execution and delivery this Master Indenture have been done and performed in due time, form and manner; and

WHEREAS, the Trustee has accepted the trust created and established by this Master Indenture and in evidence thereof has joined in the execution of this Master Indenture;

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS, THIS INDENTURE OF TRUST WITNESSETH:

**ARTICLE I
DEFINITIONS AND AUTHORITY**

Section 1.01 Definitions. Unless the context otherwise requires, the following terms, for all purposes of this Master Indenture and, unless otherwise provided therein with respect to such Supplemental Indenture or any Series of Bonds authorized by such Supplemental Indenture, any Supplemental Indenture, shall have the meanings set forth below:

"*Accreted Value*" means, with respect to any Capital Appreciation Obligation and as of any date, the Initial Amount thereof plus the interest accrued thereon from its delivery date, compounded on a 30/360 day basis at the interest rate with respect to such Capital Appreciation Obligation specified in or pursuant to the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligation on each date specified therein. The applicable Accreted Value at any date shall be the amount set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, shall be determined by straight line interpolation with reference to such Accreted Value Table.

"*Accreted Value Table*" means the table in the Issuing Instrument authorizing the issuance of such Capital Appreciation Obligations which provides the Accreted Value for the Capital Appreciation Bonds.

"*Act*" means Chapter 22 of Title 48 of the Arizona Revised Statutes, as amended.

"*Additional Parity Obligations*" means Parity Obligations issued for the purposes set forth in Section 2.05 and satisfying the conditions set forth in Section 2.07.

"*Adjusted Debt Service*" means, for any period of time, the Debt Service for such period minus the sum of the amount of such Debt Service with respect to Outstanding Parity Obligations to be paid during such period from the proceeds of Parity Obligations as set forth in a certificate of the District.

"*Advance Refunded Municipal Securities*" means any bonds or other obligations of any state of the United States of America that are fully and unconditionally guaranteed as to timely payment or of any agency, instrumentality or local government unit of any such state (a) which are rated at least as high as direct obligations of the United States, (b) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee, fiscal agent or other fiduciary for such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds or other obligations for redemption on the date or

dates specified in such instructions, (c) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) of the definition of Defeasance Securities which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in clause (b) above, as appropriate, and (d) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) of the definition of Defeasance Securities which have been deposited in such fund, along with any cash on deposit in such fund, have been verified by an Accountant's Certificate as being sufficient to pay principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (b) above, as applicable.

"Applicable Parity Obligations" means, with respect to a certificate to be delivered in connection with Additional Parity Obligations pursuant to Section 2.07(a) and as of the date of such certificate, all of the Parity Obligations Outstanding following the delivery of such proposed Additional Parity Obligations on such date.

"Authorized Denominations" means, with respect to Bonds of any Series, the denomination or denominations designated as such in the Supplemental Indenture authorizing such Bonds.

"Authorized District Representative" means the General Manager or the Deputy General Manager, Finance & Administration of the District (or in his absence or incapacity, any other officer authorized to act on behalf of the General Manager or the Deputy General Manager, Finance & Administration of the District) and any other officer of the District duly authorized to act as an Authorized District Representative for purposes of this Master Indenture by the Board of Directors or written authorization of the General Manager of the District.

"Beneficial Owner" means, with respect any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of the Securities Depository for such Book-Entry Bonds.

"Board of Directors" means the board of directors of the District.

"Bond" or *"Bonds"* means any of the Central Arizona Water Conservation District System (Central Arizona Project) Water Delivery O&M Revenue Bonds authorized pursuant to Article II of this Master Indenture and any Supplemental Indenture, including refunding bonds.

"Bond Counsel" means Gust Rosenfeld P.L.C., or any attorney or firm of attorneys of recognized national standing in the field of law relating to municipal securities and to exclusion of interest thereon from income for federal income tax purposes selected by the District.

"Bond Debt Service" means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Obligations are retired as scheduled and that all Outstanding Bonds which are Term Obligations are redeemed or paid from Sinking Fund Installments as scheduled, (b) that

portion of the principal amount of all Outstanding Bonds which are Serial Obligations maturing on each Principal Payment Date during such period, including the Final Compounded Amount of any Bonds which are Capital Appreciation Obligations, (c) that portion of the principal amount of all Outstanding Bonds which are Term Obligations required to be redeemed or paid from Sinking Fund Installments during such period (together with the redemption premiums, if any, thereon).

"*Bond Redemption Fund*" means the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Redemption Fund established pursuant to Section 5.02.

"*Bond Register*" means the registration books for the ownership of Bonds maintained by the Trustee pursuant to Section 3.06.

"*Bondowner*" or "*Owner*" means, with respect to a Bond, the registered owner of such Bond as set forth in the Bond Register.

"*Bonds*" means the District's Water Delivery O&M Revenue Bonds, Series 2016, issued pursuant to the First Supplemental Indenture, dated as of January 1, 2016.

"*Book-Entry Bonds*" means Bonds registered in the name of a nominee of DTC or any successor Securities Depository for the Bonds, or a nominee thereof, as the registered owner thereof pursuant to the terms and provisions of Section 3.04.

"*Business Day*" means, with respect to each Series of Bonds, unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing the issuance of such Series, any day of the year other than (i) a Saturday; (ii) a Sunday; (iii) any day which shall be in Phoenix, Arizona or the city in which any successor depository bank of the District is located (as specified by the District in a written certificate delivered to the Trustee), a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close; and (iv) any day on which the banks are authorized or required by law or other government action to close in the State of New York or any city in which the Principal Office of any Paying Agent or any Credit Provider for such Series of Bonds is located.

"*Calculation Period*" means, with respect to any certificate to be provided pursuant to Section 2.07(a).

"*Capital Appreciation Obligations*" mean any Obligations the interest on which is compounded and not scheduled to be paid until the maturity or prior redemption of such Obligations.

"*Capital Improvement*" means, to the extent chargeable to a capital account of the System under Generally Accepted Accounting Principles: (i) any addition, betterment, replacement, renewal, extension or improvement of or to the System; and (ii) capital costs for the extension, reinforcement, enlargement or other improvement of facilities or property, or the acquisition of interests therein, not included as part of the System, determined by the District to be necessary or convenient in connection with the utilization of the System.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in this Master Indenture shall be deemed to include the applicable United States Treasury Regulations thereunder and also includes all amendments and successor provisions unless the context clearly requires otherwise.

"Consultant" means a consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the District to perform acts, prepare certificates or otherwise carry out the duties provided for a Consultant in this Master Indenture or any Supplemental Indenture. Such consultant, consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally recognized within its profession for works of the character required. Such accountants or accounting firm shall be Independent Certified Public Accountants licensed to practice in the State of Arizona.

"Cost" means, with respect to any Capital Improvement, to the extent permitted under the Revenue Bond Statute, all costs and expenses of planning, designing, acquiring, constructing, installing and financing such Capital Improvement, placing such Capital Improvement in operation, disposal of such Capital Improvement, and obtaining governmental approvals, certificates, permits and licenses with respect thereto, heretofore or hereafter paid or incurred by the District. Payment of a Cost shall include the reimbursement to the District for any of the costs included in this definition of Cost paid by the District and not previously reimbursed to the District and which are not to be reimbursed from contributions in aid of construction.

"Costs of Issuance" means, to the extent permitted by the Revenue Bond Statute, all items of expense directly or indirectly payable by or reimbursable to the District and related to the original authorization, execution, sale and delivery of Bond Parity Obligations, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, including disclosure documents and documents relating to the sale of such Parity Obligations, initial fees and charges (including counsel fees) of any fiscal agent, any paying agent and any Credit Provider, legal fees and charges, financial advisor fees and expenses, fees and expenses of other consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bond Parity Obligations and any other cost, charge or fee in connection with the authorization, issuance, sale or original delivery of Bond Parity Obligations.

"Credit Provider" means any municipal bond insurance company, bank, financial institution, pension fund or other credit provider which is performing in all material respects its obligations under any Credit Support Instrument for some or all of the Parity Obligations.

"Credit Support Instrument" means any contract or agreement with a Credit Provider.

"Debt Service" means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Parity Obligations, assuming that all Outstanding Serial Parity Obligations are retired as scheduled and that all Outstanding Term Parity Obligations are redeemed or paid from Sinking Fund Installments as scheduled, (b) that portion of the principal amount of all Outstanding Serial Parity Obligations maturing on each Principal Payment Date

during such period, including the Final Compounded Amount of any Capital Appreciation Obligations which are Serial Parity Obligations, (c) that portion of the principal amount of all Outstanding Term Parity Obligations required to be redeemed or paid from Sinking Fund Installments becoming due during such period (together with the premiums, if any, thereon).

"Debt Service Fund" means the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Debt Service Fund established pursuant to Section 5.02.

"Debt Service Reserve Fund" means the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Debt Service Reserve Fund established pursuant to Section 5.02.

"Debt Service Reserve Requirement" means an amount equal to the lesser of (a) ten percent (10%) of the initial par amount of the Bonds and Parity Obligations, as determined under the Code, (b) the greatest amount of Bond Debt Service on the Bonds and Parity Obligations in any Fiscal Year while the Bonds and Parity Obligations are outstanding, or (c) one hundred twenty-five percent (125%) of the average annual Bond Debt Service on the Bonds and Parity Obligations for all Fiscal Years during the period commencing with the Fiscal Year in which such bonds/obligations are issued (or if appropriate, the first full Fiscal Year following the issuance of any such Bonds) and terminating with the last Fiscal Year in which any such Bond Debt Service is due. Provided, however, that except as may be otherwise provided in a Supplemental Indenture in determining Bond Debt Service with respect to any Bonds that constitute Variable Rate Indebtedness, the interest rate on such Bonds for any period as to which such interest rate has not been established shall be assumed to be one hundred ten percent (110%) of the daily average interest rate on such Bonds during the twelve (12) months ending with the month preceding the date of calculation, or such shorter period that such Bonds shall have been Outstanding, or if such Bonds shall not have been previously Outstanding, one hundred ten percent (110%) of the most recently published SIFMA Index (in the case of Variable Rate Indebtedness that is Tax-Exempt) or one hundred ten percent (110%) of the most recently published One Month USD LIBOR Rate (in the case of Variable Rate Indebtedness that is not Tax-Exempt).

"Defeasance Securities" means any of the following securities, if and to the extent the same are at the time legal investments for funds of the District: (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or obligations fully and unconditionally guaranteed as to timely payment by, the United States of America, including obligations of any agency or corporation which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America; and (ii) Advance Refunded Municipal Securities.

"Depository" means any bank or trust company organized under the laws of the State (including the Trustee and its affiliates), or any national banking association which is willing and able to accept the office on reasonable and customary terms, authorized by law to act in accordance with the provisions of this Master Indenture.

"*District*" means the Central Arizona Water Conservation District, a multi-county water conservation district, a tax levying public improvement district, a municipal corporation, a body corporate and political subdivision of the State, and its successors.

"*District President*" means the President of the District's Board of Directors.

"*District Vice-President*" means the Vice-President of the District's Board of Directors.

"*DTC*" means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York or its successors and assigns. References in this Master Indenture to DTC shall include any Nominee of DTC in whose name any Bond is registered.

"*Due*", when used in connection with the payment of principal of an Obligation, means due to be paid pursuant to the terms of the Obligation or under any Credit Support Instrument, whether by maturity, sinking fund installment, or other mandatory amortization.

"*Electronic*" means, with respect to notice, notice through telecopy, telegraph, telex, facsimile transmission, internet, email, dedicated electronic link or other electronic means of communication capable of producing a written record.

"*Event of Bankruptcy*" means any of the following with respect to any Person: (a) the commencement by such person of a voluntary case under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such person under the Federal Bankruptcy Code or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person's assets shall be appointed in any proceeding brought against the Person or such Person's assets; (e) assignment of assets by such person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

"*Event of Default*" means an event described as such in Section 10.01.

"*Favorable Opinion of Bond Counsel*" means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel to the effect that such action shall not, in and of itself, adversely affect the Tax-Exempt status of interest on the Bonds or such portion thereof as shall be specified in the provisions of this Master Indenture or the Supplemental Indenture requiring such an opinion.

"*Federal Bankruptcy Code*" means Title 11 of the United States Code entitled "Bankruptcy," as the same may be amended and supplemented, and any successor statute.

"*Federal Subsidy*" means any federal payments or subsidies related to any Obligation received by the District.

"*Fiduciary*" means the Trustee for the Bonds appointed as provided in Sections 8.01 and 8.02.

"*Final Compounded Amount*" means the Accreted Value of any Capital Appreciation Obligation on its maturity date.

"*First Supplemental Indenture*" means the First Supplemental Indenture of Trust, dated as of January 1, 2016, between the District and the Trustee supplementing this Master Indenture.

"*Fiscal Year*" means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

"*Fitch*" means Fitch Ratings, and any successor entity rating Parity Obligations at the request of the District.

"*Fixed Water Operation and Maintenance Charges*" or "*Fixed O&M*" means the operation and maintenance costs component but does not include the rate stabilization component that is incorporated into the rates charged to customers for water deliveries.

"*Funds*" means the funds established pursuant to Section 5.02.

"*Generally Accepted Accounting Principles*" means generally accepted accounting principles applied on a consistent basis set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants applicable to a government-owned utility applying all statements and interpretations issued by the Governmental Accounting Standards Board and statements and pronouncements of the Financial Accounting Standards Board which are not in conflict with the statements and interpretations issued by the Governmental Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, that are applicable to the circumstances as of the date of determination.

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

"*Indenture*" means, this Master Indenture, as supplemented and amended from time to time by Supplemental Indentures.

"*Initial Amount*" means the Accreted Value of a Capital Appreciation Obligation on its date of issuance and delivery to the original purchaser thereof.

"*Interest Account*" means the account by that name in the Debt Service Fund established pursuant to Section 5.02.

"*Interest Payment Date*" means, with respect to a Series of Bonds, each date on which interest on Bonds of such Series is scheduled to be paid as set forth in, or determined in accordance with, the Supplemental Indenture authorizing the issuance of such Series.

"*Issuing Instrument*" means any, resolution, indenture, supplemental indenture, trust agreement or other instrument or agreement under which Obligations are issued.

"*Master Indenture*" means this Master Indenture of Trust, dated as of January 1, 2016, between the District and the Trustee, as the provisions hereof may be modified or amended from time to time in accordance with Article VII.

"*Maximum Adjusted Annual Debt Service*" means, with respect to a certificate to be delivered in connection with Additional Parity Obligations, as of any date and with respect to the Applicable Parity Obligations, the maximum amount of Adjusted Debt Service becoming due on the Applicable Parity Obligations in the then current or any future Fiscal Year, as adjusted as provided in this definition and calculated by the District or by a Consultant. For purposes of calculating Maximum Adjusted Annual Debt Service, the following adjustments and assumptions shall be made with respect to Debt Service on the Applicable Parity Obligations coming due in each Fiscal Year:

(a) if, any Outstanding Parity Obligations constitute Tax-Exempt Variable Rate Indebtedness (except to the extent paragraph (e) applies), the interest rate on such Parity Obligations for any period as to which such interest rate has not been established (for purposes of this clause (a), the "*Prospective Period*") shall be one hundred ten percent (110%) of the most recently published SIFMA Index;

(b) if any Outstanding Parity Obligations constitute Variable Rate Indebtedness which is not Tax-Exempt (except to the extent paragraph (e) applies), the interest rate on such Parity Obligations for any period as to which such interest rate has not been established (for purposes of this clause (b), the "*Prospective Period*") shall be assumed to be the greater of the U.S. Treasury yield (of equivalent maturities), plus seventy-five (75) basis points, or one hundred ten percent (110%) of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation of Maximum Adjusted Annual Debt Service is made (for purposes of this clause (b), the "*Historical Period*"), or if the One Month USD LIBOR Rate is not available for such Historical Period, another similar rate or index selected by the District, provided that if a Public Finance Contract that has the effect of capping interest rate exposure is to be in effect with respect to such Parity Obligations for such Prospective Period, for purposes of calculating the average One Month USD LIBOR Rate during such Historical Period, the strike or cap rate under the Public Finance Contract shall be the assumed interest rate for any month during the Historical Period in which the applicable index rate exceeds such strike or cap rate;

(c) if the Additional Parity Obligations proposed to be issued shall be Tax-Exempt Variable Rate Indebtedness (except to the extent subsection (f) applies), then the interest rate on such Additional Parity Obligations for any prospective period shall be assumed to be greater of the Bond Buyer Revenue Bond Index, or one hundred ten

percent (110%) of the average SIFMA Index during the calendar quarter preceding the calendar quarter in which the calculation of Maximum Adjusted Annual Debt Service is made (for, purposes of this clause (c), the "*Historical Period*"), or if that index is no longer published, seventy-five percent (75%) of the One Month USD LIBOR Rate, or if the One Month USD LIBOR Rate is not available, another similar rate or index selected by the District, provided that if a Public Finance Contract that has the effect of capping interest rate exposure is to be in effect with respect to such Parity Obligations for such prospective period, for purposes of calculating the applicable index during such Historical Period, the strike or cap rate under the Public Finance Contract shall be the assumed interest rate for any period during the Historical Period in which the applicable index rate exceeds such strike or cap rate;

(d) if the Additional Parity Obligations proposed to be issued shall be Variable Rate Indebtedness which is not Tax-Exempt (except to the extent subsection (f) applies) then the interest rate on such Additional Parity Obligations for any prospective period shall be assumed to be the greater of the U.S. Treasury yield of equivalent maturities plus seventy-five (75) bonus points or, one hundred ten percent (110%) of the average One Month USD LIBOR Rate during the calendar quarter preceding the calendar quarter in which the calculation is made (for purposes of this clause (d), the "*Historical Period*"), or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by the District, provided that if a Public Finance Contract that has the effect of capping interest rate exposure is to be in effect with respect to such Parity Obligations for such prospective period, for purposes of calculating the applicable index during such Historical Period, the strike or cap rate under the Public Finance Contract shall be the assumed interest rate for any period during the Historical Period in which the applicable index rate exceeds such strike or cap rate;

(e) if a Qualified Swap Agreement has been entered into in connection with any Outstanding Parity Obligations, the interest rate on such Outstanding Parity Obligations for each Fiscal Year or portion thereof during which payments are to be exchanged by the parties under such Qualified Swap Agreement shall be determined for purposes of calculating Maximum Adjusted Annual Debt Service by adding: (1) the amount of Debt Service paid or to be paid by the District as interest on the Outstanding Parity Obligations during such Fiscal Year or portion thereof (determined as provided in paragraph (a) or (b), as applicable, if such Outstanding Parity Obligations constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) paid or to be paid by the District under the Qualified Swap Agreement (after giving effect to payments made and received, and to be made and received, by the District under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Outstanding Parity Obligations constituting Variable Rate Indebtedness is assumed to bear interest;

(f) if a Qualified Swap Agreement has been entered into by the District with respect to any Additional Parity Obligations proposed to be issued, the interest on such proposed Additional Parity Obligations for each Fiscal Year or portion thereof during which payments are to be exchanged under the Qualified Swap Agreement shall be

determined for purposes of calculating Maximum Adjusted Annual Debt service by adding: (1) the amount of Debt Service to be paid by the District as interest on such Additional Parity Obligations during such Fiscal Year or portion thereof (determined as provided in paragraph (c) or (d), as applicable, if such Additional Parity Obligations are to constitute Variable Rate Indebtedness) and (2) the net amount (which may be a negative amount) to be paid by the District under the Qualified Swap Agreement (after giving effect to payments to be made and received by the District under the Qualified Swap Agreement) during such Fiscal Year or portion thereof, and for this purpose any variable rate of interest agreed to be paid under the Qualified Swap Agreement shall be deemed to be the rate at which the related Additional Parity Obligations which are to constitute Variable Rate Indebtedness shall be assumed to bear interest.

"Modified Debt Service" means Adjusted Debt Service, except that if a Qualified Swap Agreement has been entered into in connection with any Outstanding Parity Obligations, the interest rate on such Outstanding Parity Obligations for the applicable Fiscal Year or portion thereof during which payments are to be exchanged by the parties under such Qualified Swap Agreement shall be determined for purposes of calculating Modified Debt Service by adding: (1) the amount of Debt Service paid as interest on the Outstanding Parity Obligations during such Fiscal Year or portion thereof and (2) the net amount (which may be a negative amount) paid by the District under the Qualified Swap Agreement (after giving effect to payments made and received by the District under the Qualified Swap Agreement) during such Fiscal Year or portion thereof.

"Moody's" means Moody's Investors Service, Inc. and any successor entity rating Parity Obligations at the request of the District.

"Net Debt Service" means Debt Service net of capitalized interest, and/or interest earnings from funds and reserves irrevocably deposited with the Trustee for the payment of Debt Service.

"Net Payment" means with respect to a Qualified Swap Agreement, the amount payable by the District on each scheduled payment date under such Qualified Swap Agreement net of the amount payable by the counterparty under such Qualified Swap Agreement on such scheduled payment date.

"Nominee" means the nominee of the Securities Depository for the Book-Entry Bonds in whose name such Bonds are to be registered. The initial Nominee shall be Cede & Co., as the nominee of DTC.

"Obligations" means (a) the Bonds and other obligations with respect to borrowed money and includes bonds, notes or other evidences of indebtedness, installment purchase payments under any contract, and lease payments under any financing or capital lease (determined to be such in accordance with Generally Accepted Accounting Principles), which are payable from the Revenues, excluding therefrom any amounts payable under energy purchase agreements, including without limitation, taxes or pay power purchase agreements; (b) obligations to replenish the Debt Service Reserve Fund with respect to Obligations described in (a) above; (c) obligations secured by or payable from any of obligations of the District described

in (a) above; and (d) obligations payable from the Revenues and entered into in connection with, relating to, or otherwise serving as a hedge with respect to, an obligation described in (a), (b) or (c) above under any Public Finance Contract.

"*One Month USD LIBOR Rate*" means the British Banker's Association average of interbank offered rates in the London market for United States dollar deposits for a one-month period as reported in The Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by the District.

"*Operation and Maintenance Expenses*" means the reasonable costs and expenses of operating and maintaining the System, including the costs of purchase of power and water and the delivery of water to the customers of the District, but excluding any such costs and expenses that are paid from a source other than Revenues and excluding any principal and interest and mandatory redemption costs on the Bonds and depreciation charges.

"*Opinion of Bond Counsel*" means a written opinion signed by Bond Counsel.

"*Outstanding*" when used as of any particular time with respect to Obligations, means, except as otherwise provided in Article VII, all Obligations theretofore or thereupon being issued by the District, except (a) Obligations theretofore cancelled or surrendered for cancellation; (b) Obligations paid or deemed to be paid within the meaning of any defeasance provisions of the Issuing Instrument pursuant such Obligations were issued; and (c) Obligations in lieu of or in substitution for which replacement Obligations have been issued.

"*Parity Coverage Fund*" means the fund created pursuant to Section 5.02, the purpose of which fund shall be to provide additional coverage for the issuance of Parity Obligations.

"*Parity Obligations*" means Bonds and any other Obligations which are payable from the Revenues on a parity with the payment of the Bonds and which satisfy the applicable conditions of Section 2.07, including without limitation Net Payments due under Qualified Swap Agreements.

"*Parity Purchase Price*" means with respect to Parity Obligations which are Tender Indebtedness, the Purchase Price of such Parity Obligations if and to the extent payable from Revenues on a parity with the payment of principal of and interest on the Bonds.

"*Parity Reserve Account*" means the account within the Debt Service Reserve Fund created pursuant to Section 5.02.

"*Participants*" means, with respect to a Securities Depository for Book-Entry Bonds, those participants listed in such Securities Depository's book-entry system as having an interest in such Bonds.

"*Paying Agent*" means, with respect to a Series of Bonds, the Trustee and any banking corporation, banking association or trust company designated as paying agent for such Series of Bonds pursuant to Section 8.01 or Section 8.02, and its successor or successors appointed in the manner provided in this Master Indenture.

"*Permitted Investments*" means any of the following obligations if and to the extent that they are permissible investments of funds of the District under A.R.S. Section 35-313, as amended (the Trustee may rely on the investment directions of the District) and to the extent then permitted by law:

- (a) Bonds or other evidences of indebtedness of the United States or any of its agencies or instrumentalities if the obligations are guaranteed as to principal and interest by the United States or by any agency or instrumentality of the United States.
- (b) Bonds or other evidences of indebtedness of this State or of any county, incorporated city or town or duly organized school district of this State rated "AA" or higher by Fitch, Moody's or S&P.
- (c) Interest bearing savings accounts or certificates of deposit insured in banks or savings and loan associations doing business in this State by the federal deposit insurance corporation or the federal savings and loan insurance corporation but only if they are secured by the depository to the same extent and in the same manner as required by the general depository law of this State. Security is not required for that portion of any deposit that is insured under any law of the United States.

"*Person*" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"*Plant in Service*" means all water delivery systems and electrical generation, transmission and distribution systems and all related equipment and facilities owned by the District.

"*Power Revenues*" means the revenues derived from the sale of electricity and are not Pledged Revenues for the Bonds.

"*Principal Account*" means the account by that name in the Debt Service Fund established pursuant to Section 5.02.

"*Principal Office*" means, with respect to: (i) the Trustee, the designated (but not principal) office of such Trustee in Phoenix, Arizona; and (ii) a Paying Agent or a Credit Provider, the office designated as such in writing by such party to the Trustee.

"*Principal Payment Date*" means, with respect to a Series of Bonds, each date on which principal on Bonds of such Series is scheduled to be paid as set forth in, or determined in accordance with, the Supplemental Indenture authorizing the issuance of such Series.

"*Public Finance Contract*" means (i) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices; (ii) any contract to exchange cash flows or a series of payments; or (iii) any contract to hedge payment,

currency, rate spread or similar exposure, including but not limited to interest, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the District and a counterparty.

"Purchase Price" means: (i) with respect to Bonds of any Series, the purchase price set forth in the Supplemental Indenture authorizing the Bonds of such Series to be paid to the Owners of such Bonds when such Bonds are tendered for purchase or deemed tendered for purchase in accordance with the provisions of such Supplemental Indenture; and (ii) with respect to other Parity Obligations, the purchase price set forth in the Issuing Instrument authorizing such Parity Obligations to be paid to the owners of such Parity Obligations when such Parity Obligations are tendered or deemed tendered for purchase in accordance with the provisions of such Issuing Instrument.

"Qualified Swap Agreement" means a Public Finance Contract, the District's obligations to make Net Payments under which are payable from the Revenues on a parity with the payment of other Parity Obligations and satisfying the conditions of Section 2.07(a), intended to place Parity Obligations or the applicable investments on the interest rate, currency, cash flow or other basis desired by the District.

"Rating Agency" means, as of any time and to the extent it is then providing or maintaining a rating on Parity Obligations at the request of the District, each of Fitch's, Moody's or Standard & Poor's, or in the event that neither Fitch's, Moody's or Standard & Poor's then maintains a rating on Parity Obligations at the request of the District, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds at the request of the District.

"Rating Category" means (1) with respect to any long term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign, outlook or other modifier and (2) with respect to any short term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier outlook.

"Rating Confirmation" means written evidence from each Rating Agency then rating Outstanding Parity Obligations at the request of the District to the effect that, following the event which requires the Rating Confirmation, the then current rating for each Outstanding Parity Obligation shall not be lowered or withdrawn solely as a result of the occurrence of such event.

"Record Date" means, with respect to an Interest Payment Date for a Series of Bonds, the date or dates specified as such in the Supplemental Indenture authorizing such Series of Bonds.

"*Redemption Date*" means, with respect to any Bonds to be redeemed in accordance with this Master Indenture and the Supplemental Indenture authorizing such Bonds, the redemption date set forth in notice of redemption of such Bonds given in accordance with the terms of this Master Indenture.

"*Redemption Price*" means, with respect to any redemption of a Bond prior to its maturity, the amount to be paid upon such redemption of the Bond as set forth in, or determined in accordance with, the Supplemental Indenture authorizing such Bond.

"*Refunding Bonds*" means Bonds issued in accordance with the terms and conditions of this Master Indenture for the purposes, and satisfying the conditions of Section 2.06.

"*Refunding Parity Obligations*" means Parity Obligations that are Refunding Bonds, which are issued for the purposes set forth in Section 2.06 and satisfying the conditions set forth in Section 2.07.

"*Replacement Charges*" for purposes of determining Pledged Revenues, are revenues of the District collected for certain capital projects of the District and are not pledged as Revenues for the payment of the Bonds, except that portion of the Replacement Charges which are attributable to debt service for the Bonds.

"*Representation Letter(s)*" the letter or letters of representations from the District to, or other instrument or agreement with, a Securities Depository for Book-Entry Bonds, in which the District, among other things, makes certain representations to the Securities Depository with respect to the Book-Entry Bonds, the payment thereof and delivery of notices with respect thereto.

"*Reserve Financial Guaranty*" means a policy of municipal bond insurance or surety bond issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the two highest rating categories (without regard to qualifiers) by S&P and Moody's.

"*Reserve Financial Guaranty Provider*" means an issuer of a Reserve Financial Guaranty.

"*Responsible Officer*" means, when used with respect to the Trustee, the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer or any other officer of the Trustee within its office located in _____, Arizona (the "*Corporate Trust Office*") (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Corporate Trust Office because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Indenture.

"*Revenue Bond Statute*" means Article 3 of the Act.

"*Revenue Fund*" means the Revenue Fund established hereunder pursuant to Section 5.02.

"*Revenues*" mean the gross revenues of the District derived from the Fixed Water Operation and Maintenance Charges ("*Fixed O&M*") and a portion of the Replacement Charges of the System. "Revenues" do not include any income or moneys derived from taxes or assessments authorized by the Act, Power Revenues, Replacement Charges, except that portion of the Replacement Charges attributable to debt service on the Bonds, or the proceeds or investment income of any bonds of the District, other than the Bonds.

"*Revenues Available for Debt Service*" mean Fixed Operations and Maintenance Charges and a portion of the Replacement Charges less Operations and Maintenance Expenses, plus all amounts on deposit in the Parity Coverage Fund as certified by the District prior to the issuance of any Parity Obligations.

"*Rule 15c2-12*" means Rule 15c2-12 of the Securities and Exchange Commission adopted pursuant to the Securities Exchange Act of 1934, as amended, as the same may be amended and supplemented from time to time.

"*Secretary*" means the Secretary of the District.

"*Securities Depository*" means a trust company or other entity which provides a book entry system for the registration of ownership interests of Participants in securities and which is acting as security depository for Book-Entry Bonds.

"*Serial Obligations*" means Obligations for which no Sinking Fund Installments are established.

"*Serial Parity Obligations*" means Serial Obligations which are Parity Obligations.

"*Series*" means Obligations issued at the same time or sharing some other common term or characteristic and designated in the Issuing Instrument pursuant to which such Obligations were issued as a separate issue or series of Obligations.

"*Service*" means the services, commodities and products furnished, made available or provided by the System.

"*SIFMA Index*" means the Securities Industry and Financial Markets Association Municipal Index as of the most recent date for which such index was published or such other weekly, high grade index comprised of seven day, Tax-Exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or as otherwise designated by The Bond Market Association; provided, however, that, if such index is no longer produced by Municipal Market Data, Inc. or its successors, then "SIFMA Index" shall mean such other reasonably comparable index selected by the District.

"*Sinking Fund Account*" means the account by that name in the Debt Service Fund established pursuant to Section 5.02.

"*Sinking Fund Installment*" means, with respect to any Term Parity Obligations, each amount so designated for such Term Parity Obligations in the Issuing Instrument authorizing the issuance of such Parity Obligations, or in the Credit Support Instrument for such Parity Obligations, requiring payments by the District from the Revenues to be applied to the retirement of such Parity Obligations on and prior to the stated maturity date thereof.

"*Special Record Date*" has the meaning set forth in Section 3.01(f).

"*Standard & Poor's*" means Standard & Poor's Rating Services and any successor entity rating Parity Obligations at the request of the District.

"*State*" means the State of Arizona.

"*Subordinated Obligation*" means any Obligation which is expressly made subordinate and junior in right of payment from the Revenues to the payment of Parity Obligations and which complies with the provisions of Section 2.08.

"*Supplemental Indenture*" means any supplemental indenture supplementing or amending this Master Indenture as theretofore in effect, entered into by the District and the Trustee in accordance with Article VII.

"*System*" means the water distribution and electric transmission systems of the District and all water and electric distribution properties of every nature hereafter owned by the District, all improvements and extensions made by the District while any Bonds remain Outstanding, and including all real and personal property of every nature comprising part of or used or useful in connection with the District's water and electrical systems, and including all appurtenances, contracts, leases, franchises, and other intangibles. The System shall also include the District's interest in any generation and transmission system that the District owns or has rights to output, jointly or severally, with other entities.

"*Tax Certificate*" means a certificate relating to the requirements of the Code signed on behalf of the District and delivered in connection with the issuance of a Series of Bonds which are tax-exempt securities.

"*Tax-Exempt*" means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the holders thereof for federal income tax purposes.

"*Tax-Exempt Securities*" means bonds, notes or other securities the interest on which is Tax-Exempt.

"*Tender Indebtedness*" means any Parity Obligations or portions of Parity Obligations, a feature of which is an option or obligation, on the part of the owners thereof under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the District, a fiscal agent, a paying agent, a tender agent or other agent for purchase and requiring that such Parity Obligations or portions thereof be purchased at the applicable Purchase Price if properly presented.

"*Termination Payment*" means with respect to a Qualified Swap Agreement, the amount payable by the District as a result of the termination of such Qualified Swap Agreement prior to its scheduled expiration date.

"*Term Obligations*" means Obligations which are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose and calculated to retire such Obligations on or before their specified maturity dates.

"*Term Parity Obligations*" means Term Obligations which are Parity Obligations.

"*Trust Estate*" means, subject to the provisions of this Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, (i) the Revenues, (ii) all amounts on deposit in the Debt Service Fund and the Redemption Fund; (iii) with respect to the Bonds, all amounts in the Parity Reserve Account, and (iv) with respect to a Series of Bonds entitled to be paid from a Series Reserve Account, all amounts in such Series Reserve Account, in each case including the investments, if any, thereof.

"*Trustee*" means, Zions First National Bank, as trustee for the Bonds under this Master Indenture and any successor satisfying the requirements of Section 8.09.

"*Variable Rate Indebtedness*" means any Obligation the interest rate on which to the maturity thereof is not established at a rate which is not subject to fluctuation or subsequent adjustment, either at the time of issuance of such Obligation or some subsequent date.

Section 1.02 Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neutral genders. Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including districts, agencies and other public bodies, as well as natural persons. Unless otherwise indicated, references in this Master Indenture to subsections, Sections and Articles are to such subsections, Sections and Articles of this Master Indenture. Unless the context requires otherwise, the terms "herein," "hereof," "hereunder" and any similar terms, as used in this Master Indenture, shall refer to this Master Indenture as a whole and not to any particular provisions of this Master Indenture. Defined terms shall include any variant of the terms set forth in this Article.

The term "principal" when used with reference to a Capital Appreciation Obligation as of its maturity date shall refer to the Final Compounded Amount of such Capital Appreciation Obligation and as to any other date, the Accreted Value of such Capital Appreciation Obligation as of such date. The term "principal" when used with reference to a Parity Obligation which is a Qualified Swap Agreement shall refer to the Net Payments due under such Qualified Swap Agreement.

The term "issue" shall include issuance, creation, incurrence, entering into an agreement or any other act pursuant to which a party may become obligated with respect to an Obligation. The term "include" shall not be construed to be limited to the items or the type of items listed after such word, which items are by way of example and not limitation, but the term shall be construed as meaning "including without limitation."

Section 1.03 Authority for this Master Indenture. This Master Indenture is entered into by the District pursuant to the provisions of the Revenue Bond Statute.

ARTICLE II
AUTHORIZATION AND ISSUANCE OF BONDS

Section 2.01 Authorization of Bonds.

(a) This Master Indenture provides certain terms and conditions upon which Bonds of the District to be designated as "*CENTRAL ARIZONA WATER CONSERVATION DISTRICT WATER DELIVERY O&M REVENUE BONDS*" or "*CENTRAL ARIZONA WATER CONSERVATION DISTRICT WATER DELIVERY O&M REVENUE REFUNDING BONDS*" may be issued from time to time as authorized by Supplemental Indentures. The aggregate principal amount of Bonds which may be executed, authenticated and delivered under this Master Indenture is not limited except as may hereafter be provided in this Master Indenture or as may be limited by law.

(b) The Bonds may be issued in one or more Series, and the designation thereof, in addition to the name "*CENTRAL ARIZONA WATER CONSERVATION DISTRICT WATER DELIVERY O&M REVENUE BONDS, SERIES 20__*," or "*CENTRAL ARIZONA WATER CONSERVATION DISTRICT WATER DELIVERY O&M REVENUE REFUNDING BONDS, SERIES 20__*," shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the District may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

Section 2.02 Bonds Constitute Special Obligations. The Bonds shall not constitute a charge against the general credit or taxing power of the District but shall constitute and evidence special obligations of the District payable as to principal, Redemption Price, if any, and interest solely from the Revenues and the other funds pledged therefor under this Master Indenture and, with respect to any particular Series of Bonds, from such other sources as shall be specified in the Supplemental Indenture authorizing the issuance of such Series. The Purchase Price for the Bonds of any Series which are tender indebtedness shall be payable from such sources as are specified in the Supplemental Indenture authorizing the issuance of such Series. The provisions of this Section shall not preclude the payment or redemption of Bonds, at the election of the District, from any other legally available funds. The Bonds are not secured by a legal or equitable pledge of, or lien or charge upon, any property of the District or any of its income or receipts except the Trust Estate pledged therefor pursuant to this Master Indenture which pledge is subject to the provisions hereof permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth herein. Neither the faith and credit nor the taxing power of the State, the District or any other public agency is pledged to the payment of the principal or Redemption Price of or the interest on the Bonds. The issuance of the Bonds shall not directly, indirectly or contingently obligate the District to levy or pledge any form of taxation or assessment or to make any appropriation for the payment of the Bonds. The payment of the principal or Redemption Price of or interest on the Bonds does not constitute a debt, liability or obligation of the State or any public agency (other than the special obligation of the District as provided in this Master Indenture). Neither the members of the Board of Directors of

the District, nor any person executing a Bond, nor any officer or employee of the District shall be liable personally for the principal or Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance of the Bonds or in respect of any undertakings by the District under this Master Indenture. The face of each Bond shall contain a legend to the effect set forth in this Section.

Section 2.03 Indenture to Constitute Contract. In consideration of the purchase and acceptance of each Bond issued under this Master Indenture by those who shall own the same from time to time, the provisions of each Bond and the provisions of this Master Indenture applicable to such Bond, and unless otherwise provided in the Supplemental Indenture authorizing such Bond, the provisions of the State Constitution, the Act and any general laws of the State applicable to such Bond, the District and the System, shall be deemed to be and shall constitute a contract between the District and the Owner of such Bond.

Section 2.04 General Provisions for Issuance of Bonds.

(a) All (but not less than all) the Bonds of each Series shall be executed by the District for issuance under this Master Indenture and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the District or upon its order, but only upon the receipt by the Trustee of the following items (upon which the Trustee may conclusively rely in determining whether the conditions precedent for the issuance and authentication of such Series of Bonds have been satisfied):

(i) An executed counterpart of this Master Indenture, as amended to the date of the initial delivery of such Series of Bonds, and an executed counterpart of the Supplemental Indenture authorizing the issuance of such Series of Bonds, which Supplemental Indenture shall specify (or incorporate by reference to a separate document): (1) the sources of payment for the Bonds of such Series other than the Trust Estate, if any; (2) the Series designation of such Bonds; (3) the authorized principal amount of the Bonds of such Series; (4) the purposes for which such Series of Bonds are being issued, which, except for the initial issuance of Bonds hereunder, shall be one of the purposes specified in Section 2.05 or 2.06; (5) the date or manner of determining the date of the Bonds of such Series; (6) the maturity date or dates of the Bonds of such Series and the principal amount of the Bonds of such Series maturing on each such maturity date; provided, however, that all Parity Bonds shall mature on January 1 of each year in which any portion of such Parity Bonds matures; (7) which, if any, of the Bonds of such Series shall constitute Serial Obligations and which, if any, shall constitute Term Obligations; (8) the interest rate or rates on the Bonds of such Series or the manner of determining such interest rate or rates; provided, however, that interest payment dates for all Parity Bonds, shall be January 1 and July 1 in each full year that interest comes due on Parity Bonds; (9) the Authorized Denominations of the Bonds of such Series; (10) the Redemption Price or Prices, if any, and, subject to Article IV, the redemption terms for the Bonds of such Series; (11) the Sinking Fund Installments, if any, for the Bonds of such Series which constitute Term Obligations, provided that each Sinking Fund Installment, if any, shall fall upon an Interest Payment Date for the Bonds of such Series;

(12) if the Bonds of such Series are not initially to be Book-Entry Bonds, a statement to such effect; (13) the application of the proceeds of the sale of such Series of Bonds including the amount, if any, to be deposited in the funds and accounts under this Master Indenture; (14) the forms of the Bonds of such Series and of the certificate of authentication thereon; (15) whether the Bonds of such Series are to be secured by the Parity Reserve Account or a Series Reserve Account; and (16) the appropriate funds and accounts, if any, relating to such Series of Bonds established under such Supplemental Indenture, including without limitation a Series Reserve Account, if applicable;

(ii) An Opinion of Bond Counsel, dated the date of the initial delivery of such Series of Bonds, to the effect that this Master Indenture, as amended to such date, as supplemented by the Supplemental Indenture authorizing the issuance of such Series of Bonds, constitutes the valid and binding obligations of the District;

(iii) With respect to any Additional Parity Obligations other than the Bonds, the Trustee shall have received the certificate referred to in Section 2.07(a); and

(iv) Such further documents, moneys and securities as are required by the applicable provisions of Section 2.05 or Section 2.06 or of the Supplemental Indenture authorizing the issuance of such Series of Bonds.

(b) After the original issuance of Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to this Master Indenture.

Section 2.05 Additional Obligations. Subject to Section 2.07(a) and (f), one or more Series of Additional Obligations may be issued, authenticated and delivered upon original issuance for the purpose of paying all or a portion of the Costs of any Capital Improvement, including making of any deposits into the funds or accounts required by the provisions of this Master Indenture.

Section 2.06 Refunding Bonds.

(a) Subject to Section 2.07(f), one or more Series of Refunding Bonds may be issued, authenticated and delivered upon original issuance for the purpose of refunding all or any portion of the Outstanding Parity Obligations. Refunding Bonds may be issued in a principal amount sufficient to accomplish such refunding including providing amounts for the Costs of Issuance of such Refunding Bonds and the making of any deposits into the funds and accounts required by the provisions of this Master Indenture. It shall be a condition to the valid issuance of Refunding Bonds that either (i) subject to Section 2.07(b), Section 2.07(a) is satisfied; or (ii) after the issuance of such Refunding Bonds, Debt Service on all Bonds Outstanding will not increase above five percent (5%) in any Fiscal Year; or (iii) the issuance of such Refunding Bonds is necessary to avoid an Event of Default; or (iv) if one or more Credit Support

Instruments shall secure all Outstanding Parity Obligations, the Credit Providers thereof shall consent in writing to such issuance.

(b) Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (in addition to the documents required by Section 2.04) of an Opinion of Bond Counsel to the effect that the Parity Obligations (or the portion thereof) to be refunded are deemed paid pursuant to the Issuing Instrument authorizing such Parity Obligations. Such Opinion of Bond Counsel may rely upon an Accountant's Certificate as to the sufficiency of available funds to pay such Parity Obligations. The Trustee may conclusively rely on such Opinion of Bond Counsel in determining whether the conditions precedent for the issuance and authentication of such Series of Refunding Bonds have been satisfied.

(c) The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Indenture authorizing such Series of Refunding Bonds.

Section 2.07 Conditions to Issuance of Parity Obligations.

(a) The District may issue obligations on a parity with the Bonds and such obligations shall be secured by an equal charge and lien on the Revenues, upon satisfaction of the conditions to the issuance of Bonds contained in this Section, only if, (i) Revenues Available For Debt Service, adjusted as provided in this Section, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such proposed additional Bonds, are not less than 1.2 times the maximum total Debt Service for any succeeding year on all Bonds which are outstanding immediately prior to the issuance of the proposed additional Bonds, and (ii) the estimated Revenues Available For Debt Service, adjusted as provided in this Master Indenture, for each Fiscal Year immediately following the issuance of such Additional Parity Obligations are not less than 1.2 times the Maximum Adjusted Annual Debt Service for each such respective Fiscal Year on all Parity Obligations Outstanding immediately subsequent to the issuance of such Additional Parity Obligations. All amounts on deposit in the Parity Coverage Fund may be counted as Revenues Available For Debt Service. Prior to the issuance of any Parity Obligations, the District shall obtain a certificate of an Authorized District Representative evidencing full compliance with this Section.

(b) In determining the amount of Revenues Available For Debt Service for the purposes of this Section, the Authorized Officer of the District may adjust the Revenues Available For Debt Service by adding thereto the following: (i) in the event any adjustment of rates with respect to the System shall have become effective or shall have been budgeted for the 12 month period selected pursuant to this caption, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such rate adjustment been in effect for the entire period; and (ii) an estimate made by an Authorized Officer of the District of the amounts from the Parity Coverage Fund which have been transferred and deposited pursuant to this caption. In determining the amount of estimated Revenues Available For Debt Service for the purpose of this caption, the Authorized Officer of the District may adjust the estimated Revenues Available For Debt Service by adding thereto any estimated increase in revenue resulting from any increase

in rates or any amount on deposit in the Parity Coverage Fund which is expected to be transferred by the District, which, in the opinion of the Authorized Officer of the District, are economically feasible, and reasonably considered necessary based on projected operations. The certificate required by this caption shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this caption.

(c) Without regard to subsection (a) of this Section, the District may, at any time and from time to time, issue Refunding Parity Obligations provided that the Trustee receives an Opinion of Bond Counsel to the effect that the Parity Obligations to be refunded are deemed paid pursuant to the Issuing Instrument authorizing such Parity Obligations; the Trustee shall have received an Accountant's Certificate to the effect that the moneys scheduled to be available in the applicable refunding escrow are sufficient to pay the applicable escrow requirements when due and a copy of the Escrow Instructions relating to such Refunding Parity Obligations and the Parity Obligations to be refunded.

(d) Without regard to subsection (a) of this Section, the District may, at any time and from time to time, enter into Credit Support Instruments with respect to Parity Obligations. The District's obligations under the Credit Support Instruments may not be superior in claim upon the Revenues to the pledge securing the Bonds.

(e) Without regard to subsection (a) of this Section, the District may, if permitted by law to do so and at any time and from time to time, issue or enter into an obligation or commitment which is a Qualified Swap Agreement, the Net Payments under which shall constitute Parity Obligations, provided (i) the Qualified Swap Agreement shall relate to a principal amount of Outstanding Parity Obligations or investments held under an Issuing Instrument for Parity Obligations, in each case specified by an Authorized District Representative; (ii) the notional amount of the Qualified Swap Agreement shall not exceed the principal amount of the related Parity Obligation or the amount of such investments, as applicable; and (iii) the District has received a Rating Confirmation from each Rating Agency with respect to such Qualified Swap Agreement.

(f) Prior to issuing Parity Obligations, the District shall deliver (i) an opinion of counsel (who may be counsel to the District) to the Trustee to the effect that the issuance of such Parity Obligations will not violate any limitations in any Credit Support Instrument concerning the incurrence of indebtedness or (ii) the written waiver of such limitation by the Credit Provider.

Section 2.08 Conditions of Issuance of Subordinated Obligations. Nothing in this Master Indenture shall limit the ability of the District to issue or incur obligations which are junior and subordinate to the payment of the principal, premium, interest and reserve fund requirements for the Bonds and all Parity Obligations and which subordinated obligations are payable as to principal, premium, interest and reserve fund requirements, if any, out of Revenues Available For Debt Service after the prior payment of all amounts then due and required to be paid or set aside under this Master Indenture. Any such Subordinated Obligations may be issued under this Indenture or Supplemental Indenture; provided, however, that they shall be junior and subordinate to the Bonds and any Parity Obligations and shall not share in any Series Reserve

Account or Parity Reserve Account but shall have their own Subordinate Lien Debt Service Reserve Fund, if any, pursuant to Section 5.06 herein.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

Section 3.01 Medium of Payment; Form and Date; Letters and Numbers.

(a) Unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, the Bonds of each Series shall be payable, with respect to principal, Redemption Price, if any, Purchase Price, if any, and interest in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(b) The Bonds shall be issued in the form of fully-registered bonds without coupons in Authorized Denominations.

(c) Each Bond shall be lettered and numbered so as to be distinguished from every other Bond.

(d) The Bonds of each Series shall be dated as provided in or determined pursuant to the Supplemental Indenture authorizing such Series. Unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, the Bonds of each Series shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (i) such Bonds are authenticated on an Interest Payment Date, in which event from such Interest Payment Date; and (ii) unless such Bonds are authenticated after a Record Date and before the next succeeding Interest Payment Date for such Bonds, in which event from such Interest Payment Date; provided, however, that if the date of authentication of a Bond shall be prior to the Record Date for the first Interest Payment Date for such Bond, such Bond shall bear interest from its original dated date. Notwithstanding the foregoing, if the District shall default in the payment of interest, then the Bonds shall bear interest from the date to which interest has been paid or if no interest has been paid, from their original dated date.

(e) Unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, the interest payable on Bonds, shall be calculated on the basis of a 360 day year of twelve 30 day months.

(f) Except as otherwise provided in the Representation Letter(s) for Book-Entry Bonds (or, with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series), interest on each Bond shall be payable on each Interest Payment Date for such Bond and shall be paid by wire transfer or by check of the Trustee mailed on such Interest Payment Date to the Owner of such Bond shown on the Bond Register as of the close of business on the Record Date immediately preceding such Interest Payment Date. Owners of at least \$1,000,000 aggregate principal amount (or, with respect to a Series of the Bonds, such other principal amount as may be specified in the Supplemental Indenture authorizing such Series), of Bonds of any Series may, at any time prior to a Record Date with respect to the payment of interest on such Bonds, give the Trustee written instructions for payment of such interest on each

succeeding Interest Payment Date for such Bonds by wire transfer or by deposit to an account. Notwithstanding the foregoing, if the District shall default in the payment of interest due on Bonds on any Interest Payment Date, such interest shall cease to be payable to the persons in whose name such Bonds were registered in the Bond Register on the Record Date for such Interest Payment Date, and shall be payable, when and if paid by the District, to the persons in whose names such Bonds are registered at the close of business on the record date fixed therefor by the Trustee (each a "*Special Record Date*"), which shall not be more than fifteen (15) days and not less than ten (10) days prior to the date of the proposed payment.

Unless redeemed prior to such date, the principal of each Bond shall be payable on its maturity date and the Redemption Price of each Bond called for redemption prior to maturity shall be payable on the applicable redemption date. Except as otherwise provided in the Representation Letter(s) for Book-Entry Bonds, the principal and, if applicable, the Redemption Price of each Bond shall be payable only upon presentation and surrender of such Bond at the designated office of the Trustee or any other Paying Agent for such Bond.

Section 3.02 Legends. Bonds may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of this Master Indenture as may be necessary or desirable to comply with custom, the rules of any securities exchange, commission or brokerage agent, or otherwise, as may be determined by the District prior to the authentication and delivery thereof.

Section 3.03 Execution and Authentication.

(a) The Bonds shall be executed in the name of the District by the manual or facsimile signature of its President and attested by the manual or facsimile signature of its Secretary, or in such other manner as may be authorized by Supplemental Indenture or in the manner required by law. In case any one or more of the officers who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as provided in this Master Indenture, and may be issued as if the persons who signed such Bonds had not ceased to hold such offices. Any Bond may be signed on behalf of the District by such persons as at the time of the execution of such Bond shall be duly authorized or hold the proper office in District, although at the date borne by such Bonds such persons may not have been so authorized or have held such office.

(b) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Indenture authorizing such Series, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under this Master Indenture and no Bond shall be valid or obligatory for any purpose until the Trustee shall have duly executed such certificate of authentication. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under this Master Indenture and that the Owner thereof is entitled to the benefits of this Master Indenture.

Section 3.04 Book-Entry Bonds.

(a) Unless otherwise provided with respect to a Series of Bonds in the Supplemental Indenture authorizing such Series, the Bonds of each Series shall be issued as Book-Entry Bonds in fully-registered form with no distribution of physical bonds made to the public. Except as otherwise provided in Section 3.05, the Book-Entry Bonds of each Series shall be registered in the name of the Securities Depository or its Nominee as directed by the Securities Depository. The payment of Book-Entry Bonds and the giving of notices shall be governed by the terms of the Representation Letter(s). DTC shall act as the initial Securities Depository for the Book-Entry Bonds and has designated Cede & Co. as its Nominee. DTC has represented to the District that it shall maintain a book-entry program in recording ownership interests in the Book-Entry Bonds of its Participants and the ownership interests of a Beneficial Owner of a Bond shall be recorded through book entries on the records of the Participants.

(b) Bonds of each Series which are not Book-Entry Bonds shall be delivered to the Owners thereof as fully registered Bonds in the form specified in the Supplemental Indenture authorizing the issuance of such Series of Bonds, with the ownership of such Bonds being recorded in the Bond Register.

(c) In the event that the DTC or any successor Securities Depository ceases to act as Securities Depository for Bonds of a Series, then Bonds of such Series in certificated form shall be issued to the Owners in substantially the form of the Bond delivered to the former Securities Depository or its Nominee with necessary changes to reflect non book-entry status as shall be approved by the officers of the District executing such Bonds. The issuance of individual Bonds in certificated form shall be accomplished as provided in the Representation Letter.

(d) With respect to Bonds registered in the Bond Register in the name of a Securities Depository or a Nominee, the District, the Trustee and each Paying Agent shall have no responsibility or obligation to any Participant or to any Beneficial Owner. Without limiting the immediately preceding sentence, none of the District, the Trustee or any Paying Agent shall have any responsibility or obligation with respect to (i) the accuracy of the records of a Securities Depository, its Nominee or any Participant as to any ownership interest in the Bonds; (ii) the delivery to any Participant, Beneficial Owner or any other person, other than an Owner as shown in the Bond Register, of any notice with respect to the Bonds; or (iii) the payment to any Participant, Beneficial Owner or any other person, other than an Owner as shown in the Bond Register, of any amount with respect to principal and Purchase Price of, premium, if any, or interest on the Bonds. The District, the Trustee and each Paying Agent may treat and consider the person in whose name each Bond is registered in the Bond Register as the absolute Owner of such Bond for the purpose of payment of principal and Purchase Price of, premium, if any, and interest on such Bond, for the purpose of registering transfers with respect to such Bond, for the purpose of giving notices to the Owner of such Bond, and for all other purposes whatsoever. None of the District, the Trustee or any Paying Agent shall be affected by any notice to the contrary. All principal and Purchase Price of, premium, if any, and interest on the Bonds shall be paid only to or upon the order of the respective Owner, as shown in the Bond Register, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of

principal and Purchase Price of, Redemption Price, if any, and interest on the Bonds to the extent of the sum or sums so paid, and none of the District, the Trustee or any Paying Agent shall be affected by any notice to the contrary. No person other than an Owner, as shown in the Bond Register, shall receive a Bond evidencing the obligation of the District to make payments of principal and Purchase Price of, Redemption Price, if any, and interest pursuant to this Master Indenture.

(e) Upon delivery by a Securities Depository to the District of written notice to the effect that the Securities Depository has determined to substitute a new Nominee in place of its current Nominee, and subject to the provisions in this Master Indenture with respect to Record Dates, the word Nominee for purposes of this Master Indenture shall refer to such new Nominee of the Securities Depository; and upon receipt of such notice, the District shall promptly deliver a copy of the same to the Trustee.

(f) Notwithstanding any other provision of this Master Indenture and so long as Book-Entry Bonds are registered in the name of a Nominee, the District and the Trustee shall cooperate with the Securities Depository in effecting payment of the principal of, Redemption Price, if any, and interest on such Book-Entry Bonds by arranging for payment in such manner as the Securities Depository may reasonably instruct in writing that funds for such payments are properly identified and are made available on the date they are due, all in accordance with the Representation Letter, the provisions of which the Trustee may rely upon to implement the foregoing procedures.

(g) A Securities Depository for the Book-Entry Bonds may resign upon giving 30 days' written notice of such resignation to the District and the Trustee. The District may terminate the use of the book-entry system of a Securities Depository for Book-Entry Bonds upon giving 30 days' written notice of such termination to the Securities Depository and the Trustee. Any such resignation or termination shall become effective upon the earlier of the appointment of a successor Securities Depository for Book-Entry Bonds by the District or the issuance of Bonds, which are not Book-Entry Bonds pursuant to Section 3.05.

Section 3.05 Transfers Outside Book-Entry Program. In the event that the resignation or removal of a Securities Depository has become effective pursuant to Section 3.04(g), then the District shall thereupon discontinue the current book-entry program for the Book-Entry Bonds with such Securities Depository. In such event, the District shall cause the Trustee to obtain from the former Securities Depository a list showing the interests of the Participants in the Book-Entry Bonds and shall cause such Book-Entry Bonds to be surrendered to the Trustee on or before the date any replacement Bonds are to be issued. Furthermore, in such event the District determines to use a substitute Securities Depository, the District shall so notify the Trustee and each Paying Agent for Book-Entry Bonds. If, prior to the termination of the current Securities Depository's book-entry system for the Book-Entry Bonds, the District fails to identify another qualified Securities Depository to replace the current Securities Depository, then the Book-Entry Bonds shall no longer be required to be registered in the name of a Securities Depository or its Nominee and the District shall issue, and the Trustee shall authenticate, replacement Bonds in the appropriate amounts and in whatever name or names the Owners of the Book-Entry Bonds shall designate pursuant to the Representation Letter with the former Securities Depository. In the event the District determines that the Beneficial Owners of

the Bonds shall be able to obtain physical Bonds through a Securities Depository, the District may notify the Participants identified by the Securities Depository as having an interest in the Bonds of the availability of such physical Bonds and the Trustee shall authenticate, transfer and exchange Bonds as required by the Securities Depository in the appropriate names and amounts, which shall be in Authorized Denominations.

Section 3.06 Bond Register. Trustee shall keep or cause to be kept, at its Principal Office, the Bond Register for the registration and transfer of the Bonds of each Series which shall at all times be open to inspection during regular business hours by the District, and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred on said Bond Register, Bonds of each Series as provided in this Master Indenture.

The District, the Trustee and each Paying Agent may rely on the address of the Owner of each Bond as it appears on the Bond Register for any and all purposes. It shall be the duty of the Owner of each Bond to give written notice to the Trustee of any change in the Owner's address so that the Bond Register may be revised accordingly.

Section 3.07 Interchangeability of Bonds. Upon surrender of a Bond at the designated office of the Trustee, together with a written instrument of transfer satisfactory to the Trustee and duly executed by the Owner or the Owner's attorney duly authorized in writing, may, at the option of the Owner thereof, and upon payment by such Owner of any charges which the Trustee may make as provided in Section 3.09, be exchanged for an equal aggregate principal amount of Bonds of the same Series, terms and maturity of any other Authorized Denominations.

Section 3.08 Negotiability, Transfer and Registry. Each Bond shall be transferable only upon the Bond Register, upon surrender thereof, together with a written instrument of transfer satisfactory to the Trustee, duly executed by the Owner or the Owner's duly authorized attorney. Upon the transfer of any such Bond, the District shall execute and the Trustee shall authenticate, deliver and register in the Bond Register in the name of the transferee a new Bond or Bonds of the same aggregate principal amount, Series, terms and maturity as the surrendered Bond.

Section 3.09 Regulations With Respect to Exchanges and Transfers. Subject to the terms of a Representation Letter with a Securities Depository for Book-Entry Bonds, in all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the District shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Master Indenture relating to such Bonds. All Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Trustee and cancelled by the Trustee. Unless this Master Indenture relating to such Bonds provides that such transfer or exchange shall be made without charge to the Owner, for every such exchange or transfer of Bonds, whether temporary or definitive, the District or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid and any other cost incurred by the District or the Trustee with respect to such exchange or transfer.

Section 3.10 Bonds Mutilated, Destroyed, Stolen or Lost. Subject to the terms of a Representation Letter with a Securities Depository for Book-Entry Bonds, if any Bond

becomes mutilated or is lost, stolen or destroyed, the District may execute and the Trustee shall authenticate and deliver a new Bond of like date of Series, maturity, principal amount and terms as the Bond so mutilated, lost, stolen or destroyed; provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to District or the Trustee, (ii) in the case of any such lost, stolen or destroyed Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the Trustee together with indemnity satisfactory to the Trustee, (iii) all other reasonable requirements of the District and the Trustee are complied with, and (iv) expenses in connection with such transaction are paid by the Owner. Any Bond surrendered for exchange shall be cancelled. Any such new Bond issued pursuant to this Section in substitution for a Bond alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the District, whether or not the Bond so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally payable from the Revenues on a parity with and entitled to equal and proportionate benefits with, all other Bonds.

Section 3.11 Temporary Bonds.

(a) Subject to the terms of a Representation Letter with a Securities Depository for Book-Entry Bonds, until the definitive Bonds are prepared, the District may execute, in the same manner as is provided in Section 3.03, and upon the request of the District, the Trustee shall authenticate and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive Bonds except as to the exchangeability for Bonds, one or more temporary Bonds substantially of the tenor of the definitive Bonds in lieu of which such temporary Bond or Bonds are issued, in Authorized Denominations, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. The installments of interest payable on such temporary Bonds shall be payable in the same manner as interest is payable on the definitive Bonds in lieu of which such temporary Bonds were issued. The District, at its own expense, shall prepare and execute and, upon the surrender of such temporary Bonds for exchange and the cancellation of such surrendered temporary Bonds, the Trustee shall authenticate and, without charge to the Owner thereof, deliver in exchange therefor, definitive registered Bonds of the same aggregate Series, principal amount, terms, maturity and date of issue as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds of a Series shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to this Master Indenture.

(b) Temporary Bonds authorized in more than one denomination, upon surrender thereof at the Principal Office of the Trustee, may, at the option of the Owner thereof, and upon payment by such Owner of any charges which may be made as provided in Section 3.09 be exchanged for an equal aggregate principal amount of temporary Bonds of the same Series, maturity, and containing the same terms, of any of the Authorized Denominations as shall be requested by such Owner.

(c) All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

Section 3.12 Cancellation of Bonds. All Bonds paid or redeemed, either at or before maturity, and all Bonds surrendered for transfer or exchange, shall be delivered to the

Trustee when such payment, redemption or surrender is made, and such Bonds, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled.

ARTICLE IV REDEMPTION OF BONDS

Section 4.01 Privilege of Redemption and Redemption Price. Bonds of each Series subject to redemption prior to maturity pursuant to the Supplemental Indenture authorizing such Series shall be redeemable, upon giving notice as provided in this Article IV, at such times and at such redemption prices as shall be specified in or pursuant to the Supplemental Indenture authorizing such Series and upon such terms as may be specified in this Article IV.

Section 4.02 Redemption at the Direction of District. In the case of a redemption of Bonds of any Series at the option or direction of the District, the District shall give written notice to the Trustee of the exercise of its option to redeem Bonds or of its direction to otherwise cause the redemption of Bonds at its direction, and of the redemption date, principal amounts of the Bonds of such Series and maturity to be redeemed (which Series, maturities and principal amounts shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in the Supplemental Indenture authorizing such Series of Bonds and provided that, with respect to any Bond to be redeemed in part, the portion of such Bond which is not to be redeemed shall be in an Authorized Denomination). Such notice shall be given at least forty (40) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall be given, other than a conditional notice, there shall be paid on or prior to the redemption date to the Trustee an amount in cash which, in addition to other moneys, if any, available therefor held by the Trustee, shall be sufficient to redeem on the applicable redemption date at the Redemption Price, all of the Bonds to be redeemed.

Section 4.03 Redemption Otherwise Than at District's Direction. Whenever by the terms of this Master Indenture, the Trustee is required or authorized to redeem Bonds otherwise than at the option or direction of the District and this Master Indenture does not expressly set forth the principal amount of Bonds of each Series and maturity so subject to redemption to be redeemed, the District may select the principal amounts of the Bonds of each Series and maturity to be redeemed (which Series, maturities and principal amounts to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in this Master Indenture and provided that, with respect to any Bond to be redeemed in part, the portion of such Bond which is not to be redeemed shall be in an Authorized Denomination) and in the event the District does not notify the Trustee of such Series, maturities, and principal amounts, to be redeemed on or before the forty-fifth (45th) day preceding the redemption date, the Trustee shall, in its sole discretion, subject to any limitations with respect to the Series, maturity, or principal amount of Bonds to be redeemed contained in this Master Indenture, select the Series, maturities and principal amounts of Bonds to be redeemed, which selection shall be conclusive, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof to the Owners of the Bonds to be redeemed or to appropriate Paying Agents in accordance with the terms of this Article IV.

Section 4.04 Selection of Bonds to be Redeemed. Except as otherwise provided in a Supplemental Indenture, if less than all of the Outstanding Bonds of like Series and maturity, shall be called for prior redemption, except as otherwise provided with respect to Credit Provider Bonds in the Supplemental Indenture authorizing such Credit Provider Bonds or in the applicable Credit Support Instrument or except as otherwise provided with respect to Book-Entry Bonds in a Representation Letter, the particular Bonds or portions of Bonds to be redeemed shall, subject to any limitations with respect thereto contained in this Master Indenture, be selected at random by the Trustee by lot as the Trustee may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination greater than the minimum Authorized Denomination for the Bonds of a Series shall be redeemed in part only in a principal amount such that the portion of such Bond which is not redeemed shall be in an Authorized Denomination for such Series and that, in selecting portions of Bonds of a Series for redemption, the Trustee shall treat each Bond of each Series as representing that number of Bonds of the minimum Authorized Denomination for such Series which is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination for the Bonds of such Series.

Section 4.05 Notice of Redemption. When the Trustee shall receive notice from the District of the exercise of its option to redeem Bonds or of its direction to otherwise cause the redemption of Bonds pursuant to Section 4.02, and when redemption of Bonds of a Series is authorized or required pursuant to Section 4.03, the Trustee shall give notice of such redemption as provided in the Supplemental Indenture to the Owners of any Bonds to be redeemed (in whole or in part) at their addresses appearing in the Bond Register.

Section 4.06 Partial Redemption of Bonds. Upon surrender of any Bond to be redeemed in part only, the District shall execute, and the Trustee shall authenticate and deliver to the Owner of such Bond, at the expense of the District, a new Bond or Bonds of Authorized Denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered, of the same Series, maturity and terms as the surrendered Bond.

Section 4.07 Effect of Notice and Availability of Redemption Money. Notice of redemption having been duly mailed to the Owners of the Bonds to be redeemed (in whole or in part), as provided in the Supplemental Indenture authorizing the Bonds to be redeemed, and not thereafter cancelled, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) the Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the applicable Redemption Price thereof, anything in such Supplemental Indenture or in the Bonds to the contrary notwithstanding;

(b) except as otherwise provided in a Representation Letter(s), upon presentation and surrender thereof at the designated office of the Trustee or another Paying Agent for such Bonds, the Bonds to be redeemed shall be redeemed at the applicable Redemption Price;

(c) the Bonds or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or portions thereof shall cease to bear further interest; and

(d) after the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this Master Indenture, or to any other rights, except with respect to payment of the Redemption Price thereof from the amounts so made available.

ARTICLE V ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 5.01 Pledge of Trust Estate. Subject to the application thereof on the terms and conditions provided in this Master Indenture, to secure the payment of the principal and interest on all the Outstanding Bonds, according to their tenor, purport and effect, and to secure the performance and observance of all of the covenants, agreements and conditions contained in the Outstanding Bonds and this Master Indenture, the District hereby irrevocably grants a first lien on and a security interest in, and pledges the Trust Estate to the Trustee, for the benefit of the Owners of the Bonds Outstanding from time to time, which lien on, security interest in and pledge of the Revenues included in the Trust Estate shall be on a parity with any pledge of Revenues securing Parity Obligations, including without limitation Credit Support Instruments for Parity Obligations and Qualified Swap Agreements. This lien on and security interest in and pledge of the Trust Estate shall constitute a first pledge of and charge and lien upon the Trust Estate, shall immediately attach and be effective, binding, and enforceable against the District, its successors, purchasers of any of the Trust Estate, creditors, and all others asserting rights therein to the extent set forth in, and in accordance with, this Master Indenture, irrespective of whether those parties have notice of the lien on, security interest in and pledge of the Trust Estate and without the need for any physical delivery, recordation, filing or further act. The grant of a lien on and security interest in, and pledge of, the Trust Estate pursuant to this Section is made pursuant to State law.

Section 5.02 Funds.

(a) To ensure the payment when due and payable, whether at maturity or upon redemption or upon acceleration, of the principal of, Redemption Price, if any, and interest on the Bonds, there are hereby established the following funds and accounts, to be held and maintained by the Trustee and applied as provided in this Master Indenture for so long as any of the Bonds are Outstanding:

(i) the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Debt Service Fund (the "*Debt Service Fund*"), comprised of an Interest Account, a Principal Account and a Sinking Fund Account;

(ii) the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Redemption Fund (the "*Bond Redemption Fund*"); and

(iii) the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Debt Service Reserve Fund (the "*Debt Service Reserve Fund*"), comprised of any such Parity Reserve Account and such Series Reserve Accounts as may be established by Supplemental Indenture.

(b) **Parity Coverage Fund.** To ensure adequate coverage for the issuance of Parity Obligations, the Central Arizona Water Conservation District Water Delivery O&M Revenue Bond Parity Coverage Fund (the "*Parity Coverage Fund*") is established and shall be held and maintained by the Trustee. The Parity Coverage Fund shall be funded at the discretion of the District from any lawfully available amounts available to the District for the purpose set forth in Section 2.07 herein.

Section 5.03 Payments by District. The District shall pay the Trustee, but only from the Revenues, the following amounts, in funds which are immediately available to the Trustee by 10:00 a.m. (Mountain Standard Time) on the last business day before the end of each month, at the following times:

(a) Commencing on January 29, 2016 and continuing on the last Business Day of each month thereafter through May 31, 2016, one-fifth (1/5th) of the amount that will be sufficient to pay all interest coming due on July 1, 2016 on all Bonds then Outstanding, and commencing June 30, 2016 and continuing on the last Business Day of each month thereafter, one-sixth (1/6th) of the interest becoming due on the next Interest Payment Date on all Bonds then Outstanding; provided, however, that such payments shall be reduced by any available amounts on deposit in the Interest Account, which are to be applied to such upcoming interest payment;

(b) Commencing January 29, 2016 and continuing on the last Business Day of each month thereafter, through November 30, 2016, one-eleventh (1/11th) of the principal maturing on the next succeeding Principal Payment Date on all Bonds then Outstanding and commencing December 30, 2016 and continuing on the last Business Day of each month thereafter, one-twelfth (1/12) of the principal maturing on the next succeeding Principal Payment Date on all Bonds then Outstanding (including Term Obligation Sinking Fund Redemptions); provided, however, that the District shall not be required to make any payment under this subsection (b) if the next Principal Payment Date is more than twelve (12) months and one (1) day, or Business Day as applicable, from such payment date. However, such payments shall be reduced by any available amounts on deposit in the Principal Account, which are to be applied to the upcoming principal payment;

(c) at least two (2) Business Days prior to each date fixed for the redemption of Outstanding Bonds (other than an optional redemption of Bonds as to which a conditional notice of redemption has been sent to the Owners), an amount equal to the Redemption Price of the Bonds to be redeemed;

(d) in the event of a withdrawal of moneys from the Debt Service Reserve Fund, the District shall be required to budget for and deposit within twelve (12) months from the date of withdrawal an amount such that, after the deposit of such amount in the Debt Service Reserve Fund, the amount on deposit in the Debt Service Reserve Fund shall be at least equal to the Debt Service Reserve Requirement, including amounts necessary to reinstate any Reserve Financial Guaranties on deposit in the Debt Service Reserve Fund; and

(e) in the event that on any date upon which the District is to make a payment from Revenues pursuant to subsection (a), (b), (c) and/or (d) of this Section and the amount of

available Revenues is not sufficient to make such payment and any payment required to be made on such date with respect to the principal, Parity Purchase Price and premium of and interest on other Parity Obligations (including, with respect to Qualified Swap Agreements, the Net Payments due), then the District shall apply the available Revenues to the payments required by subsection (a), (b), (c), and/or (d), or (e) of this Section and such payments with respect to the other Parity Obligations ratably (based on the respective amounts to be paid), without any discrimination or preferences.

Section 5.04 Debt Service Fund. (a) From the moneys paid by the District pursuant to Section 5.03(a) and (b), the Trustee, upon receipt of such moneys, shall deposit the following amounts in the following specified accounts within the Debt Service Fund:

(i) For deposit in the Interest Account, an amount equal to the interest payable on the Outstanding Bonds on the next applicable Interest Payment Date;

(ii) For deposit in the Principal Account, an amount equal to the principal of the Outstanding Bonds maturing on the next applicable Principal Payment Date; and

(iii) For deposit in the Sinking Fund Account, an amount equal to the Sinking Fund Installment due on the applicable Sinking Fund Installment due date.

(b) Except as hereafter provided in this Section 5.04: (i) amounts deposited in the Interest Account shall remain therein until expended for the payment of interest on the Bonds; (ii) amounts deposited in the Principal Account shall remain therein until expended for the payment of principal of the Bonds; and (iii) amounts deposited in the Sinking Fund Account shall remain therein until expended for the redemption or payment at maturity from Sinking Fund Installments of Bonds which are Term Obligations.

(c) The Trustee shall apply amounts in the Interest Account to the payment when due of interest on the Outstanding Bonds. The Trustee shall apply amounts in the Principal Account to the payment when due of principal of the Outstanding Bonds. The Trustee shall apply amounts in the Sinking Fund Account to the scheduled redemption (or payment at maturity) of the Bonds which are Term Obligations.

In the event one or more Paying Agents have been appointed for the Bonds, moneys may be transferred by the Trustee to such Paying Agents from the appropriate account in the Debt Service Fund for deposit into a special trust account to ensure the payment when due of the principal of, Redemption Price, if any, and interest on the Bonds. In the event that any principal of, Redemption Price or interest on, any Bond has been paid from amounts made available pursuant to a Credit Support Instrument, amounts in the appropriate accounts in the Debt Service Fund with respect to such Bond, and any such amounts transferred by the Trustee from the Debt Service Fund to a Paying Agent for Payment of such Bond pursuant to this Section shall be paid to the applicable Credit Provider as a reimbursement of the amounts so paid.

Section 5.05 Redemption Fund. From the moneys paid by the District pursuant to Section 5.03(c), the Trustee shall deposit in the Redemption Fund an amount equal to the Redemption Price of the Bonds to be redeemed. Said moneys shall be set aside in said Fund and shall be applied on or after the redemption date to the payment of the Redemption Price of the Bonds to be redeemed and, except as otherwise provided in this Section, shall be used only for that purpose. In the event one or more Paying Agents have been appointed for the Bonds which are to be redeemed with moneys in the Redemption Fund, amounts in the Redemption Fund may be transferred from such Fund by the Trustee to the Paying Agent for the Bonds to be redeemed for deposit into a special trust account held by such Paying Agent to ensure the payment when due the Redemption Price of the Bonds to be redeemed. In the event that the Redemption Price of a Bond has been paid by a Credit Provider pursuant to a Credit Support Instrument, amounts in the Redemption Fund with respect to such Redemption Price, and any such amounts transferred by the Trustee from the Redemption Fund to a Paying Agent for such Bonds pursuant to this Section, shall be paid to such Credit Provider as a reimbursement of the amounts so paid. If, after all of the Bonds designated for redemption have been redeemed and cancelled or paid and cancelled, there are moneys remaining in the Redemption Fund, said moneys shall be transferred to the Interest Account; provided, however, that if said moneys are part of the proceeds of Refunding Obligations said moneys shall be applied as provided in the Issuing Instrument authorizing the issuance of such Refunding Obligations.

Section 5.06 Debt Service Reserve Fund.

(a) If on any date on which the principal or Redemption Price of, or interest on, the Bonds or Parity Obligations secured by a Parity Reserve Account is due, the allocable amount in the applicable account in the Debt Service Fund available for such payment is less than the amount of the principal, Redemption Price of and interest on such Bonds or Parity Obligations due on such date, the Trustee shall apply amounts from the Parity Reserve Account to the extent necessary to make good the deficiency. The Parity Reserve Account shall be available to pay principal, interest or the Redemption Price of the Bonds or Parity Obligations.

(b) Except as provided in subsection (f) of this Section, if on the last Business Day of any month the amount on deposit in any account of the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, the excess amount shall be deposited in the Interest Account.

(c) At the option of the District, whenever the amount in the Debt Service Reserve Fund (excluding Reserve Financial Guaranties), together with the amount in the Debt Service Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or Redemption Price and interest thereon), the funds on deposit in the Debt Service Reserve Fund may be transferred to the Debt Service Fund.

(d) In the event of a refunding of one or more Bonds of a Series (or portions thereof), the Trustee shall, upon the written direction of an Authorized District Representative, withdraw from the applicable account of the Debt Service Reserve Fund any or all of the amounts on deposit therein (excluding Reserve Financial Guaranties) and deposit such amounts with itself as Trustee or such successor Depository Trustee to be held for the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds being refunded; provided

that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to Section 9.02, and (b) the amount remaining in the applicable account of the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in such account in connection with such refunding, shall not be less than the portion of the Debt Service Reserve Requirement allocable to such account.

(e) In lieu of the deposits and transfers to the Debt Service Reserve Fund required by Section 5.03(d), the District may cause to be deposited in such Reserve Fund a Reserve Financial Guaranty or Reserve Financial Guaranties in an amount equal to the difference between the Debt Service Reserve Requirement and the sums, if any, then on deposit in such Debt Service Reserve Fund or being deposited in such account concurrently with such Reserve Financial Guaranty or Guaranties. The Trustee shall draw upon or otherwise take such action as is necessary in accordance with the terms of the Reserve Financial Guaranties to receive payments with respect to the Reserve Financial Guaranties (including the giving of notice as required thereunder): (i) on any date on which moneys shall be required to be withdrawn from such Series Reserve Account and applied to the payment of principal or Redemption Price of, or interest on, the Bonds entitled to be paid from such Series Reserve Account and such withdrawal cannot be met by amounts then on deposit therein; (ii) on the first Business Day which is at least ten (10) days prior to the expiration date of each Reserve Financial Guaranty, in an amount equal to the deficiency which would exist in such Series Reserve Account if the Reserve Financial Guaranty expired, unless a substitute Reserve Financial Guaranty with an expiration date not earlier than 180 days after the expiration date of the expiring Reserve Financial Guaranty is acquired prior to such date or the District deposits funds in such Series Reserve Account on or before such date such that the amount in such Series Reserve Account on such date (without regard to such expiring Reserve Financial Guaranty) is at least equal to the portion of the Debt Service Reserve Requirement allocable to such Series Reserve Account. In the event the rating on any Reserve Financial Guarantor falls below the underlying rating of the District at the time, the District shall (i) replace the Financial Guarantor with another Reserve Financial Guaranty being a rated in one of the two highest rating categories defined herein or (ii) shall fund the Debt Service Reserve Fund with cash within 18 months of such occurrence.

If, upon the deposit of a Reserve Financial Guaranty into the Reserve Account pursuant to this subsection (f), or in the event there are excess funds in any Reserve Account in excess of the portion of the Debt Service Reserve Requirement allocable to such Reserve Account, such excess amount may be applied to the cost of acquiring such Reserve Financial Guaranty and, to the extent not so applied, shall be transferred at the written direction of the District to (i) the Principal Account or the Interest Account at the option of the District or (ii) the District, if such written direction includes a certification that such amount will be applied to pay all or any portion of the Cost of a Capital Improvement.

(f) Funds on deposit in said accounts may be adjusted in an amount sufficient to meet the new Debt Service Reserve Requirement accounting for the defeasance or redemption of the Bonds or Parity Obligations.

(g) To the extent the District issues any Subordinated Obligations, a Subordinate Lien Debt Service Reserve Fund may be created in the same manner as set forth

herein for any Parity Reserve Account or Series Reserve Account, except that the Subordinate Lien Debt Service Reserve shall be subordinate to any Parity Reserve Account or Series Reserve Account.

Section 5.07 Depositories. The Trustee shall hold all moneys deposited with it pursuant to this Master Indenture or may deposit such moneys with one or more Depositories in trust. All moneys deposited under the provisions of this Master Indenture with the Trustee or any Depository shall be held in trust and applied only in accordance with the provisions of this Master Indenture, and each of the Funds established by this Master Indenture shall be a trust fund for the purposes hereof.

Section 5.08 Deposits.

(a) All moneys held by any Fiduciary under this Master Indenture may be placed on demand or time deposit, if and as directed by the District, provided that such deposits shall permit the moneys so held to be available for use at the time when reasonably expected to be needed. No Fiduciary shall be liable for any loss or depreciation in value resulting from any investment made pursuant to this Master Indenture. Any such deposit may be made in the commercial banking department of any Fiduciary or its affiliates which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the District and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when reasonably expected to be needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

(b) All moneys held under this Master Indenture by any Fiduciary shall be (i) either (A) continuously and fully insured by the Federal Deposit Insurance Corporation, or (B) continuously and fully secured by lodging with the Trustee or any Federal Reserve Bank, as custodian, as collateral security, such securities as are described in clauses (a) through (c), inclusive, of the definition of "Permitted Investments" in Section 1.01 having a market value (exclusive of accrued interest) not less than the amount of such moneys, or (ii) held in such other manner as may then be required by applicable Federal or State laws and regulations and applicable state laws and regulations of the state in which such Fiduciary is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that it shall not be necessary for the Fiduciaries to give security under this subsection for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal amount or Redemption Price of, or interest on, any Bonds or to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

(c) All moneys deposited with a Fiduciary shall be credited to the particular Fund to which such moneys belong.

Section 5.09 Investment of Certain Funds. Moneys held in the Debt Service Fund and the Redemption Fund shall be invested and reinvested by the Trustee at the written

direction of the District to the fullest extent practicable in securities described in clauses (a) through (c) of the definition of "Permitted Investments" in Section 1.01 which mature not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Funds. Moneys held in the Debt Service Reserve Fund shall be invested and reinvested by the Trustee at the written discretion of the District to the fullest extent practicable in securities described in clauses (a), (b), (c), (d), (e) and (f) of the definition of "Permitted Investments" in Section 1.01 which mature, or which may be drawn upon, not later than such times as shall be necessary to provide moneys when reasonably expected to be needed for payments to be made from such Fund, but, except for investments which permit the Trustee to make withdrawals without penalty at any time upon not more than two Business Days' notice to provide moneys for payments to be made from such Fund not later than five years from the time of such investment. The Trustee shall make all such investments of moneys held by it and shall sell or otherwise liquidate any such investment and take all actions necessary to draw funds under any such investment, including the giving of necessary notices of the drawing of any moneys under any investment, in each case in accordance with directions of an Authorized District Representative, which written directions shall be consistent with this Master Indenture and applicable law, provided that if such directions are oral they shall be promptly confirmed in writing by such Authorized District Representative.

Interest or other income (net of that which (i) represents a return of accrued interest paid in connection with the purchase of any investment or (ii) is required to effect the amortization of any premium paid in connection with the purchase of any investment) earned on any moneys or investments in the Funds created under this Master Indenture shall be paid into the Interest Account.

In making any investment in any Permitted Investments with moneys in any Fund established under this Master Indenture, any Fiduciary may combine such moneys with moneys in any other Fund but solely for the purposes of making such investment and provided that any amount so combined shall be separately accounted for.

Nothing in this Master Indenture shall prevent any Permitted Investments acquired as investments of moneys in any Fund from being issued or held in book-entry form on the books of the Department of the Treasury or the Federal Reserve System of the United States.

The Trustee, if so directed in writing by the District, is permitted to make investments in money market mutual funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered; (ii) the Trustee collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds; and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee. In no event shall the Trustee be liable for the selection of investments or for investment losses incurred thereon. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by this Master Indenture. The Trustee may conclusively rely upon such written direction from an Authorized District Representative as to both the suitability and legality of the directed investments. The District acknowledges that

regulations of the Comptroller of the Currency grant the District the right to receive brokerage confirmations of the security transactions as they occur, at no additional cost. To the extent permitted by law, the District specifically waives compliance with 12 C.F.R. 12 and hereby notifies the Trustee that no brokerage confirmations need be sent relating to the security transactions as they occur.

Section 5.10 Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in the Debt Service Reserve Fund for any purpose hereunder, obligations purchased as an investment of moneys in the Debt Service Reserve Fund are to be valued at market.

Except as otherwise provided in this Master Indenture, the Trustee may sell at the best price reasonably obtainable, or present for redemption, any obligation purchased as an investment whenever it shall be directed by the District so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. Any obligation purchased as an investment may be credited on a pro rata basis to more than one Fund and need not be sold in order to provide for the transfer of amounts from one Fund to another, provided that such obligation is an appropriate Permitted Investment for the purposes of the Fund to which it is to be transferred. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VI COVENANTS AND OBLIGATIONS OF THE DISTRICT

The District covenants with the Owners of the Outstanding Bonds and with each Credit Provider as set forth in this Article VI that each of said covenants shall remain in full force and effect so long as any of the Bonds shall be Outstanding and unpaid and any Credit Support Instrument remains outstanding.

Section 6.01 Compliance with Indenture. The District shall punctually pay the Bonds in strict conformity with the terms of this Master Indenture and the Bonds, and shall faithfully observe and perform all the agreements, conditions, covenants and terms contained in this Master Indenture required to be observed and performed by it, and shall not fail to make any payment required by this Master Indenture for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of any party to observe or perform any agreement, condition, covenant or term contained in any contract or agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with any such contract or agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of any party or any force majeure, including acts of

God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities. Any provision of this Master Indenture to the contrary notwithstanding, no provision of this Master Indenture shall require the payment of any amount from taxes or assessments levied on property within the District. The payment of any amounts required to be paid hereunder, or in the Bonds, shall not be enforceable out of any moneys of the District other than the Revenues pledged herein.

Section 6.02 Rates for Service.

(a) In each Fiscal Year, rates, fees and other charges will be set, at a minimum, to a level equal to the sum of (i) Fixed Water Operation and Maintenance Expenses during such Fiscal Year, (ii) aggregate annual debt service requirements for such Fiscal Year, and (iii) all other necessary charges.

If, in any Fiscal Year, the revenues collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified above, CAWCD shall as promptly as permitted by law, establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues to be collected.

(b) The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Revenues for the current Fiscal Year from such reduced rates and charges shall at all times be sufficient to meet the requirements of this Section.

(c) Nothing herein shall be construed as requiring the District to fix, prescribe or collect rates and charges, which produce Revenues in an amount greater than the amount specified in this Section.

Section 6.03 Deposit and Application of Revenues. The District shall deposit or cause to be deposited all Revenues into the Revenue Fund upon receipt thereof. The District shall apply moneys in the Revenue Fund to the payment of Operation and Maintenance Expenses, payment or deposit of amounts required to be paid or deposited pursuant to any Parity Obligations or this Master Indenture or the Issuing Instrument relating thereto, payment or deposit of amounts required to be paid or deposited pursuant to any Subordinated Obligations or the Issuing Instrument relating thereto, payment of Costs of Capital Improvements, or to any other lawful purpose in connection with the System.

Section 6.04 Creation of Liens on Trust Estate; Incurrence of Indebtedness. The District shall not issue any bond, note, or other obligation payable from or secured by the Trust Estate on a basis which is in any manner prior or superior to the lien on, pledge of and security interest in the Trust Estate securing the Outstanding Bonds pursuant to this Master Indenture. The District may issue or incur Parity Obligations or Subordinate Obligations as provided in this Master Indenture.

Section 6.05 Against Encumbrances. The District shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor,

services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the System and shall keep the System free of any and all liens against any portion of the System. In the event any such lien or encumbrance attaches to or is filed against any portion of the System, the District shall cause each such lien or encumbrance to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District desires to contest any such lien it may do so if contesting such lien shall not materially impair operation of the System. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District shall forthwith pay or cause to be paid and discharged such judgment.

Section 6.06 Sale or Other Disposition of Property. The District shall not sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part or rights of the System or any real or personal property comprising a part of the System if such sale, transfer or disposition would cause the District to be unable to satisfy the requirements of Section 6.02.

Section 6.07 Operation and Maintenance of the System; Budgets. The District shall maintain and preserve the System in good repair and working order at all times and shall operate the System in an efficient and economical manner and shall pay all Operation and Maintenance Expenses as they become due and payable. Not later than the end of the first calendar month of each Fiscal Year, the District shall have a budget for the System which has been approved by the Board of Directors setting forth the estimated Operation and Maintenance Expenses and scheduled Debt Service for such Fiscal Year and shall take such action as may be necessary to include all Debt Service payments and all other payments required to be made under this Master Indenture coming due in such Fiscal Year with respect to Obligations payable from Revenues in the budget for the System. Any such budget may be amended at any time during any Fiscal Year provided that such amended budget shall include all payments coming due in such Fiscal Year with respect to Obligations payable from Revenues.

Section 6.08 Insurance. The District shall procure and maintain such insurance relating to the System which it shall deem advisable or necessary to protect its interests and the interests of the Trustee and the Owners of the Bonds, which insurance shall afford protection in such amounts and against such risks as are usually and customarily covered in connection with public utility systems similar to the System; provided, that any such insurance may be maintained under a self insurance program so long as such self insurance is maintained in the amounts and manner as is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained under this Master Indenture shall provide that the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 6.09 Accounting Records; Financial Statements and Other Reports.

(a) The District shall keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the System, which records shall be available for inspection by the Trustee at reasonable hours and under reasonable conditions.

(b) The District shall prepare and file with the Trustee annually within [one hundred eighty (180)] days after the close of each Fiscal Year (commencing with the Fiscal Year ending December 31, 2015):

(i) financial statements of the District for such Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon; and

(ii) a detailed report as to all insurance policies maintained and self insurance programs maintained by the District with respect to the System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

(c) The Trustee shall have no duty to review, verify or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Owners. The Trustee shall not be deemed to have notice of any information contained therein or Event of Default which may be disclosed therein in any manner

Section 6.10 Payment of Taxes and Compliance with Governmental Regulations. The District shall pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the System or any part thereof when the same shall become due. The District shall duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith and contesting such validity or application shall not materially impair the operations or financial condition of the System or the performance of the District under this Master Indenture and all Outstanding Bonds.

Section 6.11 Tax Covenants. The District hereby covenants it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the tax-exempt status of interest on any Bond which is issued or incurred as Tax-Exempt Securities under the Code. Without limiting the generality of the foregoing, the District shall comply with the requirements of the Tax Certificate, if any, delivered in connection with the issuance of each Series of Bonds which is issued or incurred as Tax-Exempt Securities.

In the event that at any time the District is of the opinion that, in order to comply with its obligations under subsection (a) of this Section, it is necessary or helpful to restrict or limit the yield on the investment of any moneys in any of the Funds held by the Trustee pursuant to this Master Indenture, the District shall so instruct the Trustee in writing and cause the Trustee to take such action as may be necessary in accordance with such instructions.

(a) Notwithstanding any provisions of this Section, if the District shall provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section or a Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds which are issued or incurred as Tax-Exempt Securities under the Code, the District and

the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the applicable Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

(b) The covenants in this Section shall survive payment in full or discharge of the Bonds which are issued or incurred as Tax-Exempt Securities.

ARTICLE VII AMENDMENTS TO INDENTURE

Section 7.01 Amendments Permitted.

(a) Subject to the provisions of subsection (d) of this Section, the provisions of this Master Indenture or of any Supplemental Indenture (including the first Supplemental Indenture) and the rights and obligations of the District and of the Owners of the Outstanding Bonds and of the Fiduciaries may be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, with the written consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument, when the written consent of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; or if less than all of the Outstanding Bonds are affected, the written consent of the Owners of at least a majority in aggregate principal amount of all affected Outstanding Bonds; provided that if such modification, amendment or supplement shall, by its terms, not take effect so long as any Bonds of any particular Series and maturity remain Outstanding, and, with respect to Bonds which are Tender Indebtedness if the conditions of subsection (d) of this Section are satisfied, the consent of the Owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds for purposes of this Section. No such modification, amendment or supplement shall (1) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification, amendment or supplement without the consent of the Owners of all of the Bonds then Outstanding; or (2) modify the rights or obligations of any Fiduciary without the consent of such Fiduciary.

It shall not be necessary for the consent of the Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Prior to the entry into any Supplemental Indenture by the District and the Trustee for any of the purposes of this Section, the District shall cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to the Owners of all Outstanding Bonds (or the affected Outstanding Bonds) at their addresses appearing on the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by each Owner of an Outstanding Bond.

Whenever, at any time after the date of the mailing of notice of the proposed entry into a Supplemental Indenture pursuant to this subsection, the District shall have received an

instrument or instruments in writing executed in accordance with Section 11.01 by or on behalf of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, or if less than all of the Outstanding Bonds are affected, by the Owners of not less than a majority in aggregate principal amount of the affected Outstanding Bonds, which instrument or instruments shall refer to the proposed Supplemental Indenture described in the notice of the proposed Supplemental Indenture and shall consent to such Supplemental Indenture in substantially the form referred to in such notice, thereupon, but not otherwise, the District and the Trustee may enter into such Supplemental Indenture in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

(b) This Master Indenture or any Supplemental Indenture may be supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the District and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument but without the consent of the Owner of any Bond, to provide for the issuance of a Series of Additional Bonds or a Series of Refunding Bonds in accordance with the terms and conditions of Article II, and establishing the terms and conditions thereof, including the rights of any Credit Provider for such Additional Bonds or Refunding Bonds, which may include permitting such Credit Provider to act for and on behalf of the Owners of such Additional Bonds or Refunding Bonds for any or all purposes of this Master Indenture except that no such Credit Provider shall be authorized to extend the fixed maturity of any Bond, or reduce the principal amount thereof, or reduce the amount of any Sinking Fund Installment therefore, or extend the due date of any such Sinking Fund Installment, or reduce the rate of interest on any Bond or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected; or except as otherwise provided with respect to a Bond constituting Tender Indebtedness in the Supplemental Indenture authorizing such Bond and subject to the satisfaction of the conditions of subsection (f) of this Section, reduce the Redemption Price due on the redemption of any Bond or change the date or dates when any Bond is subject to redemption.

(c) This Master Indenture and any Supplemental Indenture and the rights and obligations of the District, the Fiduciaries and the Owners of the Outstanding Bonds may also be modified, amended or supplemented from time to time and at any time by a Supplemental Indenture or Supplemental Indentures, which the District and the Trustee may enter into with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument but without the consent of any Owners of Bonds (but with the consent of any affected Fiduciary), so long as such modification, amendment or supplement shall not materially, adversely affect the interests of the Owners of the Outstanding Bonds, as evidenced by an opinion of counsel delivered to the Trustee, including without limitation, for any one or more of the following purposes:

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

(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 this Master Indenture or a Supplemental Indenture, or in regard to matters or questions arising under this Master Indenture or a Supplemental Indenture, as the District may deem necessary or desirable; or

(iii) to modify, amend or supplement this Master Indenture or a Supplemental Indenture in such manner as to permit the qualification of this Master Indenture 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.

(d) Notwithstanding anything to the contrary in this Section, the provisions of this Master Indenture or any Supplemental Indenture may also be modified, amended or supplemented by a Supplemental Indenture or Supplemental Indentures, including amendments which would otherwise be described in subsection (a) of this Section, without the consent of the Owners of Bonds constituting Tender Indebtedness if either (i) the effective date of such Supplemental Indenture is a date on which such Bonds are subject to mandatory tender for purchase pursuant to this Master Indenture or (ii) the notice described in the third paragraph of subsection (a) of this Section is given to Owners of such Bonds at least thirty (30) days before the effective date of such Supplemental Indenture, and on or before such effective date, the Owners of such Bonds have the right to demand purchase of such Bonds pursuant to this Master Indenture.

(e) Notwithstanding anything to the contrary in this Section, if the Supplemental Indenture authorizing the issuance of a Series of Bonds provides that a Credit Provider for all or any portion of the Bonds of such Series shall have the right to consent to Supplemental Indentures which require the consent of the Owners of the Bonds of such Series pursuant to this Section, then for the purposes of sending notice of any proposed Supplemental Indenture and for determining whether the Owners of the requisite percentage of Bonds have consented to such Supplemental Indenture, but subject to the provisions of subsection (b) of this Section, references to the Owners of such Bonds shall be deemed to be to the applicable Credit Provider.

(f) For purposes of this Section, it shall not be necessary that consents of the Owners of any particular percentage of Outstanding Bonds of any affected Series be obtained but it shall be sufficient for purposes of this Section if the consent of the Owners of a majority in aggregate principal amount of the combination of affected Outstanding Bonds shall be obtained.

(g) Notwithstanding anything to the contrary contained in this Section, if authorized by the Supplemental Indenture authorizing the issuance of a Bond constituting Tender Indebtedness, any premium due on the redemption of such Bond and the date or dates when such Bond is subject to redemption may be modified or amended as provided in such Supplemental Indenture if either: (i) the effective date of such modification or amendment is a date on which such Bond is subject to mandatory tender for purchase pursuant to such Supplemental Indenture; or (ii) notice of such modification or amendment has been mailed to the Owner of such Bond at the address set forth in the Bond Register at least thirty (30) days before the effective date of

such modification or amendment and on or before such effective date, the Owner of such Bond has the right to demand purchase of such Bond pursuant to such Supplemental Indenture.

(h) For purposes of Section 7.01(a) and notwithstanding anything to the contrary in this Section or in Section 11.01, any requirement to notify Owners of a proposed Supplemental Indenture and any requirement to obtain the written consent of the Owners of a Series of Bonds and file the same with the Trustee shall be deemed to have been satisfied if (i) prior to the execution of an underwriting agreement with respect to the initial offering of such Series of Bonds, the District shall cause a description of the proposed Supplemental Indenture to be included in the preliminary official statement (and the same statement shall also be included in the final official statement for such Series) required pursuant to Rules 15c2-12(b)(1) and 15c2-12(b)(3), promulgated by the Securities and Exchange Commission, and (ii) all of such Series of Bonds are actually delivered and purchased by the underwriter thereof in accordance with such underwriting agreement. For purposes of this paragraph, the description of the proposed Supplemental Indenture shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the office of the Trustee for inspection by each prospective Owner of Bonds.

(i) Prior to entering into a Supplemental Indenture hereunder, the Trustee is entitled to receive an Opinion of Bond Counsel that all conditions precedent to entering into such Supplemental Indenture have been met and that the execution of such Supplemental Indenture is authorized and permitted hereunder.

Section 7.02 Effect of Supplemental Indenture. Upon the District and the Trustee entering into any Supplemental Indenture pursuant to this Article, this Master Indenture shall be deemed to be modified, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under this Master Indenture of the District, the Fiduciaries and all Owners of Outstanding Bonds shall thereafter be determined, exercised and enforced subject in all respects to such modification, amendment and supplement, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Master Indenture for any and all purposes. Upon the District and the Trustee entering into any Supplemental Indenture pursuant to this Article, no Owner of any Bond shall have any right to object to the entry into such Supplemental Indenture by the District and the Trustee, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the entry into such Supplemental Indenture, or to enjoin or restrain the District or the Trustee from entering into the same or to enjoin or restrain the District or the Trustee from taking any action pursuant to the provisions thereof whether or not such Owner gave his or her consent to such Supplemental Indenture.

Section 7.03 Bonds Owned by District. For purposes of this Article, Bonds owned or held by or for the account of the District, or any funds of the District, shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article as an Owner of Bonds. At the time of any consent or other action taken under this Article, the District shall furnish the Trustee a certificate of an Authorized District Representative upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 7.04 Notation on Bonds. Bonds authenticated and delivered after the effective date of any Supplemental Indenture entered into by the District and the Trustee as in this Article provided may bear a notation by endorsement or otherwise in a form approved by the District as to such action, and in that case upon demand of the Owner of any Bond Outstanding on such effective date and presentation of the Bond for the purpose at the designated office of the Trustee or upon any transfer or exchange of any Bond Outstanding on such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action.

ARTICLE VIII CONCERNING THE FIDUCIARIES

Section 8.01 Trustee; Acceptance of Duties. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Master Indenture, including the duties of Paying Agent for the Bonds, by the execution and the delivery of this Master Indenture to the District and by such execution and delivery the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds thereafter to be issued; however, only upon the terms and conditions set forth in this Master Indenture and no implied covenants shall be read into this Master Indenture against the Trustee.

Section 8.02 Paying Agents; Appointment and Acceptance of Duties.

(a) The District hereby appoints the Trustee as a Paying Agent for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 8.13 as an additional Paying Agent for the Bonds of one or more Series.

(b) Each Paying Agent other than the Trustee shall signify its acceptance of the duties and obligations imposed upon it by this Master Indenture by executing and delivering to the District and to the Trustee a written acceptance thereof.

(c) The Principal Offices of the Paying Agents are designated as the respective offices or agencies of the District for the payment of the principal and any applicable Redemption Price of the Bonds.

Section 8.03 Responsibilities of Fiduciaries.

(a) Any recitals of fact in this Master Indenture and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of this Master Indenture or of any Bonds issued thereunder or as to the security afforded by this Master Indenture, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be responsible for or have any liability with respect to the System or any act or omission of the District with respect thereto. The Trustee shall not be responsible for any official statement used in connection with the offering and sale of any Bonds or for any continuing disclosure made by the District with respect to any Bonds. The Trustee shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of

any moneys paid by such Fiduciary in accordance with the provisions of this Master Indenture. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expenditure of its own moneys or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless indemnified to its satisfaction. Subject to the provisions of subsection (b) of this Section, no Fiduciary shall be liable in connection with the performance of its duties under this Master Indenture except for its own negligence, willful misconduct or default.

(b) Prior to the occurrence of an Event of Default and after the curing of all Events of Default, which may have occurred, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Master Indenture. In case an Event of Default has occurred which has not been cured, the Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in the exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. Any provision of this Master Indenture relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section.

Without limiting the generality of the foregoing:

(i) the Trustee shall not be liable for any error of judgment made in good faith by any officer of the Trustee, unless it shall be proved that the Trustee was solely negligent in ascertaining the pertinent facts;

(ii) 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 a Credit Provider or a Reserve Financial Guaranty Provider or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds 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 this Master Indenture;

(iii) no provision of this Master 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 this Master Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or indemnity satisfactory to it against such risk or liability is not reasonably assured to it;

(iv) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Owners, a Credit Provider or a Reserve Financial Guaranty Provider pursuant to this Master Indenture (except for declaring an acceleration of the Bonds or requesting credit and/or liquidity support pursuant to a Credit Support Instrument), unless such Owners, such Credit Provider or such Reserve Financial Guaranty Provider shall have offered to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(v) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon, facsimile transmission, electronic mail or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the District, personally or by agent or attorney;

(vi) the Trustee shall not be required to take notice of and shall not be deemed to have knowledge of any Event of Default (other than an Event of Default with respect to Bonds specified in subsections (a) or (b) of Section 10.01) or any event which would, with the passage of time, the giving of notice, or both, constitute an Event of Default, unless a Responsible Officer of the Trustee shall have been notified in writing of such Event of Default or other event by the District, a Credit Provider or a Reserve Financial Guaranty Provider, or the Owners of ten percent (10%) in aggregate principal amount of Bonds Outstanding;

(vii) the Trustee shall not be responsible for any moneys or funds held by the District) or for monitoring the accounting and investment practices of the District, other than requiring the delivery of annual financial statements and reports pursuant to Section 6.10; and

(viii) The Trustee may perform its duties under this Master Indenture through agents and attorneys and the Trustee shall not be liable for the negligence or misconduct on the part of any agent or attorney appointed with due care by it under this Master Indenture.

(ix) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence or willful default. The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

Whether or not therein expressly provided, every provision of this Master Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

Section 8.04 Evidence on Which Fiduciaries May Act.

(a) Upon receipt of any notice, resolution, request, requisition, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of this Master Indenture, each Fiduciary, shall examine such instrument to determine whether it conforms to the requirements, if any, of this Master Indenture on its face, and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be Bond Counsel or counsel to the District, and the opinion of such counsel

shall be full and complete authorization and protection in respect of any action taken or suffered by it under this Master Indenture in good faith and in accordance therewith.

(b) Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Master Indenture, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized District Representative, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Master Indenture upon the faith thereof but, in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

(c) Except as otherwise expressly provided in this Master Indenture, any request, requisition, order, notice or other direction required or permitted to be furnished pursuant to any provision of this Master Indenture by the District to any Fiduciary shall be sufficiently executed in the name of the District by an Authorized District Representative.

Section 8.05 Compensation. The District shall cause to be paid to each Fiduciary from time to time, but only from Revenues, reasonable compensation for all services rendered under this Master Indenture, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under this Master Indenture; provided, however, that so long as any Bonds remain Outstanding or any amounts due to a Credit Provider under a Credit Support Instrument or a Reserve Financial Guaranty Provider under a Reserve Financial Guaranty, no Fiduciary shall have a lien therefor on any and all funds at any time held by it under this Master Indenture. Subject to the provisions of Section 8.03, to the extent permitted by law and solely from Revenues, the District further agrees to defend, indemnify and save each Fiduciary and their respective directors, officers, agents and employees harmless against any liabilities, costs, expenses, judgments, losses, suits and claims, (including, without limitation, legal fees and expenses) which it may incur in the exercise and performance of its powers and duties under this Master Indenture or in any way arising out of the System or the transactions contemplated by this Master Indenture or any documents or transactions in connection herewith, and which are not due to its negligence, willful misconduct or default. This Section 8.05 shall survive the termination of this Indenture and the earlier removal or resignation of the Trustee. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Section 8.06 Certain Permitted Acts. Any Fiduciary may become the Owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary 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 the Owners of the Bonds or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Master Indenture, whether or not any such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

Section 8.07 Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by this Master Indenture by giving not less than 60 days written notice to the District, each Credit Provider and each Reserve Financial Guaranty Provider, specifying the date when such resignation shall take effect; provided that no such resignation shall take effect until a successor shall have been appointed in accordance with Section 8.09.

Section 8.08 Removal of Trustee. The Trustee may be removed (i) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time when no Event of Default has occurred and is continuing and when no event has occurred which, with notice or the passage of time, would become an Event of Default which has not been cured, by an instrument in writing signed by an Authorized District Representative and filed with the Trustee or (ii) with the consent (to the extent required by a Supplemental Indenture) of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the District or (iii) with the consent (to the extent required by a Supplemental Indenture), of each Credit Provider and each Reserve Financial Guaranty Provider, at any time by an instrument in writing signed by an Authorized District Representative and filed with the Trustee, for any breach of its fiduciary duties under this Master Indenture; provided that no such removal shall be effective until 30 days have lapsed from the filing of such instrument with the Trustee and until a successor shall have been appointed in accordance with Section 8.09 .

Section 8.09 Appointment of Successor Trustee; Financial Qualifications of Successor Trustee.

(a) In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, a successor may be appointed by the Owners of a majority in principal amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the District, with (to the extent required by a Supplemental Indenture) the consent of each Credit Provider and each Reserve Financial Guaranty Provider, by an instrument or concurrent instruments in writing signed and acknowledged by such Owners of the Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the District and the predecessor Trustee; provided, nevertheless, that unless a successor Trustee shall have been appointed by the Owners of the Bonds as aforesaid, the District, by a duly executed written instrument signed by an Authorized District Representative shall forthwith appoint a Trustee to replace such resigning Trustee or to fill such vacancy until a successor Trustee shall be appointed by the Owners of the Bonds as authorized in this Section. Any successor Trustee appointed by the District shall immediately, and without further act, be superseded by the Trustee appointed by the Owners of the Bonds. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

(b) If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the District written notice as provided in Section 8.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, removal, or for any other reason whatsoever, the Trustee or the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. After such notice, if any, as such court may deem proper, said court may thereupon, appoint a successor Trustee.

(c) The Trustee appointed under the provisions of this Article or any successor to the Trustee shall be a bank or trust company organized under the laws of the State or a national banking association, doing business and having a corporate trust office within the State, duly authorized to exercise trust powers and subject to examination by federal or state authority. Each successor Trustee shall have capital stock and surplus aggregating at least \$50,000,000, or have all of its obligations under this Master Indenture guaranteed by a bank or trust company organized under the laws of the United States, with a capital stock and surplus or net worth of \$50,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Master Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

Section 8.10 Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under this Master Indenture shall execute, acknowledge and deliver to its predecessor Trustee and the District an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, power, duties and obligations of such predecessor Trustee with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, at the written request of the District or of the successor Trustee, execute, acknowledge, deliver, file and record such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under this Master Indenture or covered by the pledge of this Master Indenture, and after payment in full of all fees and expenses then due and owing to it, shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions in this Master Indenture set forth. Should any deed, conveyance or instrument in writing from the District be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such lien, estates, rights, power and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the District. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

Section 8.11 Merger or Consolidation. Any company into which a Fiduciary may be merged or converted or with which it may be consolidated or any company resulting

from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, shall satisfy the applicable standards of a successor set forth in this Master Indenture, and shall be authorized by law to perform all the duties imposed upon it by this Master Indenture, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

Section 8.12 Adoption of Authentication. In case any of the Bonds contemplated to be issued under this Master Indenture shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or provided in this Master Indenture that the certificate of the Trustee shall have.

Section 8.13 Resignation or Removal of Paying Agent and Appointment of Successor.

(a) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Master Indenture by giving at least 60 days written notice to the District, the Trustee, each Credit Provider, each Reserve Financial Guaranty Provider and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by an Authorized District Representative. Any successor Paying Agent shall be appointed by the District with the approval of the Trustee (and each Credit Provider and each Reserve Financial Guaranty Provider required by a Supplemental Indenture) and shall be a commercial bank or trust company organized under the laws of any state of the United States or a national banking association having capital stock and surplus aggregating at least \$25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Master Indenture. If such bank, national banking association, or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section the combined capital and surplus of such bank, trust company, or national banking association shall be deemed to be its combined capital and surplus set forth in its most recent report of condition so published.

(b) In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

Section 8.14 Reports to Arizona State Treasurer. The Trustee shall make such reports to the Arizona State Treasurer (the "*Treasurer*") pertaining to the retirement of any Bonds and of all payments of interest thereon immediately upon such retirement or payment as may be required by the Treasurer pursuant to A.R.S. Section 35-502.

Section 8.15 Force Majeure. The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("*unavoidable delay*") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources or energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Section 8.16 Facsimile Instructions. The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

ARTICLE IX DEFEASANCE

Section 9.01 Payment of Bonds. (a) If the District shall pay, or cause to be paid, or there shall otherwise be paid, to the Owners of all Outstanding Bonds the principal amount or Redemption Price, if applicable, of the Bonds, and interest due or to become due on the Bonds, at the times and in the manner stipulated therein and in this Master Indenture, together with all other sums payable by the District under this Master Indenture, including all fees and expenses of the Trustee, then and in that case, subject to the provisions of subsection (b) of this Section, this Master Indenture, and the pledge of and lien on the Trust Estate hereunder and all covenants, agreements and obligations of the District contained herein, shall cease and terminate and shall be completely discharged and satisfied and the District shall be released therefrom and the Trustee shall assign and transfer to or upon the order of the District all property (in excess of the amounts required for the foregoing) then held by the Trustee hereunder free and clear of any liens or encumbrances hereon pursuant to this Master Indenture and shall execute such documents as may be reasonably required by the District in this regard.

(b) Notwithstanding the termination, satisfaction and discharge of this Master Indenture or the satisfaction or discharge of this Master Indenture in respect of any Bonds, those provisions of this Master Indenture relating to the maturity of the Bonds, interest payments and dates thereof, tender and exchange provisions, exchange and transfer of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, nonpresentment of Bonds, compliance by the District of the covenants contained in Section 6.12 hereof and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the District, the Trustee and the Owners and the Trustee shall continue to be obligated to hold in trust any monies and investments then held by the Trustee for the payment of the principal or Redemption Price of, and interest on, the Bonds, to pay to the Owners, but only from the monies and investments so held by the Trustee, the principal or Redemption Price of, and interest on, the Bonds as and when such payment becomes due. Notwithstanding the satisfaction and discharge of this Master Indenture or the satisfaction discharge of this Master Indenture in respect of any Bonds, those provisions of this Master Indenture contained in Section 8.05 hereof relating to the compensation and indemnity of the Trustee shall remain in effect and shall be binding upon the Trustee and the District.

Prior to the defeasance of any Bonds bearing interest at a variable rate becoming effective under this Article, the Trustee shall have received a Rating Confirmation from each Rating Agency that rated the Bonds so defeased.

Section 9.02 Bonds Deemed Paid. Bonds (or portions of Bonds) for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee (through deposit pursuant to a deposit of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof, as applicable, shall be deemed to have been paid within the meaning and with the effect expressed in Section 9.01. Any Outstanding Bond (or any portion thereof such that both the portion thereof which is deemed paid and the portion which is not deemed paid pursuant to this Section shall be in an Authorized Denomination) shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in Section 9.01 (except that the obligations under this Master Indenture set forth in Section 9.01(b) and the giving of the notices of the redemption of Bonds to be redeemed as provided in Article IV shall continue) if (1) in case said Bond (or portion thereof) is to be redeemed on any date prior to maturity, the District shall have given the Trustee irrevocable instructions to give notice of redemption of such Bond (or portion thereof) on said date as provided in Article IV, (2) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities, the principal of and the interest on which when due shall provide moneys which, together with the moneys, if any, held by the Trustee for such purpose, shall be sufficient, in each case as evidenced by an Accountant's Certificate, to pay when due the principal amount of, and any redemption premiums on, said Bond (or portion thereof) and interest due and to become due on said Bond (or portion thereof) on and prior to the redemption date or maturity date thereof, as the case may be, and (3) if such Bond (or portion thereof) is not to be paid or redeemed within 60 days of the date of the deposit required by (2) above, the District shall have given the Trustee, in form satisfactory to it, instructions to mail, as soon as practicable, by first class mail, postage prepaid, to the Owner of such Bond at the last address, if any, appearing upon the Bond Register, a notice that the deposit required by (2) above has been made with the Trustee and that said Bond (or the applicable portion thereof) is deemed to have been paid in accordance with this Section

and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount of, and any redemption premiums on, said Bond. Any notice given pursuant to clause (3) of this Section with respect to Bonds which constitute less than all of the Outstanding Bonds of any Series and maturity shall specify the letter and number or other distinguishing mark of each such Bond. Any notice given pursuant to clause (3) of this Section with respect to less than the full principal amount of a Bond shall specify the principal amount of such Bond which shall be deemed paid pursuant to this Section and notify the Owner of such Bond that such Bond must be surrendered as provided in Section 9.03. The receipt of any notice required by this Section shall not be a condition precedent to any Bond being deemed paid in accordance with this Section and the failure of any Owner to receive any such notice shall not affect the validity of the proceedings for the payment of Bonds in accordance with this Section. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section, nor principal or interest payments on any such Defeasance Securities, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal amount of, and any redemption premiums on, said Bonds and the interest thereon; provided that subject to Section 6.12 hereof any cash received from principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash shall not be required at any time for such payment, as evidenced by an Accountant's Certificate, shall be paid over upon the written direction of an Authorized District Representative, including a transfer to the District free and clear of any trust, lien, pledge or assignment securing said Bonds, and (B) to the extent such cash shall be required for such payment at a later date, shall, to the extent practicable, at the written direction of an Authorized District Representative, be reinvested in Defeasance Securities maturing at times and in amounts which together, with the other funds to be available to the Trustee for such purpose, shall be sufficient to pay when due the principal amount of, and any redemption premiums on, said Bonds and the interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, as evidenced by an Accountant's Certificate.

Nothing in this Master Indenture shall prevent the District from substituting for the Defeasance Securities held for the payment or redemption of Bonds (or portions thereof) other Defeasance Securities which, together with the moneys held by the Trustee for such purpose as evidenced by an Accountant's Certificate, shall be sufficient to pay when due the principal amount of, and any redemption premiums on, the Bonds (or portions thereof) to be paid or redeemed and the interest due on the Bonds (or portions thereof) to be paid or redeemed at the times established with the initial deposit of Defeasance Securities for such purpose provided that in connection with the defeasance of Bonds which are issued as Tax-Exempt Securities, the District shall also deliver to the Trustee a Favorable Opinion of Bond Counsel with respect to such substitution.

Section 9.03 Defeasance of Portion of Bond. If there shall be deemed paid pursuant to Section 9.02 less than all of the full principal amount of a Bond, the District shall execute and the Trustee shall authenticate and deliver, upon the surrender of such Bond, without charge to the Owner of such Bond, a new Bond or Bonds for the principal amount of the Bond so surrendered which is deemed paid pursuant to Section 9.02 and another new Bond or Bonds for the balance of the principal amount of the Bond so surrendered, in each case of like Series, maturity and other terms, and in any of the Authorized Denominations.

Section 9.04 Discharge of Liability on Bonds. Upon the deposit with the Trustee in trust, at or before maturity or the applicable redemption date, of money or Defeasance Securities in the necessary amount (as provided in Section 9.01 or Section 9.02, as applicable) to pay or redeem Outstanding Bonds (or portions thereof), and to pay the interest thereon to such maturity or redemption date, as applicable, (provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for giving such notice), all liability of the District in respect of such Bonds shall cease, terminate and be completely discharged, except that the District shall remain liable for such payment but only from, and the Bondowners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date, as applicable) out of, the money and Defeasance Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 9.02; provided that no Bond which constitutes Tender Indebtedness shall be deemed to be paid within the meaning of this Master Indenture unless the Purchase Price of such Bond, if tendered for purchase in accordance with this Master Indenture, could be paid when due from such moneys or Defeasance Securities (as evidenced by an Accountant's Certificate) or a Credit Support Instrument is provided in connection with such Purchase Price.

ARTICLE X EVENTS OF DEFAULT; REMEDIES

Section 10.01 Events of Default. Each of the following shall constitute an Event of Default under this Master Indenture:

(a) if default shall be made in the payment of the principal or Redemption Price of or Sinking Fund Installment for, or interest on, any Outstanding Bond or other Parity Obligations, when and as the same shall become due and payable, whether on an Interest Payment Date, at maturity, by call for redemption, or otherwise;

(b) if default shall be made in the payment of the Parity Purchase Price of any Bonds or other Parity Obligations which are Tender Indebtedness;

(c) if default shall be made by the District in the performance or observance of any other of the covenants, agreements or conditions on its part in this Master Indenture or in the Outstanding Bonds contained, and such default shall continue for a period of 120 days after written notice thereof to the District by the Trustee or to the District and to the Trustee by the Owners of not less than ten percent (10%) in principal amount of the Bonds Outstanding; provided, however, if such default is such that it can be corrected by the District but not within the applicable period specified above, it shall not constitute an Event of Default if corrective action is instituted by the District within thirty (30) days of the District's receipt of the notice of the default required by this paragraph and diligently pursued until the default is corrected; or

(d) an Event of Bankruptcy shall have occurred and be continuing with respect to the District.

Section 10.02 Accounting and Examination of Records After Default.

(a) The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and accounts of the District and all other records relating to the System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

(b) The District covenants that if an Event of Default shall have happened and shall not have been remedied, upon demand of the Trustee, the District shall account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under this Master Indenture for such period as shall be stated in such demand.

Section 10.03 Application of Revenues and Other Moneys After Default.

(a) Notwithstanding anything to the contrary contained in this Master Indenture, including Article V of this Master Indenture, the District covenants that if an Event of Default shall happen and shall not have been remedied, upon the demand of the Trustee, the District shall cause to be paid over to the Trustee by the first Business Day of each month, all Revenues with respect to the preceding month.

(b) During the continuance of an Event of Default, the Trustee shall apply all Revenues received by the Trustee pursuant to any right given or action taken under the provisions of this Article which are held by the Trustee pursuant and subject to the terms and conditions of this Master Indenture, as follows and in the following order of priority:

First: To the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries and the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries for Parity Obligations.

Second: To the payment of the principal, Redemption Price and Parity Purchase Price of and interest on the Outstanding Bonds, and the principal, Redemption Price and Parity Purchase Price of and interest on the other Outstanding Parity Obligations then due and payable; provided however, that in the event the amount of Revenues so available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Revenues ratably to the payment of the principal, Redemption Price and Parity Purchase Price of and interest on all Outstanding Parity Obligations then due and payable, without any discrimination or preferences.

Third: Subject to the provisions of subsection (b) of Section 2.08, to the payment of any Termination Payments due and payable under Qualified Swap Agreements; provided however, that in the event the amount of Revenues available to the Trustee is not sufficient to make all the payments required by this clause with respect to all Qualified Swap Agreements, the Trustee shall apply the available Revenues ratably to the payment of the Termination Payments then due and payable under all Qualified Swap Agreements, without any discrimination or preference.

Fourth: To the transfer to the Debt Service Reserve Fund and each Series Reserve Fund for the Bonds and to each Debt Service Reserve Fund for other Outstanding Parity Obligations, the amount, if any, necessary so that the amount on deposit in the Debt Service Reserve Fund and each Series Reserve Fund shall equal the Debt Service Reserve Requirement and the amount in each Debt Service Reserve Fund for other Outstanding Parity Obligations shall equal the amount required to be on deposit in such Debt Service Reserve Fund under the applicable Issuing Instrument; provided that, in the event the amount of Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Revenues to the transfer to the Debt Service Reserve Fund and each Series Reserve Fund and each Debt Service Reserve Fund for other Outstanding Parity Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference; and provided further that, if the amount so transferred to the Debt Service Reserve Fund is not sufficient to make the amount on deposit therein equal to the Debt Service Reserve Requirement, the Trustee shall allocate the amount so transferred ratably among the accounts in the Debt Service Reserve Fund, without any discrimination or preference.

Fifth: Subject to the provisions of subsection (b) of Section 2.08, to the payment of amounts due with respect to outstanding Subordinated Obligations (other than Termination Payments) in accordance with the provisions of the Issuing Instrument pursuant to which such Subordinated Obligations have been issued; provided, in the event the amount of Revenues available to the Trustee is not sufficient to make all the payments required by this clause, the Trustee shall apply the available Revenues to the payments of amounts due with respect to all Subordinated Obligations ratably (based on the respective amounts to be paid), without any discrimination or preference except as otherwise provided in the Issuing Instruments pursuant to which such Subordinated Obligations have been issued.

(c) If and whenever all overdue installments of interest on all Outstanding Bonds and Outstanding Parity Obligations, together with the reasonable and proper charges, expenses and liabilities of the Trustee and any other Fiduciary for Parity Obligations, and all other sums payable for the account of the District under this Master Indenture, including the principal and Redemption Price of all Outstanding Bonds and Outstanding Parity Obligations and unpaid interest on all Outstanding Bonds and Outstanding Parity Obligations which shall then be payable, shall be paid for by the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under this Master Indenture, the Outstanding Bonds and the Outstanding Parity Obligations shall have been made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay to the District over all unexpended Revenues in the hands of the Trustee (except Revenues deposited or pledged, or required by the terms of this Master Indenture to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under this Master Indenture. No such payment by the Trustee nor such restoration of the District and the Trustee to

their former positions and rights shall extend to or affect any subsequent default under this Master Indenture or impair any right consequent thereon.

(d) The Trustee may in its discretion establish special record dates for the determination of the Owners of Bonds for various purposes hereof, including without limitation, payment of defaulted interest and giving direction to the Trustee.

Section 10.04 Right to Accelerate Upon Default. Notwithstanding anything contrary in this Master Indenture or in the Bonds, upon the occurrence of an Event of Default, the Trustee may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument, and shall, at the direction of the Owners of a majority in principal amount of Outstanding Bonds (other than Bonds owned by or on behalf of the District) by written notice to the District, declare the principal of the Outstanding Bonds to be immediately due and payable, whereupon the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable.

Section 10.05 Appointment of Receiver. To the extent permitted by law, if an Event of Default shall happen and shall not have been remedied, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds under this Master Indenture, the Trustee shall be entitled to make application for the appointment of a receiver or custodian of the Revenues, pending such proceedings, with such power as the court making such appointment shall confer.

Section 10.06 Enforcement Proceedings.

(a) If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument, proceed, and upon the written request of the Owners of not less than a majority in principal amount of the Bonds at the time Outstanding, with the consent of each Credit Provider whose consent is required by a Supplemental Indenture or a Credit Support Instrument, and upon being indemnified to its satisfaction, shall proceed, to protect and enforce its rights and the rights of the Owners of the Outstanding Bonds by a suit or suits in equity or at law, whether for damages or the specific performance of any covenant contained in this Master Indenture, to enforce the security interest in, pledge of and lien on the Revenues granted pursuant to this Master Indenture, or in aid of the execution of any power granted in this Master Indenture or any remedy granted under applicable provisions of the laws of the State, or for an accounting by the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right, shall be deemed most effectual to enforce any rights or to perform any of its duties under this Master Indenture.

(b) All rights of action under this Master Indenture may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its own name as trustee of an express trust.

(c) Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under this Master Indenture, the Trustee shall be entitled to exercise any and all rights and powers conferred in this Master Indenture and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

(d) Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Owners of a majority in principal amount of the Bonds then Outstanding and furnished with security and indemnity satisfactory to it, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under this Master Indenture by any acts which may be unlawful or in violation of this Master Indenture, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Owners of the Bonds.

(e) If the Trustee or any Owner or Owners of Outstanding Bonds have instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Owner or Owners, then and in every such case the Trustee, the Trustee and the Owners shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions under this Master Indenture, and thereafter all rights and remedies of the Trustee and the Owners shall continue as though no such proceeding had been instituted.

(f) Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Section 10.07 Restriction on Owner's Action.

(a) Except as otherwise provided in paragraph (b) of this Section, no Owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Master Indenture or the execution of any trust under this Master Indenture or for any remedy under this Master Indenture unless such Owner shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Owners of at least twenty-five percent (25%) in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in this Master Indenture or by the applicable laws of the State or to institute such action, suit or proceeding in its own name, and unless such Owners shall have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of sixty (60) days after receipt by it of such notice, request and offer of indemnity, 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 pledge created by this Master Indenture, or to enforce any right under this Master Indenture, except in the manner therein provided, and that all

proceedings at law or in equity to enforce any provision of this Master Indenture shall be instituted, had and maintained in the manner provided in this Master Indenture and for the ratable benefit of all Owners of the Outstanding Bonds, subject only to the provisions of Section 11.05.

(b) Nothing in this Master Indenture or in the Bonds contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay on the respective due dates thereof and at the places therein expressed, but solely from the Revenues and the other moneys pledged under this Master Indenture, the principal amount or Redemption Price, if applicable, of the Bonds, and the interest thereon, to the respective Owners thereof, or affect or impair the right, which is also absolute and unconditional, of any Owner to institute suit for the enforcement of any such payment.

Section 10.08 Remedies Not Exclusive. No remedy by the terms of this Master Indenture conferred upon or reserved to the Trustee or the Owners is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Master Indenture or existing at law or in equity or by statute whether effective on or after the effective date of this Master Indenture. The assertion or employment of any right or remedy, under this Master Indenture or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 10.09 Effect of Waiver and Other Circumstances.

(a) No delay or omission of the Trustee or any Owner of a Bond to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by this Article 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 by the Trustee or by the Owners of the Bonds.

(b) The Owners of not less than fifty percent (50%) in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Owners of all of the Bonds, waive any Event of Default and its consequences. No such waiver shall extend to any subsequent Event of Default or impair any right consequent thereon unless the provisions of this subsection (b) have been satisfied with respect to such subsequent Event of Default.

Section 10.10 Notice of Default. The Trustee shall, within thirty (30) days after obtaining knowledge thereof, mail written notice of the occurrence of any Event of Default of which a Responsible Officer of the Trustee has actual knowledge to each Credit Provider, each Reserve Financial Guaranty Provider and each Owner of Bonds then Outstanding at such Owner's address, if any, appearing in the Bond Register.

**ARTICLE XI
MISCELLANEOUS**

Section 11.01 Execution of Documents and Proof of Ownership. Any request, direction, consent, or other instrument in writing required or permitted by this Master Indenture to be signed or executed by Owners may be in any number of concurrent instruments of similar

tenor, and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by any bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds shall be sufficient for any purpose of this Master Indenture (except as otherwise provided in this Master Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be provided by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his or her authority.

(b) As to any Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner for all purposes. None of the District, the Trustee or any Paying Agent shall be affected by any notice to the contrary.

(c) Nothing contained in this Master Indenture shall be construed as limiting the District or the Trustee to such proof, it being intended that the District or the Trustee may accept any other evidence of the matters stated in this Section which the District or the Trustee may deem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect to anything done or suffered to be done by the District or the Trustee in pursuance of such request or consent.

Section 11.02 Severability. If any covenant, agreement or provision, or any portion thereof, contained in this Master Indenture, or any supplement hereto, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Master Indenture, and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Master Indenture, or any supplement hereto, and the Bonds shall remain valid, and the Owners shall retain all valid rights and benefits accorded to them under this Master Indenture, the Act, and the Constitution and statutes of the State.

Section 11.03 General Authorization. The Authorized District Representatives, each acting singly, are hereby respectively authorized to do and perform from time to time any and all acts and things consistent with this Master Indenture necessary or appropriate to carry the same into effect.

Section 11.04 Moneys Held for Particular Bonds. Except as otherwise provided in the Supplemental Indenture authorizing a Series of Bonds, the amounts held by the Trustee or any Paying Agent for the payment of principal, premium if any, Purchase Price or interest due on any date with respect to particular Bonds of such Series shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the Bonds entitled thereto. None of the District, the Trustee or any Paying Agent shall be liable to any Owner for interest on amounts so held in trust.

Section 11.05 Credit Providers. (a) Except as limited by Section 7.01(b), a Supplemental Indenture authorizing a Series of Bonds may provide that any Credit Provider providing a Credit Support Instrument with respect to Bonds of such Series may exercise any right under this Master Indenture or the Supplemental Indenture authorizing the issuance of such Series of Bonds given to the Owners of such Bonds to which such Credit Support Instrument relates in lieu of such Owners.

(b) All provisions under this Master Indenture or a Supplemental Indenture authorizing the exercise of rights by a Credit Provider with respect to Bonds of a Series, including without limitation actions relating to consents, approvals, directions, waivers, appointments and requests, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Provider were not mentioned therein (i) during any period during which there is a default by such Credit Provider under the applicable Credit Support Instrument or (ii) after the applicable Credit Support Instrument shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Credit Support Instrument has been rescinded, repudiated or terminated (other than in accordance with its terms), or after a receiver, conservator or liquidator has been appointed for the Credit Provider; provided, however, that the payment of amounts due or that may become due (including without limitation all indemnity payments) to the Credit Provider or any other person identified under such Credit Provider's Credit Support Instrument pursuant to the terms of this Master Indenture, any Supplemental Indenture and/or such Credit Support Instrument shall continue in full force and effect. The foregoing shall not affect any other rights of a Credit Provider.

(c) All provisions in this Master Indenture relating to the rights of a Credit Provider shall be of no force and effect if there is no Credit Support Instrument in effect and all amounts owing to the Credit Provider under the Credit Support Instrument have been paid.

Section 11.06 Reserve Financial Guaranty Providers. (a) All provisions under this Master Indenture or a Supplemental Indenture authorizing the exercise of rights by a Reserve Financial Guaranty Provider with respect to Bonds of a Series, including without limitation actions relating to consents, approvals, directions, waivers, appointments and requests, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Reserve Financial Guaranty Provider were not mentioned therein (i) during any period during which there is a default by such Reserve Financial Guaranty Provider under the applicable Reserve Financial Guaranty or (ii) after the applicable Reserve Financial Guaranty shall at any time for any reason cease to be valid and binding on the Reserve Financial Guaranty Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Reserve Financial Guaranty has been rescinded, repudiated or terminated, or after a receiver, conservator or liquidator has been appointed for the Reserve Financial Guaranty Provider; provided, however, that the payment of amounts due (including without limitation all indemnity payments) to the Reserve Financial Guaranty Provider pursuant to the terms of this Master Indenture, any Supplemental Indenture, any Reserve Financial Guaranty shall continue in full force and effect. The foregoing shall not affect any other rights of a Reserve Financial Guaranty Provider.

(b) All provisions in this Master Indenture relating to the rights of a Reserve Financial Guaranty Provider shall be of no force and effect if there is no Reserve Financial Guaranty Provider in effect issued by such Reserve Financial Guaranty Provider and all amounts owing to such Reserve Financial Guaranty Provider Credit Provider under the Reserve Financial Guaranty have been paid.

Section 11.07 No Recourse on Bonds. Neither the members of the Board of Directors nor the officers or employees of the District shall be individually liable on the Bonds or in respect of any undertakings by the District under this Master Indenture, any Supplemental Indenture or any Bond.

Section 11.08 Unclaimed Moneys. Anything in this Master Indenture or any Supplemental Indenture to the contrary notwithstanding, any moneys held by the Trustee or any Paying Agent in trust for the payment and discharge of any of the Bonds which are unclaimed after the date when such Bonds have become due and payable, either at their stated maturity dates, tender for purchase or by call for redemption, and remain unclaimed on the date occurring 120 days prior to the date on which such moneys would be required to be turned over to the State under Arizona's unclaimed property law (which is one year from the date the payment in question was originally due to the payee under current Arizona law), shall be held by the Trustee without liability for interest thereon, and shall, at the written request of an Authorized District Representative, be repaid by such Trustee or Paying Agent to the District, as its absolute property and free and clear of any trust, lien, pledge or assignment securing said Bonds, and such Trustee or Paying Agent shall thereupon be released and discharged with respect thereto; provided, however, that before being required to make any such payment to the District, the Trustee or the Paying Agent, as applicable, shall, at the expense of the District, mail, postage prepaid to the Owners of such Bonds, at the last address, if any, appearing upon the Bond Register a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing of such notice, the balance of such moneys then unclaimed shall be returned to the District.

Section 11.09 Non-Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in any Indenture, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in this Master Indenture, and, unless otherwise specifically provided in a Supplemental Indenture, no interest shall accrue for the period after such nominal date.

Section 11.10. Notices. Unless otherwise provided herein, all notices, certificates or other communications hereunder shall be deemed sufficiently given upon actual receipt thereof when received by the District, the Trustee and the Rating Agency, as the case may be, at the respective address provided pursuant to this Section or, if mailed by first class mail, postage prepaid, addressed to the appropriate address provided pursuant to this Section, six Business Days after deposit in the United States mail, the initial address for notices, counterparts and other communications hereunder is as follows:

If to the District: Central Arizona Water Conservation District
P.O. Box 43020
Phoenix, AZ 85080-3020
Attention: General Manager

Mr. Timothy A. Stratton, Esq.
Gust Rosenfeld P.L.C.
One East Washington, Suite 1600
Phoenix, AZ 85004

If to the Trustee: Zions First National Bank
6001 North 24th Street
Attention: Corporate Trust

If to the Rating Agency: Standard & Poor's
Municipal Structured Group
55 Water Street, 38th Floor
New York, NY 10041

The District and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless otherwise requested by the District or the Trustee any notice required to be given hereunder in writing may be given by any form of Electronic Notice capable of making a written record. Each such party shall file with the Trustee information appropriate to receiving such form of Electronic Notice.

Section 11.11. Waiver of Notice. Whenever in this Master Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 11.12 Governing Law. This Master Indenture and each Bond shall be interpreted, governed by and construed for all purposes in accordance with the laws of the State for contracts executed and to be performed in the State.

Section 11.13 Headings Not Binding. The headings in this Master Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Master Indenture.

Section 11.14 Preservation and Inspection of Documents. All documents received by, the Trustee or any Paying Agent under the provisions of this Master Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection by the District, the Trustee, any Credit Provider and any Owner of an Outstanding Bond and their agents and their representatives, any of whom may make copies thereof.

Section 11.15 Parties Interested. Nothing in this Master Indenture or the Bonds, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the District, the Trustee, the Registrar, the Paying Agent and the Owners of the Bonds, any legal or equitable right, remedy or claim under or by reason of this Master Indenture or any covenant, condition or stipulation hereof, and all covenants, stipulations, provisions and agreements in this Master Indenture contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Trustee, the Registrar, the Paying Agent and the Owners of the Bonds.

The Registrar and the Paying Agent shall be third-party beneficiaries of the provisions hereof which grant rights to them.

Section 11.16. E-Verify Requirements. To the extent applicable under A.R.S. Section 41-4401, the Trustee and its subcontractors warrant compliance with all federal immigration laws and regulations that relate to their employees and their compliance with the E-verify requirements under A.R.S. Section 23-214(A). The Trustee or its subcontractors' breach of the above-mentioned warranty shall be deemed a material breach of this Master Indenture and may result in the termination of the Trustee's services by the District. The District retains the legal right to randomly inspect the papers and records of the Trustee or its subcontractor employee who work on this Master Indenture to ensure that the Trustee and its subcontractors are complying with the above-mentioned warranty.

The Trustee and its subcontractors warrant to keep the papers and records open for random inspection during normal business hours by the District. The Trustee and its subcontractors shall cooperate with the District's random inspections including granting the District entry rights onto its property to perform the random inspections and waiving their respective rights to keep such papers and records confidential.

IN WITNESS WHEREOF, the **CENTRAL ARIZONA WATER CONSERVATION DISTRICT** has caused these presents to be signed in its name and on its behalf by its President and attested by its Secretary, and the Authorized Officer of the Trustee has caused these presents to be signed in its name and on its behalf by an authorized officer, in each case all as of the date first above written.

**CENTRAL ARIZONA WATER
CONSERVATION DISTRICT**

By _____
President, Board of Directors

Attest:

Secretary

ZIONS FIRST NATIONAL BANK, as Trustee

By _____
Authorized Officer

APPROVED AS TO FORM
GUST ROSENFELD P.L.C.

Bond Counsel

FIRST SUPPLEMENTAL INDENTURE OF TRUST

by and between

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

(CENTRAL ARIZONA PROJECT)

and

ZIONS FIRST NATIONAL BANK, as Trustee

dated as of January __, 2016

relating to

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

(CENTRAL ARIZONA PROJECT)

**WATER DELIVERY O&M REVENUE BONDS
SERIES 2016**

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FIRST SUPPLEMENTAL INDENTURE OF TRUST

THIS FIRST SUPPLEMENTAL INDENTURE OF TRUST, dated as of January 1, 2016, is entered into by and between **CENTRAL ARIZONA WATER CONSERVATION DISTRICT**, a multi-county water conservation district, body corporate and political subdivision of the State of Arizona (the "*District*") and Zions First National Bank, a banking association duly established and existing under and pursuant to the laws of the United States of America (the "*Trustee*"), authorized to accept and execute trusts of the character in this First Supplemental Indenture set forth;

WITNESSETH:

WHEREAS, the District has previously entered into the Master Indenture of Trust, dated as of January 1, 2016 (the "*Master Indenture*") by and between the District and the Trustee to provide for the issuance from time to time by the District of revenue bonds to pay the Costs of Capital Improvements (capitalized terms used herein having the meanings given such terms pursuant to the Master Indenture and Section 1.03 hereof); and

WHEREAS, the Master Indenture authorizes the District and the Trustee to enter into Supplemental Indentures to provide for the issuance of one or more series of Bonds; and

WHEREAS, the District has determined to finance certain capital improvements and construction related to the District's Palo Verde to Morgan Transmission Line Project, Hassayampa Tap Connection Project and ED2 to Saguaro Transmission Line Rebuild Project and other approved capital projects to the extent funds are available, (collectively, the "*Project*"); and

WHEREAS, the District desires to issue \$50,000,000 aggregate principal amount of its Water Delivery O&M Revenue Bonds, Series 2016 (the "*Bonds*") in order to provide moneys to finance the Project, to establish and fund a Parity Reserve Account for the Bonds in the Debt Service Reserve Fund and to pay the Costs of Issuance of the Bonds; and

WHEREAS, the District has determined that all acts and things have been done and performed which are necessary to make the Master Indenture, as supplemented by this First Supplemental Indenture, a valid and binding agreement for the security of the Bonds authenticated and delivered hereunder;

NOW, THEREFORE, KNOW ALL PERSONS BY THESE PRESENTS, THIS FIRST SUPPLEMENTAL INDENTURE OF TRUST WITNESSETH:

That, in consideration of the premises, the acceptance by the Trustee of the trusts hereby created and originally created by the Master Indenture, the mutual covenants herein contained and the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, and in order to secure the payment of the principal of, Redemption Price, if any, and interest on the Bonds according to their tenor and effect, and the performance and observance by the District of all the covenants

and conditions in the Master Indenture, this First Supplemental Indenture and in the Bonds on its part to be performed, it is agreed by and between the District and the Trustee as follows:

ARTICLE I

AUTHORITY AND DEFINITIONS

Section 1.01 First Supplemental Indenture of Trust. This First Supplemental Indenture is supplemental to the Master Indenture.

Section 1.02 Authority for the First Supplemental Indenture of Trust. This First Supplemental Indenture is entered into (a) pursuant to the Revenue Bond Statute (b) Ordinance No. 2015-01 of the Board of Directors of the District adopted on November 5, 2015, authorizing the issuance of the Bonds, and (c) in accordance with the Master Indenture.

Section 1.03 Definitions.

(a) Except as otherwise defined by this First Supplemental Indenture, all terms which are defined in Section 1.01 of the Master Indenture shall have the same meanings, respectively, in this First Supplemental Indenture as such terms are given in said Section 1.01 of the Master Indenture.

(b) **Additional Definitions.** The following terms shall, with respect to the Bonds and for all purposes hereof, have the meanings set forth below:

"*Beneficial Owner*" means any Person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds as Book-Entry Bonds through nominees, depositories or other intermediaries).

"*Bonds*" shall mean the District's Water Delivery O&M Revenue Bonds, Series 2016 authorized by Article II hereof.

"*Delivery Date*" means _____, 2016.

"*First Supplemental Indenture*" shall mean this First Supplemental Indenture of Trust, supplementing the Master Indenture, as the same may be amended and supplemented in accordance with the provisions of the Master Indenture.

"*Interest Payment Date*" means with respect to the Bonds each January 1 and July 1, commencing July 1, 2016.

"*Maturity Date*" means January 1 in each of the years shown on Exhibit B.

"*Parity Reserve Account*" shall mean the Parity Reserve Account established pursuant to Section 4.03 hereof.

"*Rebate Fund*" means the fund designated as the "*Series 2016 Rebate Fund*" established in Section 5.02 hereof.

"*Rebate Instructions*" means those calculations and written directions required to be delivered to the Trustee by the District pursuant to Section 5.01 hereof.

"*Rebate Requirement*" means the Rebate Requirement as defined in the Series 2016 Tax Certificate.

"*Record Date*" means (i) with respect to each Interest Payment Date for Bonds, the fifteenth day of the month preceding the month in which such Interest Payment Date comes due.

"*Series 2016 Costs of Issuance Fund*" shall mean the Series 2016 Costs of Issuance Fund established pursuant to Section 4.02 hereof.

"*Series 2016 Tax Certificate*" shall mean that certain Tax Certificate and Agreement signed by the District on the Delivery Date and relating to the requirements of Section 148 of the Code, among others.

Section 1.04 Interpretation.

(a) Unless the context otherwise indicates, defined terms shall include all variants thereof, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) References herein to the Securities Depository shall initially include the Depository Trust Company, New York, New York ("*DTC*"), but shall also include both the Securities Depository and any nominee of the Securities Depository in whose name the Bonds may be registered.

(d) Unless otherwise indicated, references herein to Articles and Sections shall be to the Articles and Sections of this First Supplemental Indenture. The words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this First Supplemental Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE BONDS

Section 2.01 Principal Amount and Designation; Conditions to Issuance.

(a) Pursuant to the provisions of the Master Indenture, this First Supplemental Indenture, the

Ordinance of the Board of Directors of the District authorizing the execution and delivery of this First Supplemental Indenture and the provisions of the Revenue Bond Statute, a Series of Bonds entitled to the benefit, protection and security of such provisions are hereby authorized in the aggregate principal amount of \$50,000,000. Such Bonds shall be designated as, and shall be distinguished from the Bonds of all other Series by the title, "*Central Arizona Water Conservation District (Central Arizona Project) Water Delivery O&M Revenue Bonds, Series 2016*". The Bonds shall be in substantially the form attached hereto as Exhibit A with such variations and omissions as are necessary to reflect the particular terms of each Series 2016 Bond.

(b) The Bonds are issued for the purpose of providing moneys to finance the costs of the Project, make a deposit to the Debt Service Reserve Fund and to pay the Costs of Issuance of the Bonds.

(c) All (but not less than all) of the Bonds shall be executed by the District and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the District or upon its order but only upon receipt by the Trustee of the items required pursuant to Section 2.04 and Section 2.07 of the Master Indenture with respect to the Bonds.

Section 2.02 Terms of the Bonds; Registration; Denominations; Payment of Principal and Interest.

(a) The Bonds shall be issued as fully registered Bonds without coupons in Authorized Denominations of \$5,000 or any multiple thereof. The Bonds shall be initially Book-Entry Bonds, shall be registered initially in the name of "Cede & Co.," as nominee of DTC, the initial Securities Depository, and shall be evidenced by one bond certificate for each maturity, as shown in Exhibit B. So long as the Bonds are Book-Entry Bonds, registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in Section 3.04 of the Master Indenture.

(b) The Bonds shall be dated the Delivery Date.

(c) Except as otherwise provided in subsection (d) of this Section, the Bonds shall mature on the respective Maturity Dates set forth in Exhibit B. The Bonds shall be serial obligations and Term Obligations as described in Exhibit B.

(d) The Bonds shall be subject to redemption as provided in Article III.

(e) The Trustee shall identify all payments (whether made by check or by wire transfer) of interest, principal, Purchase Price and Redemption Price by CUSIP number of the Bonds.

Section 2.03 Payment of Principal and Interest.

(a) The term of the Bonds will bear interest at the respective rates per maturity shown in Exhibit B.

(b) The principal or Redemption Price of the Bonds shall be payable in lawful money of the United States of America at the Principal Office of the Trustee upon surrender of

the Bonds to the Trustee for cancellation; or in accordance with the payment provisions shown on the form of Series 2016 Bond set forth in Exhibit A.

ARTICLE III

REDEMPTION OF THE BONDS

Section 3.01 Terms of Redemption. *Optional Redemption.* The Bonds maturing on or before January 1, 2025 are not subject to call for redemption prior to maturity. The Bonds maturing on or after January 1, 2026 are subject to call for redemption prior to maturity, at the option of the District, on or after January 1, 2025, in whole or in part, at any time, by the payment of the principal amount of each Bonds called for redemption plus accrued interest to the date fixed for redemption, but without premium.

Mandatory Redemption. The Bonds maturing on January 1, 20__, 20__ and 20__ ("*20__ Term Bonds*") are subject to mandatory redemption and will be redeemed on January 1 of the respective years in the amounts set forth below by payment of a Redemption Price equal to the principal amount of the Bonds to be redeemed plus interest accrued to the Redemption Date, but without premium.

20__ Term Bonds	
Maturity Date	
<u>(January 1)</u>	<u>Amount</u>

20__ Term Bonds	
Maturity Date	
<u>(January 1)</u>	<u>Amount</u>

20__ Term Bonds	
Maturity Date	
<u>(January 1)</u>	<u>Amount</u>

Section 3.02 Selection of Bonds for Redemption. Whenever provision is made in this First Supplemental Indenture for the redemption of less than all of the Bonds, DTC (so long as it remains as the Securities Depository) shall select such Bonds to be redeemed from all such Bonds subject to redemption and not previously called for redemption. If the DTC's book-entry-only system is no longer in effect as to the Bonds, the Trustee shall select such Bonds to be redeemed by lot in any manner the Trustee deems appropriate.

Section 3.03 Notice of Redemption. Notice of redemption will be given by the Trustee, not less than thirty (30) days nor more than sixty (60) days before the Redemption Date, to each of the Registered Owners of Bonds designated for redemption at their addresses appearing on the bond register maintained by the Trustee on the date the bonds to be redeemed are selected. No defect in or failure to give such mailed notice of redemption will affect the validity of redemption proceedings for Bonds for which proper notice was given. So long as the Bonds are in Book-Entry Bonds, notices of redemption will be given only to DTC. If, on the Redemption Date, sufficient moneys for payment of the Redemption Price and accrued interest are held pursuant to the Indenture, interest on the Bonds to be redeemed will cease to accrue after the date set for redemption and such Bonds will cease to be entitled to any benefit or security under the Indenture except the right to receive payment from the moneys held for such Bonds under the Indenture.

The Trustee also agrees to send notice of any redemption to the Municipal Securities Rulemaking Board (the "MSRB"), currently through the MSRB's Electronic Municipal Market Access system ("EMMA"), in the manner required by the MSRB, but no defect in said further notice or record nor any failure to give all or a portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

If at the time of mailing of notice of redemption, there have not been deposited with the Trustee funds sufficient to affect such redemption, then such notice shall state that redemption is conditional upon receipt by the Trustee of such funds not later than the opening of business on the Redemption Date, and, if not so held by such date, the redemption shall be cancelled and be of no force and effect.

ARTICLE IV

APPLICATION OF PROCEEDS

Section 4.01 Application of Proceeds of Bonds. The proceeds of the sale of the Bonds received by the Trustee (being the par amount thereof, \$50,000,000.00 plus net premium of \$_____ and less Underwriter's Discount of \$_____) shall be applied simultaneously with the delivery of the Bonds, as follows:

(a) There shall be deposited in the Parity Reserve Account of the Debt Service Reserve Fund the sum of \$_____;

(b) There shall be deposited in the Series 2016 Costs of Issuance Fund the sum of \$_____; and

(c) There shall be deposited with the District to fund the Project the total sum of \$_____.

Section 4.02 Series 2016 Costs of Issuance Fund.

(a) The Trustee shall establish and maintain in trust a separate fund designated as the "*Series 2016 Costs of Issuance Fund.*" Money deposited in said fund shall be used to pay Costs of Issuance with respect to the Bonds as provided in this Section.

(b) The Trustee shall make payments from the Series 2016 Costs of Issuance Fund, except payments and withdrawals pursuant to subsection (e) of this Section, in the amounts, at the times, in the manner and on the other terms and conditions set forth in this subsection. Before any such payment from the Series 2016 Costs of Issuance Fund shall be made, there shall be filed with the Trustee a requisition therefore in substantially the form set forth in *Exhibit C*, signed by an Authorized District Representative. Each such requisition shall state, in respect of the payment to be made (a) the name and address of the person, firm or corporation to whom payment is due, (b) the amount of such payment, and (c) the particular item of the cost to be paid and that such payment in the stated amount is a proper charge against the Series 2016 Costs of Issuance Fund and that no part of such payment shall be applied to any item which has previously been paid as a Costs of Issuance of the Bonds. The Trustee shall promptly issue its check, or transmit a wire transfer to the District or to the Person identified in the requisition in the amount or amounts specified in each such requisition or, if requested pursuant to any such requisition, shall by wire transfer, interbank transfer or other method, as specified in the respective requisition, or arrange to promptly make each payment required by such requisition. The District shall apply, or cause to be applied, all such moneys received from the Series 2016 Costs of Issuance Fund to the payment of the Costs of Issuance of the Bonds identified in the requisition relating to such moneys.

Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such requisition, signed by an Authorized District Representative, the Trustee shall pay the amount set forth therein as directed by the terms thereof.

(c) Upon the earlier of (i) March 1, 2016 or (ii) the receipt by the Trustee of a certificate of an Authorized District Representative requesting the Trustee to close the Series 2016 Costs of Issuance Fund, and after payment from the Series 2016 Costs of Issuance Fund of all amounts included in requisitions submitted by the District pursuant to this Section 4.02, the Trustee shall transfer any moneys remaining in the Series 2016 Costs of Issuance Fund to such account or accounts in the Debt Service Fund as directed by an Authorized District Representative. Upon such transfer the Trustee shall close the Series 2016 Costs of Issuance Fund.

(d) Moneys held in the Series 2016 Costs of Issuance Fund may, subject to the Series 2016 Tax Certificate, be invested and reinvested to the fullest extent practicable in any

investment directed by the District in writing, in which the District can legally invest its funds, which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from the Series 2016 Costs of Issuance Fund. Any investment earnings on moneys on deposit in the Series 2016 Costs of Issuance Fund shall be deposited in the Series 2016 Costs of Issuance Fund and be used in the same manner as other amounts on deposit in the Series 2016 Costs of Issuance Fund.

Section 4.03 Parity Reserve Account. The Trustee shall establish and maintain in trust a Parity Reserve Account within the Debt Service Reserve Fund designated as the "*Parity Reserve Account*". The Bonds shall be entitled to be paid from the Parity Reserve Account but shall not be entitled to be paid from any other Series Debt Service Reserve Account hereafter created. The minimum required balance in the Parity Reserve Account shall be the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds and any Parity Obligations, (b) the Maximum Adjusted Annual Debt Service on the Bonds and any Parity Obligations, or (c) one hundred twenty-five percent (125%) of Average Annual Bond Debt Service on the Bonds and any Parity Obligations for so long as the Bonds remain Outstanding. Money deposited in the Parity Reserve Account shall be used as provided for in Section 5.06 of the Master Indenture.

ARTICLE V

CERTAIN TAX MATTERS

Section 5.01 Tax Covenants.

(1) The District covenants that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under the Code. The District shall not directly or indirectly use or permit the use of any proceeds of the Bonds in such a manner as would adversely affect the exclusion of interest on any Bonds from gross income under the Code. The District shall not directly or indirectly use or permit the use of any proceeds of any Bonds, or of any facilities financed thereby, or other funds of the District, or take or omit to take any action, that would cause any Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the District shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Bonds. In the event that at any time the District is of the opinion that for purposes of this Section it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee, the District shall so instruct the Trustee in writing, and the Trustee shall take such action as may be directed in such instructions.

(2) The District specifically covenants that:

(a) From and after January __, 2019 the District will either restrict the yield on any remaining Series 2016 Bond proceeds to a yield that is not in excess of the yield on the Bonds, or make yield reduction payments for any amounts that are received by the District from investment of Series 2016 Bond proceeds that exceed the yield on the Bonds. For all

purposes of this Section 6.01 the Yield on the Bonds shall be deemed to be the yield set forth in Section 4.1 of the Series 2016 Tax Certificate executed and delivered at the time of the initial issuance of the Bonds.

(b) The District shall pay or cause to be paid the Rebate Requirement as provided in the Series 2016 Tax Certificate.

(c) The District shall determine, or shall retain consultants or experts in their field to determine for the District, the amount of and cause to be deposited in the Rebate Fund the Rebate Requirement as provided in the Series 2016 Tax Certificate (which is incorporated herein by reference as if set forth in full herein). Subject to the provisions of this Section, moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America, and the District and the Owners of the Bonds shall have no rights in or claim to such moneys. The Trustee shall invest all amounts held in the Rebate Fund as directed in writing by an Authorized District Representative.

Upon receipt of the Rebate Instructions required to be delivered to the Trustee, the Trustee shall remit part or all of the balance held in the Rebate Fund, together with any completed forms to be filed therewith prepared by the District and delivered with such Rebate Instructions, to the United States of America to the extent so directed, including rebate due in connection with the Bonds. In addition, if the Rebate Instructions so direct, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as the Rebate Instructions direct.

The Trustee shall conclusively be deemed to have complied with the provisions of this Section if it follows the directions of the District set forth in the Rebate Instructions and shall not be required to take any actions thereunder in the absence of Rebate Instructions from an Authorized District Representative.

(3) For purposes of this Section, capitalized terms not defined pursuant to Section 1.03 hereof shall have the meanings ascribed to such terms in the Series 2016 Tax Certificate.

Section 5.02 Rebate Fund. For purposes of complying with tax covenants contained in this First Supplemental Indenture, there is hereby established a fund designated the "*Series 2016 Rebate Fund*" to be held by the Trustee (the "*Rebate Fund*"). Amounts on deposit in the Rebate Fund shall be applied as provided in Section 5.01 hereof and in the Series 2016 Tax Certificates.

ARTICLE VI

MISCELLANEOUS

Section 6.01 Master Indenture to Remain in Effect. Save and except as supplemented by this First Supplemental Indenture, the Master Indenture shall remain in full force and effect.

Section 6.02 Continuing Disclosure. The District hereby covenants and agrees to comply with the continuing disclosure requirements for such Bonds as promulgated under Rule 15c2-12. Notwithstanding any other provision of the Master Indenture or this First Supplemental Indenture, failure of the District to comply with the requirements of Rule 15c2-12 applicable to such Bonds, as it may from time to time hereafter be amended or supplemented, or failure of the District to comply with any continuing disclosure agreement entered into in connection with the such Bonds shall not be considered an Event of Default and the Trustee shall have no right to accelerate amounts due hereunder as a result thereof; provided, however, that the Trustee and the Owners of not less than 25% in principal amount of the such Outstanding Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations in this Section and such continuing disclosure agreement.

Section 6.03 Notices. Unless otherwise provided herein, all notices, certificates or other communications hereunder shall be deemed sufficiently given upon actual receipt thereof when received by the District, the Trustee, and the Rating Agencies, as the case may be, at the respective address provided pursuant to this Section or, if mailed by first class mail, postage prepaid, addressed to the appropriate address provided pursuant to this Section, six Business Days after deposit in the United States mail, the initial address for notices, counterparts and other communications hereunder is as follows:

If to the District: Central Arizona Water Conservation District
23636 North 7th Street
Phoenix, AZ 85024
Attention: General Manager
Email: tcooke@cap-az.com

With a copy to: Timothy A. Stratton, Esq.
Gust Rosenfeld P.L.C.
One East Washington, Suite 1600
Phoenix, AZ 85004
Email: tstratton@gustlaw.com

If to the Trustee: Zions First National Bank
6001 North 24th Street
Phoenix, AZ 85016
Attention: Corporate Trust

If to the Rating Agencies: _____

The District and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent. Unless otherwise requested by the District or the Trustee any notice required to be given hereunder in writing may be given by any form of Electronic notice capable of making a

written record. Each such party shall file with the Trustee information appropriate to receiving such form of Electronic notice.

Section 6.04 Counterparts. This First Supplemental Indenture may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be an original but such counterparts shall together constitute but one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, Central Arizona Water Conservation District has caused these presents to be signed in its name and on its behalf by the President of its Board of Directors and attested by its Secretary and to evidence its acceptance of the trusts hereby created, the Trustee has caused these presents to be signed in its name and on its behalf by one of its authorized officers, all as of the ____ day of January, 2016.

**CENTRAL ARIZONA WATER
CONSERVATION DISTRICT**

By: _____
President, Board of Directors

ATTEST:

Secretary

ZIONS FIRST NATIONAL BANK, as Trustee

By: _____
Authorized Officer

APPROVED AS TO FORM

GUST ROSENFELD P.L.C.

Timothy A. Stratton, Bond Counsel

EXHIBIT A

FORM OF BONDS

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("*DTC*"), TO THE CENTRAL ARIZONA WATER CONSERVATION DISTRICT (CENTRAL ARIZONA PROJECT) OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)
WATER DELIVERY O&M REVENUE BONDS,
SERIES 2016**

No. R-_____ \$ _____

<u>Interest Rate</u>	<u>Dated Date</u>	<u>Maturity Date</u>	<u>CUSIP No.</u>
_____ %	_____, 2016	January 1, 20__	_____

Registered Owner: CEDE & CO.

Principal Amount: _____ DOLLARS

CENTRAL ARIZONA WATER CONSERVATION DISTRICT (herein called the "*District*"), a multi-county water conservation district, tax-levying public improvement district and municipal corporation of the State of Arizona, acknowledges itself indebted to, and for value received hereby promises to pay from the Revenues of the District and other amounts pledged therefor pursuant to the Indenture to the Registered Owner specified above or registered assigns, on the Maturity Date specified above (unless this Bond shall have been previously called for redemption in whole or in part and payment of the Redemption Price shall have been duly made), the Principal Amount specified above, in lawful money of the United States of America and to pay interest thereon (but only from the Revenues and other amounts pledged therefor pursuant to the Indenture) in like lawful money until payment of such principal sum shall be discharged as provided in the Indenture, at the rates determined as described below, payable on each January 1 and July 1, commencing [July 1, 2016] (each an "*Interest Payment Date*") (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to the Indenture).

This Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (i) this Bond is authenticated on an Interest Payment Date, in which event from such Interest Payment Date; and (ii) unless this Bond is authenticated after a Record Date and before the next succeeding Interest Payment Date for this Bond, in which event from such Interest Payment Date; provided, however, that if the date of authentication of this Bond shall be prior to the Record Date for the first Interest Payment Date for this Bond, this Bond shall bear interest from the Dated Date specified above. Notwithstanding the foregoing, if the District shall default in the payment of interest, then this Bond shall bear interest from the date to which interest has been paid or if no interest has been paid, from the Dated Date specified above.

The principal or, if applicable, the Redemption Price hereof is payable upon surrender hereof at the designated corporate trust office of Zions First National Bank (together with any successor Trustee as provided in the Indenture, the "*Trustee*"). Interest hereon is payable by check mailed on each Interest Payment Date to the Owner hereof as of the applicable Record Date at the address appearing on the Bond Register maintained by the Trustee; provided, that Owners of at least \$1,000,000 aggregate principal amount of Bonds may, at any time prior to a Record Date, give the Trustee written instructions for payment of such interest on each succeeding Interest Payment Date for such Bonds by wire transfer or by deposit to a specific account.

This Bond is one of a duly authorized issue of bonds of the District designated as "*Central Arizona Water Conservation District (Central Arizona Project), Water Delivery O&M Revenue Bonds, Series 2016*" (the "*Bonds*"). The Bonds are issued pursuant to the Revenue Bond Statute, a Master Indenture dated as of January 1, 2016 (the "*Master Indenture*") and a First Supplemental Indenture dated as of January 1, 2016 (the "*First Supplemental Indenture*"), each between the District and Trustee, and an ordinance of the Board of Directors of the District adopted on November 5, 2015. The Bonds have been issued in the aggregate principal amount of \$50,000,000. The Bonds are issued under, and, together with all other Bonds hereafter issued and outstanding thereunder, are equally and ratably secured by the Trust Estate and entitled to the protection given by, the Master Indenture and the First Supplemental Indenture (together, the "*Indenture*").

Interest will be computed on the basis of a year comprised of 360 days consisting of twelve (12) months of thirty (30) days each.

The Bonds maturing on or before January 1, 2025 are not subject to call for redemption prior to maturity. The Bonds maturing on or after January 1, 2026 are subject to call for redemption prior to maturity, at the option of the District, on or after January 1, 2025, in whole or in part, at any time, by the payment of the principal amount of each Bonds called for redemption plus accrued interest to the date fixed for redemption, but without premium.

The Bonds maturing on January 1, 20___, ___, ___, are subject to mandatory redemption and will be redeemed on July 1 of the respective years in the amounts set forth below by payment of a Redemption Price equal to the principal amount of the Bonds to be redeemed plus interest accrued to the Redemption Date, but without premium.

Notice of redemption will be given by the Trustee, not less than thirty (30) days nor more than sixty (60) days before the Redemption Date, to each of the Registered Owners of Bonds designated for redemption at their addresses appearing on the bond register maintained by the Trustee on the date the bonds to be redeemed are selected. No defect in or failure to give such mailed notice of redemption will affect the validity of redemption proceedings for Bonds for which

proper notice was given. So long as the Bonds are in the book-entry-only system, notices of redemption will be given only to DTC. If, on the Redemption Date, sufficient moneys for payment of the Redemption Price and accrued interest are held pursuant to the Indenture, interest on the Bonds to be redeemed will cease to accrue after the date set for redemption and such Bonds will cease to be entitled to any benefit or security under the Indenture except the right to receive payment from the moneys held for such Bonds under the Indenture.

As provided in the Indenture, Bonds of the District may be issued thereunder from time to time pursuant to Supplemental Indentures in one or more Series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided. The aggregate principal amount of Bonds which may be issued under the Indenture is not limited except as provided in the Indenture, and all Bonds issued and to be issued under the Indenture are and will be equally secured by the pledge and assignment and covenants made therein, except as otherwise expressly provided or permitted in the Indenture.

Copies of the Indenture are on file at the administrative offices of the District and at the Principal Office of the Trustee and reference is hereby made to the Indenture and to all amendments and supplements thereto for a description of the provisions, among others, with respect to the nature and extent of the security, the rights, duties and obligations of the District, the Trustee and the Owners of the Bonds and the terms upon which the Bonds are secured under the Indenture, the rights and remedies of the Owners of the Bonds, the limitations on such rights and remedies and the terms and conditions upon which Bonds are issued and may be issued thereunder. The Indenture provides that other Parity Obligations secured by a pledge of the Revenues on a parity with the Bonds may be issued or incurred by the District on the terms set forth therein. By acceptance of this Bond, the Registered Owner accepts and agrees to the terms of the Indenture.

This Series 2016 Bond shall not constitute a charge against the general credit of the District but shall constitute and evidence a special obligation of the District payable as to principal, Redemption Price, if any, and interest solely from the Revenues and the other funds pledged therefor under the Indenture. The provisions of this paragraph shall not preclude the payment or redemption of Bonds, at the election of the District, from any other legally available funds. This Series 2016 Bond is not secured by a legal or equitable pledge of, or lien or charge upon, any property of the District or any of its income or receipts except the Trust Estate pledged therefor pursuant to the Indenture which is subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein. Neither the faith and credit nor the taxing power of the State of Arizona, the District or any other public agency is pledged to the payment of the principal or Redemption Price of or the interest on this Series 2016 Bond. The issuance of this Series 2016 Bond shall not directly, indirectly or contingently obligate the District to levy or pledge any form of taxation or assessment or to make any appropriation for the payment of this Series 2016 Bond. The payment of the principal or Redemption Price of or interest on this Bond does not constitute a debt, liability or obligation of the State of Arizona or any public agency (other than the special obligation of the District as provided in the Indenture). Neither the members of the Board of Directors of the District, nor any person executing this Series 2016 Bond, nor any officer or employee of the District shall be liable personally for the principal or Redemption Price of or interest on this Series 2016 Bond or be subject to any personal liability or accountability by reason of the issuance of this Series 2016 Bond or in respect of any undertakings by the District under the Indenture.

The Bonds are issued for the purpose of financing capital improvements and construction including, but not limited to, construction related to the District's Palo Verde to Morgan

Transmission Line Project, Hassayampa Tap Connection Project and ED2 to Saguaro Transmission Line Rebuild Project, to make a deposit to the Parity Reserve Account Fund and to pay costs and expenses related to issuance and sale of the Bonds.

The Indenture may be modified or amended by the District on the terms and conditions provided in the Indenture, including, in certain cases, without the necessity of the consent of the Owners of the Bonds.

This Series 2016 Bond is transferable as provided in the Indenture only upon the Bond Register kept for that purpose at the Principal Office of the Trustee, by the registered owner hereof, or by his duly authorized attorney, upon surrender of this Series 2016 Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his duly authorized attorney. Thereupon and upon payment of the charges prescribed in the Indenture a new fully registered Series 2016 Bond, without coupons, and for the same aggregate principal amount, shall be issued to the transferee in exchange therefor as provided in the Indenture. The District, the Trustee and any Paying Agent may deem and treat the person in whose name this Series 2016 Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes.

The Registered Owner of this Series 2016 Bond shall have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein or to take any action with respect to any Event of Default under the Indenture or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Indenture. In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of all the Bonds issued under the Indenture and then Outstanding may become or may be declared due and payable before the stated maturity thereof, together with interest accrued thereon.

It is hereby certified and recited that all conditions, acts and things required by law, including the Act and the Revenue Bond Statute and the Indenture to exist, to have happened and to have been performed precedent to and in the issuance of this Series 2016 Bond, exist, have happened and have been performed in due time, form and manner and that the Bonds, together with all other indebtedness of the District, comply in all respects with the applicable laws of the State of Arizona, including the Act and the Revenue Bond Statute.

This Series 2016 Bond shall not be entitled to any benefit under the Indenture or be valid or become obligatory for any purpose until this Series 2016 Bond shall have been authenticated by the execution by the Trustee of the Trustee's Certificate of Authentication hereon.

IN WITNESS WHEREOF, CENTRAL ARIZONA WATER CONSERVATION DISTRICT has caused this Series 2016 Bond to be signed in its name and on its behalf by the manual or facsimile signature of the President of its Board of Directors and attested by the manual or facsimile signature of its Secretary, as of the Dated Date specified above.

**CENTRAL ARIZONA WATER
CONSERVATION DISTRICT**

By: _____
President, Board of Directors

ATTEST:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds delivered pursuant to the within mentioned Indenture.

ZIONS FIRST NATIONAL BANK, as Trustee

By: _____
Authorized Signatory

[Date of Authentication]

_____, 2016

ASSIGNMENT

FOR VALUE RECEIVED the undersigned sells, assigns and transfers unto

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within Bond of the Central Arizona Water Conservation District and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Notice: The Signature on this assignment and transfer must correspond with the name as written upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature guaranteed by

Notice: Signature must be guaranteed by a member of the National Association of Securities Dealers, a commercial bank, a trust company or other eligible guarantor institution.

EXHIBIT B

**MATURITY SCHEDULE AND
REDEMPTION PROVISIONS CONCERNING
THE BONDS MATURITY SCHEDULE**

MATURITY SCHEDULE

Maturity Date (January 1)	Amount	Interest Rate
	\$	
2017		
2018		
2019		
2020		
2021		
2022		
2023		
2024		
2025		
2026		
2027		
2028		
2029		
2030		
2031		
2032		
2033		
2034		
2035		
2036		

EXHIBIT C

**FORM OF REQUISITION FOR MONEY
FROM THE SERIES 2016 COSTS OF ISSUANCE FUND**

REQUISITION NO. __

SERIES 2016 COSTS OF ISSUANCE FUND

RE: Central Arizona Water Conservation District (Central Arizona Project)
Water Delivery O&M Revenue Bonds, Series 2016

Central Arizona Water Conservation District (the "*District*") hereby requests Zions First National Bank, as trustee (the "*Trustee*"), under that certain Master Indenture of Trust, dated as of January 1, 2016, as amended and supplemented by that certain First Supplemental Indenture of Trust, dated as of January 1, 2016, (together, the "*Indenture*"), between the District and the Trustee, relating to the above-captioned Bonds to pay to the persons listed on Schedule I attached hereto the amounts shown for the purposes indicated from the Series 2016 Costs of Issuance Fund established pursuant to the Indenture.

The District hereby certifies that each item in the amount set forth on Schedule I is a proper charge against the Series 2016 Costs of Issuance Fund and no part of such payment shall be applied to any item which has previously been paid as a Costs of Issuance of the Bonds.

Dated: _____, 2016.

**CENTRAL ARIZONA WATER
CONSERVATION DISTRICT**

By: _____
Authorized District Representative

SCHEDULE I

SERIES 2016 COSTS OF ISSUANCE FUND

<u>TO*</u>	<u>AMOUNT**</u>	<u>PURPOSE</u>
1. Zions First National Bank 600 N. 24th Street Phoenix, Arizona 85016	\$ _____	Trustee's Initial Fees and Costs
2. Gust Rosenfeld P.L.C. One E. Washington, Suite 1600 Phoenix, Arizona 85004	\$ _____	Bond and Disclosure Counsel Services
3. Galardi Rothstein Group 7327 SW Barnes Road, #224 Portland, Oregon 97225	\$ _____	Feasibility Consultant Services
4. [Underwriter Counsel]	\$ _____	Underwriter Counsel Services
5. _____	\$ _____	Official Statement Printing
6. Standard & Poor's Rating Services	\$ _____	Rating fee
7.	\$ _____	Miscellaneous

* See wire instructions or remittance address on the respective invoice.

** Amounts in the maximum amounts shown above to be disbursed by the Trustee against an invoice presented to the Trustee for such purpose.

In the opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain restrictions, conditions and requirements by the District, as mentioned under "TAX EXEMPTION" herein, interest income on the Bonds is excluded from gross income for federal income tax purposes. Interest income on the Bonds is not an item of tax preference to be included in computing the alternative minimum tax of individuals or corporations; however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain corporations, which income is subject to the federal alternative minimum tax. In the opinion of Bond Counsel, interest income on the Bonds is exempt from Arizona income taxes. See "TAX EXEMPTION," "BOND PREMIUM" and "ORIGINAL ISSUE DISCOUNT" herein.



NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: SEE "RATINGS" HEREIN

\$50,000,000*
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)
WATER DELIVERY O&M REVENUE BONDS, SERIES 2016

Dated: Date of Initial Delivery.

Due: July 1 as shown on the inside cover hereof.

The Central Arizona Water Conservation District (Central Arizona Project) (the "District") Water Delivery O&M Revenue Bonds, Series 2016 are issued as current interest bonds (the "Bonds"). The Bonds are being issued under the Master Indenture of Trust dated as of January 15, 2016* and a First Supplemental Indenture of Trust dated as of January 15, 2016* (together, the "Indenture") between the District and Zions First National Bank, as Trustee (the "Trustee"). Capitalized terms not otherwise defined in this Official Statement have the respective meanings as set forth in APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions."

As more fully described herein, the Bonds are secured by Revenues of the District (the "Revenues"). "Revenues" means the gross revenues of the District derived from the Fixed Water Operation and Maintenance Charges ("Fixed O&M") and a portion of the Replacement Charges of the System (see "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" herein). Revenues do not include any income or moneys derived from taxes or assessments authorized by the Act, Power Revenues, Replacement Charges, other than that portion of the Replacement Charges attributable to debt service on the Bonds, or the proceeds or investment income of any bonds of the District, other than the Bonds. "Fixed O&M" means the operation and maintenance costs but does not include the rate stabilization component that is incorporated into the rates charged to customers for water deliveries.

The proceeds of the sale of the Bonds will be used to (i) finance capital improvements and construction related to the District's Palo Verde to Morgan Transmission Line Project, Hassayampa Tap Connection Project and ED2 to Saguaro Transmission Line Rebuild Project (collectively, the "Project") (ii) finance other capital projects of the District and (iii) pay costs of issuance of the Bonds.

The Bonds will be issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Ownership interests in the Bonds will be in denominations of \$5,000 and integral multiples thereof. Individual purchases of the Bonds may be made in book-entry-only form only, and purchasers will not receive certificates representing their interests in the Bonds. So long as the book-entry-only system is in effect, principal, redemption premium, if any, and interest due with respect to the Bonds will be paid by the Trustee to DTC, which will in turn remit such principal, redemption premium, if any, and interest due with respect to the Bonds to the Participants (as defined herein) for subsequent disbursement to the Beneficial Owners (as defined herein) of the Bonds as described herein. Interest on the Bonds is payable semiannually on January 1 and July 1 of each year, commencing _____, 20__* until maturity or prior redemption.

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY OUT OF THE PLEDGED REVENUES AND OTHER SECURITY (INCLUDING INVESTMENT EARNINGS) PLEDGED UNDER THE INDENTURE AND DO NOT CONSTITUTE AN INDEBTEDNESS NOR A GENERAL OBLIGATION OF THE DISTRICT, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND DO NOT CONSTITUTE, AND WILL NOT GIVE RISE TO, A PECUNIARY LIABILITY OF THE DISTRICT, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN FROM THE REVENUES SPECIFICALLY PLEDGED FOR THE BONDS OR BE A CHARGE AGAINST ITS CREDIT OR GENERAL TAXING POWERS. THE BONDS DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF (OTHER THAN THE LIMITED OBLIGATION OF THE DISTRICT AS PROVIDED IN THE INDENTURE).

The Bonds are subject to redemption prior to maturity. See "THE BONDS – Optional Redemption" and "Mandatory Sinking Account Redemption."

Maturity Schedule
 (See Inside Front Cover)

This cover page contains certain information for general reference only. It is not a summary of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as and if issued and accepted by the Underwriters and subject to delivery of the approving legal opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel. Certain legal matters will be passed upon for the District by its General Counsel, Jay Johnson, Esq. Gust Rosenfeld, P.L.C., Phoenix Arizona will also pass on certain matters as Disclosure Counsel. Certain legal matter will be passed upon for the Underwriters by Greenberg Traurig LLP. It is expected that delivery of the Bonds will be made on or about January __, 2016.*

Dated: _____, 2016

*Preliminary, subject to change.

Gust Rosenfeld P.L.C.

Draft 10/08/2015

MATURITY SCHEDULE*

\$50,000,000*

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)
WATER DELIVERY O&M REVENUE BONDS, SERIES 2016**

<u>MATURITY</u> <u>DATE</u> <u>(JANUARY* 1)</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE</u>	<u>PRICE</u>	<u>CUSIP® BASE</u> <u>No.</u> ⁽¹⁾
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				

*Preliminary, subject to change

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CENTRAL ARIZONA WATER CONSERVATION DISTRICT

23636 North 7th Street
Phoenix, Arizona 85024

BOARD OF DIRECTORS

Lisa Atkins, *President*
Warren Tenney, *Vice President*
Frank Fairbanks, *Secretary*
Gayle Burns
Guy Carpenter
Karen Cesare
Terry Goddard
Jim Holway, Ph.D.
L.M. "Pat" Jacobs, IV
Jim Hartdegen
Mark Lewis
Heather Macre
Cynthia Moulton
Sharon Megdal, Ph.D.
Pam Pickard

DISTRICT ADMINISTRATION

Theodore C. Cooke, *Interim General Manager and Deputy General Manager – Finance and Administration*
Thomas W. McCann, *Deputy General Manager – Operations and Maintenance*
Marie S. Pearthree, *Deputy General Manager – Strategic Initiative and Public Policy*
Jay Johnson, Esq., *General Counsel*
Kathryn B. Royer, *Associate General Manager – Communications and Public Affairs*

BOND AND DISCLOSURE COUNSEL

Gust Rosenfeld P.L.C.
Phoenix, Arizona

FINANCIAL ADVISOR

Piper Jaffray & Co.
Phoenix, Arizona

INDEPENDENT AUDITORS

Ernst & Young LLP
Phoenix, Arizona

FEASIBILITY CONSULTANT

Galardi Rothstein Group

[Insert Map of CAP – To Come from District]

No dealer, broker, salesman or other person has been authorized by the Central Arizona Water Conservation District (Central Arizona Project) (the "District") or the Underwriters to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof.

This Official Statement, which includes the cover page, inside front cover page and the appendices hereto, should be considered in its entirety, and no one subject should be considered less important than another by reason of location in the text. Brief descriptions of the Bonds, the Indenture, the security for the Bonds and the District and other information are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Bonds, the Indenture and any other documents are qualified in their entirety by reference to such documents, copies of which may be obtained from Gust Rosenfeld P.L.C., One East Washington Street, Suite 1600, Phoenix, Arizona 85004.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness or such estimates and opinions or that they will be realized. The presentation of information in this Official Statement is intended to show recent historical information and, except as expressly stated otherwise, is not intended to indicate future or continuing trends. No representation is made that the past experience shown by such information will necessarily continue or be repeated in the future.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District or the Underwriters and the purchasers or Beneficial Owners of any of the Bonds.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or in the information or opinions set forth herein since the date of this Official Statement. The delivery of this Official Statement shall not imply that the information herein is correct as of any time subsequent to the date hereof.

The Underwriters have provided the following sentences for inclusion in this Official Statement: "The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information."

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 neither been registered nor qualified under the securities laws of any state. This Official Statement does not constitute an offer to sell or solicitation of any offer to buy, nor shall there be any sale of the Bonds, by any person in any jurisdiction where such offer or sale would be unlawful.

The District has covenanted to provide continuing disclosure as described in this Official Statement under “Continuing Disclosure” and in APPENDIX D – “Form of Continuing Disclosure Certificate,” all pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

In connection with the offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Bonds offered hereby at a level other than that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside front cover page hereto and such public offering prices may change from time to time by the Underwriters.

Certain statements included or incorporated by reference in this Official Statement and the Appendices hereto constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “expected,” “estimate,” “projects,” “projected,” “budget,” “forecast” or other similar words. Forward-looking statements in this Official Statement are subject to risks and uncertainties. The achievement of any results or the realization of other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements.

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**OFFICIAL STATEMENT
RELATING TO
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)
WATER DELIVERY O&M REVENUE BONDS, SERIES 2016**

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, inside front cover page and the appendices hereto, is being furnished by the Central Arizona Water Conservation District (Central Arizona Project) (the “*District*”) in connection with the offering of the District’s \$50,000,000* Water Delivery O&M Revenue Bonds, Series 2016 (the “*Bonds*”). The District is a multi-county water conservation district organized under the laws of the State of Arizona, particularly Arizona Revised Statutes (“A.R.S.”) Section 48-3701 *et seq.* (the “*Act*”). For additional information on the District, see Appendix E.

Capitalized terms not otherwise defined in this Official Statement have the respective meanings as set forth in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

The forecasts, projections and estimates contained in this Official Statement are based on, among other factors, historical data and economic trends. The forecasts, projections and estimates contained herein and in the appendices hereof are subject to certain contingencies which cannot be quantified and are subject to the uncertainties inherent in any attempt to forecast the results of future operations. Consequently, the District makes no representations or warranty that these forecasts, projections and estimates will be realized.

The summaries of and references to all 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. Descriptions of the Bonds are further qualified by reference to bankruptcy, insolvency, moratorium or reorganization laws or laws affecting the remedies for the enforcement of the rights and security provided in the Bonds and to the police powers of political bodies.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds for the complete text thereof and to the Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference. For definitions of capitalized terms

* Preliminary, subject to change.

used herein as defined in the Indenture, see Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Definitions.”

AUTHORIZATION AND PURPOSE

The Bonds are to be issued by the District for the purpose of (i) financing certain capital improvements and construction related to the District’s Palo Verde to Morgan Transmission Line Project, Hassayampa Tap Connection Project, and ED2 to Saguaro Transmission Line Rebuild Project, (ii) financing other capital projects of the District and (iii) paying costs of issuance of the Bonds.

The Bonds are being issued by the District pursuant to the provisions of Chapter 21, Laws of the State of Arizona, Thirty-Seventh Legislature, Second Regular Session, 1986.

The Bonds are being issued under the First Supplemental Indenture of Trust dated as of January 1, 2016* (the “*First Supplemental Indenture*”), supplementing that certain Master Indenture of Trust, dated as of January 1, 2016* (the “*Master Indenture*” and together with the First Supplemental Indenture, the “*Indenture*”), each as between the District and Zions First National Bank, as Trustee (the “*Trustee*”).

TERMS OF THE BONDS – GENERALLY

The Bonds will be dated the date of delivery and will mature on the dates and in the principal amounts and will bear interest from their date at the rates set forth on the inside front cover page of this Official Statement. Beneficial ownership interests in the Bonds may be purchased in amounts of \$5,000 of principal due on a specific maturity date or integral multiples thereof. Interest on the Bonds will be payable semiannually on each January 1 and July 1, commencing July 1, 2016* (each an “*Interest Payment Date*”), until maturity or prior redemption. The Bonds will bear interest from the most recent Interest Payment Date to which interest has been paid or duly provided for, calculated on the basis of a 360-day year of twelve 30-day months.

Subject to the discussion under the heading “REGISTRATION, TRANSFER AND EXCHANGE”, Interest on the Bonds will be payable on each Interest Payment Date to the holders whose names appear on the bond register for the Bonds (the “*Holders*”) at the close of business on the fifteenth (15th) day (whether or not a Business Day) of the calendar month next preceding the applicable Interest Payment Date. In the event that interest is not paid on a scheduled Interest Payment Date, the Trustee will establish a special record date for the payment of such interest, if and when funds for the payment of such interest have been received. Notice of the special record date and of the scheduled payment date of the past due interest will be sent not more than 15 days and not less than 10 days prior to the special record date to the address of each Holder appearing on the bond register for the Bonds.

* Preliminary, subject to change.

REGISTRATION, TRANSFER AND EXCHANGE

So long as the Bonds are outstanding, the District will cause to be maintained by the Trustee a bond register for the registration and transfer of the Bonds located at the Trustee's designated corporate trust office. The person in whose name any Bond is registered on the bond register will be deemed and regarded as the absolute owner of the Bonds for all purposes.

The Bonds will be issued in fully registered form without coupons and administered under a book-entry-only system (the "*Book-Entry-Only System*") by The Depository Trust Company, a registered securities depository ("*DTC*"). Unless and until the Book-Entry-Only System is discontinued, the Bonds will be registered in the name of Cede & Co., as nominee of DTC. For purposes of this Official Statement, the term "*Beneficial Owner*" when used with respect to the Bonds means the owner of any beneficial interest in any Bond as shown on the records of any Direct or Indirect Participant. Purchasers will not receive certificates representing their interests in the Bonds. So long as Cede & Co. is the registered owner of the Bonds, the Trustee will make payments of principal of, premium, if any, and interest on the Bonds directly to DTC, which will remit such principal, premium, if any, and interest to the Beneficial Owners. See Appendix C – "BOOK-ENTRY-ONLY SYSTEM."

If the Book-Entry-Only System were discontinued, the following provisions would apply. A Bond may be transferred on the bond register maintained by the Trustee, acting as bond registrar, upon surrender of the Bond at the principal corporate trust office of the Trustee, accompanied by a written instrument of transfer, in form satisfactory to the Trustee, signed by the registered owner or a duly authorized attorney for the registered owner. Upon surrender for transfer at the principal corporate trust office of the Trustee, any Bond may be exchanged for like Bonds of the same aggregate principal amount, maturity date and interest rate, of any authorized denomination.

If any Bond becomes mutilated or is lost, stolen or destroyed, the District may execute and the Trustee shall authenticate and deliver a new Bond of like maturity date, principal amount, interest rate and terms as the Bond so mutilated, lost, stolen or destroyed; provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to District or the Trustee, (ii) in the case of any such lost, stolen or destroyed Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the Trustee together with indemnity satisfactory to the Trustee, (iii) all other reasonable requirements of the District and the Trustee are complied with, and (iv) expenses in connection with such transaction are paid by the Beneficial Owner. Any Bond surrendered for exchange shall be cancelled.

OPTIONAL REDEMPTION

The Bonds are subject to optional redemption prior to maturity. The Bonds maturing prior to January 1, 2026* will not be subject to redemption prior to their stated maturity dates.

* Preliminary, subject to change.

The Bonds maturing on or after January 1, 2026 will be subject to call for redemption prior to maturity, at the option of the District, in whole or in part, on January 1, 2025 or on any date thereafter, by the payment of a redemption price equal to the principal amount of each Bond called for redemption plus accrued interest to the date fixed for redemption, but without premium.

MANDATORY SINKING FUND REDEMPTION*

The Bonds maturing on January 1, 20__, 20__ and 20__ (the “*Sinking Account Bonds*”) are subject to mandatory redemption and are required to be redeemed on January 1 in the years set forth below (the “*Sinking Account Retirement Dates*”), in the amount of the unsatisfied portion of the corresponding Sinking Account Requirement for Sinking Account Bonds of such maturities by payment of a Redemption Price equal to the principal amount of such Sinking Account Bonds of such maturities called for redemption plus payment of the interest accrued to the date fixed for redemption, without premium, as follows:

\$____,000 BONDS DUE JANUARY 1, ____

MANDATORY SINKING FUND	
<u>DATE</u>	<u>REDEMPTION</u>

**Maturity

* Preliminary, subject to change.

Whenever Sinking Account Bonds are purchased, redeemed (other than pursuant to mandatory sinking account redemption) or are delivered by the District to the Trustee for cancellation, the principal amount of the Sinking Account Bonds so retired shall satisfy and be credited against the Sinking Account Requirements for Sinking Account Bonds for such years as the District may direct.

SELECTION OF BONDS TO BE REDEEMED

If less than all of the Bonds of a maturity are to be redeemed at any time, DTC will select the Bonds to be redeemed by such random method as DTC in its sole discretion deems fair or appropriate, so long as the Book-Entry-Only System is in effect. If the Book-Entry-Only System is not in effect, then the Trustee shall select the Bonds to be redeemed by lot in any manner the Trustee deems appropriate. In making such selection, the Trustee will treat each Bond as representing that number of Bonds of the lowest authorized denomination as is obtained by dividing the principal amount of such Bond by such denomination.

EFFECT OF CALL FOR REDEMPTION

On the date designated for redemption the Bonds so called for redemption will become and be due and payable at the Redemption Price provided for redemption of such Bonds on such date. If on the date fixed for redemption moneys for payment of the Redemption Price and accrued interest are held by the Trustee, interest on the Bonds so called for redemption will cease to accrue, such Bonds will cease to be entitled to any benefit or security under the Indenture, except the right to receive payment from such moneys held by the Trustee, and the amount of such Bonds so called for redemption will be deemed paid and no longer Outstanding under the Indenture.

NOTICE OF REDEMPTION

The Trustee shall send notices of redemption to DTC in the manner required by DTC. If the Book-Entry-Only System is discontinued, the Trustee shall mail notice of redemption of any Bond to the registered owner of the Bond or Bonds being redeemed at the address shown on the bond register maintained by the registrar not more than sixty (60) nor less than thirty (30) days prior to the date set for redemption. Notice of redemption shall be given in the manner provided in the Indenture. Neither the failure of DTC nor any registered owner of Bonds to receive a notice of redemption nor any defect therein will affect the validity of the proceedings for the redemption of Bonds as to which proper notice of redemption was given.

The Trustee also agrees to send notice of any redemption to the Municipal Securities Rulemaking Board (the “MSRB”), currently through the MSRB’s Electronic Municipal Market Access system (“EMMA”), in the manner required by the MSRB, but no defect in said further notice or record nor any failure to give all or a portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

Notice of redemption having been given in the manner described above, the Bonds or portions thereof called for redemption will become due and payable on the redemption date and if an amount of money sufficient to redeem all the Bonds or portions thereof called for redemption is held by the Trustee, then the Bonds or portions thereof called for redemption will cease to bear interest from and after such redemption date.

Any notice of optional redemption given pursuant to the Indenture may state that it is conditional upon receipt by the Trustee of monies sufficient to pay the redemption price of the Bonds being redeemed or upon the satisfaction of any other condition, or that it may be rescinded at any time before payment of such redemption price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of the Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event. Failure to give notice of redemption by mail, or any defect in such notice, will not affect the validity of the proceedings for the redemption of any other bonds or Parity Obligations of the District.

The person in whose name any Bond is registered will be deemed and regarded as the absolute owner thereof for all purposes, and payment of the principal of and interest on any Bond

will be made only to or upon the order of the registered owner thereof or the legal representative of the registered owner. All such payments will be valid and effectual to satisfy and discharge the liability of the District upon such Bond to the extent of the sum or sums so paid.

PROJECT DESCRIPTION

The proceeds of the Bonds, excluding accrued interest and costs of issuance, will be used to fund the following projects of the District:

PV-Morgan

The Palo Verde-Delaney-Sun Valley-Morgan Transmission Project (“*PV-Morgan*”) is a 500,000 volt transmission line project to be built and operated by Arizona Public Service Company. The District has a 10% ownership right in the PV-Morgan project. At the new Sun Valley Substation included in the PV-Morgan project, the District has 33% ownership of a 500/230 kV transformer that will supply power to two new 230kV breaker positions, one for the Hassayampa Pumping Plant and the second to feed the existing 230kV transmission line back into the Parker-Davis Transmission System at the Hassayampa Tap. The District will work with Western to update and improve the Hassayampa Tap Switchyard.

The District must rely on existing transmission and the purchase of transmission from transmission providers. District participation in PV-Morgan not only connects Navajo Southern Transmission System at the Morgan Switchyard to District loads at Sun Valley but also allows the District to make purchases/sales out of Palo Verde for times when units at the Navajo Generating Station (“*NGS*”) are out of service, physically or economically. This transmission line provides an alternate means of providing power to the District’s System increasing CAP’s ability to deliver water as needed.

ED2-SGR

The ED2-Saguaro (“*ED2-SGR*”) transmission line is located in southern Arizona just south of the City of Casa Grande. The line was constructed in 1984 and extends for 35.6 miles from the Electrical District 2 (“*ED2*”) Substation to Saguaro Switchyard. The line operates at 115-kV and supplies power to three CAP pumping stations (Brady, Picacho and Red Rock) along its route. This transmission line has experienced major failures due to weather conditions that have brought down large portions of the lines’ support structures.

This project replaces the entire line with new steel monopoles. The addition of new steel structures with their increased structural capacity decreases the number of outages on the line caused by fallen support structures. The replacement upgrades the electric grid reliability of the system and will avert possible violations from the North American Electric Reliability Corporation and the Western Electricity Coordinating Council standards.

The replacement of the wooden transmission poles will increase the District’s ability to transmit power needed for the efficient operation of the CAP system. Unexpected operational costs for repairs of downed power lines will decrease due to the stronger, more wind-resistant steel poles.

Hassayampa Tap Project

The Hassayampa Tap 230-kV Transmission Project will connect the CAP Hassayampa Pumping Plant to the PV- Morgan project, through the new Sun Valley Substation, and will upgrade the Hassayampa Tap Switchyard and the transmission line from the Hassayampa Pumping Plant to the Hassayampa Tap, which will allow CAP to transmit electricity from the PV-Morgan project to its western pump loads. The major components of the Hassayampa Tap Project include replacing the existing Hassayampa Tap switchyard with a new three-breaker ring bus switchyard, replacing the existing conductor between Hassayampa Tap and the Hassayampa Pumping Plant (the HAT-HAP line) with a higher capacity conductor, constructing approximately 4,000 feet of new double-circuited 230-kV transmission line from the HAT-HAP line to the Sun Valley Substation and interconnecting the HAT-HAP circuit at the Sun Valley Substation.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General. The Bonds are secured by a pledge of, and are payable from, Revenues of the District (the “*Revenues*”). “*Revenues*” means the gross revenues of the District derived from the Fixed Water Operation and Maintenance Charges (“*Fixed O&M*”) and a portion of the Replacement Charges of the System, but “*Revenues*” do not include any income or moneys derived from taxes or assessments authorized by the Act, Power Revenues, Replacement Charges, except that portion of the Replacement Charges attributable to debt service on the Bonds, or the proceeds or investment income of any bonds of the District, other than the Bonds. “*Fixed O&M*” means the operation and maintenance charges, but does not include the rate stabilization component that is incorporated into the rates charged to customers for water deliveries.

The Bonds are limited obligations of the District payable solely out of the Pledged Revenues and other security pledged under the Indenture and do not constitute an indebtedness nor a general obligation of the District, the State of Arizona or any political subdivision thereof, within the meaning of any state constitutional or statutory limitation and do not constitute, and will not give rise to, a pecuniary liability of the District, the State of Arizona or any political subdivision thereof, other than from the Pledged Revenues specifically pledged for the Bonds or be a charge against its credit or general taxing powers.

Rate Covenant. The District has covenanted in the Indenture to take all steps, do all things and adopt such orders and resolutions as are necessary to establish, enforce and maintain the Rate Covenant, as described in the Indenture (see “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” herein). The Rate Covenant requires the District to establish and place in effect a schedule of rates, fees and charges which will be set, at a minimum, at a level equal to the sum of (i) Fixed Water Operation and Maintenance Expenses during such fiscal year, (ii) aggregate annual debt service requirements for such fiscal year, and (iii) all other necessary charges.

FLOW OF FUNDS

The District shall apply Revenues to the payment of Operation and Maintenance Expenses, monthly deposits to the Principal and Interest Accounts, payment or deposit of amounts required to be paid or deposited pursuant to any Parity Obligations, the Indenture or the Issuing Instrument relating thereto, payment or deposit of amounts required to be paid or deposited pursuant to any Subordinated Obligations or the Issuing Instrument relating thereto, or to any other lawful purpose in connection with the System.

The District shall pay the Trustee, but only from the Revenues, monthly payments to be deposited to the Interest Account and Principal Account, as more fully described in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Payments by District.”

DEBT SERVICE RESERVE FUND

The Indenture creates the Debt Service Reserve Fund, which contains a Parity Reserve Account for the Bonds. Upon receiving the proceeds of the sale of the Bonds, the Trustee will deposit \$_____ to the Parity Reserve Account established for the Bonds. The Trustee is required to maintain the amount on deposit in the Parity Reserve Account in an amount at least equal to the Debt Service Reserve Requirement, as described in Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Debt Service Reserve Fund.”

INVESTMENT OF FUNDS

The funds on deposit in the Debt Service Fund, the Redemption Fund and the Debt Service Reserve Fund shall be invested and reinvested by the Trustee at the written direction of the District to the fullest extent practicable in Permitted Investments described in the Indenture. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Investment of Certain Funds.”

SOURCES AND USES

The proceeds from the sale of the Bonds will be applied as follows:

SOURCES OF FUNDS

Bond Principal	\$50,000,000*
Plus: [Net] Bond Premium	_____
Total Sources	\$_____

USES OF FUNDS

Deposit to Project Fund	\$_____
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Deposit to Debt Service Fund	_____
Costs of Issuance**	_____
Total Uses	\$ _____

PARITY OBLIGATIONS

No parity obligations with respect to the Bonds may be issued or incurred unless such obligations are issued pursuant to the terms of the Indenture. No bonds, notes or other obligations of the District secured by the Revenues will be issued or incurred by or on behalf of the District which have a lien or claim upon the Revenues pledged under the Indenture.

The Indenture permits the issuance of Parity Obligations to pay costs of capital improvements, including making any deposits into the funds or accounts required by the Indenture. Such Parity Obligations will enjoy a parity claim upon the Revenues and money pledged to pay the principal of and interest on the Bonds, in the event certain requirements set forth in the Indenture are met.

Generally, the District may issue Parity Obligations on a parity with the Bonds and such Parity Obligations shall be secured by an equal charge and lien on the Revenues, upon satisfaction of the conditions to the issuance of Parity Obligations contained in the Indenture, only if, the estimated Revenues Available For Debt Service, adjusted as provided in the Indenture, for each Fiscal Year immediately following the issuance of such Additional Parity Obligations are not less than 1.2 times the Maximum Adjusted Annual Debt Service for each such respective Fiscal Year on all Parity Obligations Outstanding immediately subsequent to the issuance of such Additional Parity Obligations. All amounts on deposit in the Parity Coverage Fund may be counted as Revenues Available For Debt Service. See Appendix C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE – Conditions to Issuance of Parity Obligations.”

* Preliminary, subject to change.

** Includes Underwriters' Discount.

**SCHEDULE OF DEBT SERVICE REQUIREMENTS; INCOME AVAILABLE FOR DEBT SERVICE –
BONDS***

The following table sets forth for each period the amount of principal and interest payments to become due on the Bonds:

<u>Period</u> <u>Ending</u>	The Bonds		<u>Total</u> <u>Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	
	\$	\$	
Totals	\$ _____	\$ _____	\$ _____

THE DISTRICT

GENERAL

The District is a multi-county water conservation district organized under the laws of the State of Arizona, particularly A.R.S. Section 48-3701 *et seq.* (the “Act”), encompassing Maricopa, Pima, and Pinal counties. The District was authorized in 1971 by the Arizona State Legislature for the primary purpose of creating a single entity to enter into an agreement (the “Master Repayment Agreement”) with Reclamation, for repayment to the United States of the reimbursable cost of the Central Arizona Project (the “CAP”). For additional information on the District, see Appendix A.

The District is authorized pursuant to the Act to issue revenue bonds that pledge monies received or to be received by the District from any source except ad valorem taxes.

STATUTORY DEBT LIMITATION

Pursuant to the Act, specifically A.R.S. Section 48-3762, the total aggregate principal amount of revenue bonds issued and outstanding (“*Outstanding Revenue Bonds*”) of the District cannot exceed \$500,000,000.

A.R.S. Section 48-3762 Statutory Debt Limitation	\$500,000,000
Less: Outstanding Revenue Bonds	(0)
Less: The Bonds	<u>(50,000,000)*</u>
Unused Debt Capacity	<u>\$450,000,000</u>

*Preliminary, subject to change.

The following sets forth a five year history of Fixed O&M Charges (Revenue) of the District:

<u>Year Ending December 31</u>	<u>Fixed O&M Charges</u>
2015	\$62,653,024*
2014	\$57,442,068
2013	\$54,917,044
2012	\$52,225,817
2011	\$48,826,305

* Preliminary, subject to change.

ELECTRIC SYSTEM FINANCIAL FEASIBILITY STUDY

Galardi Rothstein Group (the “*Feasibility Consultant*”) has prepared a Financial Feasibility Analysis (the “*Analysis*”), which Analysis is included as Appendix G hereto. Investors should read the entire Analysis, including particularly all assumptions as to future operational or financial projections with respect to the District. These assumptions are material to any projections, and variations in the assumptions could produce substantially different financial results. Actual performance and financial results may vary materially from the projections in the Analysis.

THE TRUSTEE

Zions First National Bank, a national banking association organized under the laws of the United States, will serve as Trustee with respect to the Bonds. The Trustee is to carry out only those duties assigned to it under the Indenture. The Trustee has not reviewed or participated in the preparation of this Official Statement and does not assume any responsibility for the nature, completeness, contents or accuracy of this Official Statement. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets pledged or assigned as security for the Bonds, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

TAX EXEMPTION

In the opinion of Gust Rosenfeld P.L.C., Phoenix, Arizona, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming continuing compliance with certain restrictions, conditions and requirements by the District as described below, interest income on the Bonds is excluded from gross income of the Beneficial Owners thereof for Federal income tax purposes. In the opinion of Bond Counsel, interest income on the Bonds is exempt from State of Arizona income taxes. The opinion of Bond Counsel will be dated the date of delivery of the Bonds. A form of such opinion is included herein in Appendix F - “Form of Approving Legal Opinion of Bond Counsel.”

The Internal Revenue Code of 1986, as amended (the “*Code*”), imposes various restrictions, conditions and requirements relating to the continued exclusion of interest income on the Bonds from gross income for federal income tax purposes, including a requirement that the District rebate to the federal government certain of its investment earnings with respect to the Bonds. The District has covenanted to comply with the provisions of the Code relating to such matters. Failure to comply with such restrictions, conditions, and requirements could result in the interest income on the Bonds being included in gross income for federal income tax purposes, under certain circumstances, from the date of issuance. The Bonds do not provide for an adjustment in interest rate or yield in the event of taxability and an event of taxability does not cause an acceleration of the principal on the Bonds. The opinion of Bond Counsel assumes continuing compliance with such covenants.

The Code also imposes an “alternative minimum tax” upon certain corporations and individuals. A taxpayer’s “alternative minimum taxable income” (“*AMTI*”) is its taxable income with certain adjustments. Interest income on the Bonds is not an item of tax preference to be included in the AMTI of individuals or corporations.

Notwithstanding the preceding sentence, one of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess (if any) of the corporation’s “adjusted current earnings” over the corporation’s AMTI for the taxable year (determined without regard to such adjustment for excess book income and the alternative tax net operating loss deduction). A corporation’s “adjusted current earnings” includes all tax-exempt interest, including the interest on the Bonds.

Although Bond Counsel will render an opinion that, as of the delivery date of the Bonds, interest income on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal tax liability of actual purchasers of the Bonds (the “*Beneficial Owners*”). Certain taxpayers may experience other tax consequences. Taxpayers who become Beneficial Owners of the Bonds including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain subchapter S corporations, individuals who receive Social Security or Railroad Retirement benefits and taxpayers who have or are deemed to have incurred indebtedness to purchase or carry tax-exempt obligations should consult their tax consultants as to the applicability of such tax consequences to the respective Beneficial Owner. The nature and extent of these other tax consequences will depend upon the respective Beneficial Owner’s particular tax status and the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

The Bonds are not “private activity bonds,” within the meaning of Section 141 of the Code.

Currently and from time to time, there are legislative proposals in Congress which, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to obligations (such as the Bonds) issued prior to enactment.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Bonds maturing _____ (the “*Discount Bonds*”) is less than the amount payable at maturity. As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price (the “*Issue Price*”) of the Discount Bonds, and the amount payable at maturity, of the Discount Bonds will be treated as “original issue discount.” With respect to a Beneficial Owner who purchases a Discount Bond in the initial public offering at the Issue Price and who holds the Discount Bond to maturity, the full amount of original issue discount will constitute interest income which is not includible in the gross income of the Beneficial Owner of the Discount Bond for federal income tax purposes and Arizona income tax purposes and that

Beneficial Owner will not, under present federal income tax law and present Arizona income tax law, realize a taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on the Discount Bonds is treated for federal income tax purposes and Arizona income tax purposes as accreting daily over the term of such Discount Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) ending on January 1 and July 1 (with straightline interpolation between compounding dates).

The amount of original issue discount accreting each period will be added to the Beneficial Owner's tax basis for such Discount Bonds. The adjusted tax basis will be used to determine taxable gain or loss upon disposition of such Discount Bonds. An initial Beneficial Owner of a Discount Bond who disposes of such Discount Bond prior to maturity should consult his or her tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or disposition of such Discount Bond prior to maturity.

The Code contains certain provisions relating to the accretion of original issue discount in the case of subsequent Beneficial Owners of the Discount Bonds. Beneficial Owners who do not purchase the Discount Bonds in the initial offering at the Issue Price should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

A portion of the original issue discount that accretes in each year to a Beneficial Owner of a Discount Bond may result in certain collateral federal and state income tax consequences as described in "TAX EXEMPTION" herein.

Beneficial Owners of Discount Bonds in states other than Arizona should consult their own tax advisors with respect to the state and local tax consequences.

BOND PREMIUM

The initial public offering price of the Bonds maturing _____ (collectively, the "Premium Bonds") are greater than the amount payable on such Premium Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial Beneficial Owner of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial Beneficial Owner must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial Beneficial Owner is determined by using such Beneficial Owner's yield to maturity. Beneficial Owners of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to

the Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning Premium Bonds.

CERTAIN LEGAL MATTERS

Legal matters relating to the validity of the Bonds under Arizona law and with regard to the tax-exempt status of the interest thereon (see “TAX EXEMPTION” herein) will be prepared by Bond Counsel. The signed legal opinion of Bond Counsel dated and premised on the law in effect only as of the date of original delivery of the Bonds, will be delivered to the Underwriters at the time of original delivery of the Bonds.

The proposed text of the legal opinion is set forth as Appendix F. The legal opinion to be delivered may vary from the text of Appendix F if necessary to reflect the facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution, by recirculation of this Official Statement or otherwise, should not be construed as a representation that Bond Counsel has reviewed or expressed any opinion concerning any matters relating to the Bonds subsequent to the original delivery of the Bonds.

Such legal opinion expresses the professional judgment of Bond Counsel as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the performance of parties to the transaction. The rendering of an opinion also does not guarantee the outcome of any legal dispute that may arise out of the transaction.

Certain legal matters will be passed upon the District by its counsel, Jay Johnson, Esq., General Counsel and certain matters will be passed upon by Bond Counsel or Disclosure Counsel.

RISK FACTORS

GENERAL

The following Risk Factors highlight some of the factors potentially impacting the District, but by no means is intended to be an exhaustive or complete list of Risk Factors an investor should consider when deciding whether to purchase the Bonds.

Risk factors include, among others, (i) availability of Colorado River water for delivery, (ii) costs to conserve, augment or replace Colorado River water supplies, (iii) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, particularly with respect to power resources, (iv) energy market volatility and (v) maintaining an aging infrastructure. Any of these factors, as well as other factors, could affect the financial condition of the District.

The District cannot predict what effects these factors will have on its business, operations and financial condition, but the effects could be significant. Following is a brief discussion of

certain of these factors. The discussion does not purport to be comprehensive or definitive, and the factors are subject to change subsequent to the date of this Official Statement.

WATER SUPPLY

Under shortage sharing criteria agreed to among the basin states and the Department of the Interior, if the water elevation in Lake Mead falls to certain levels, the Secretary of the Interior (the “*Secretary*”) will declare a shortage. The first shortage trigger in Lake Mead is at elevation 1,075 feet, at which point CAP’s share of the declared shortage would be 320,000 acre-feet. In the event of a shortage, Fixed O&M costs would have to be absorbed by lower delivery volumes, and water delivery rates would increase correspondingly. Additional shortage triggers occur at elevation 1,050 feet (400,000 acre-foot reduction to CAP) and 1,025 feet (480,000 acre-foot reduction to CAP). The Colorado River basin has experienced a prolonged drought since the turn of this century. By November 2010, the water level in Lake Mead had fallen to an elevation of 1082 feet above sea level, only 7 feet above the first shortage trigger. System runoff in 2011 was well above average, raising the water level in Lake Mead more than 50 feet, but runoff in subsequent years has been below average, and the elevation at the end of 2014 was 1,087 feet. Water storage in the two major main-stem reservoirs, Lake Powell and Lake Mead, remains below 50 percent of capacity, and a continuation of drought conditions could lead to a shortage declaration as soon as 2016. CAWCD, the Bureau of Reclamation, Metropolitan Water District of Southern California and Southern Nevada Water Authority have entered into a memorandum of understanding to use best efforts to create a “protection volume” of 740,000 acre-feet water to be left in Lake Mead between 2014 and 2017 in order to keep the lake above the shortage trigger elevations as long as possible. CAP’s share of the protection volume is 345,000 acre-feet, and the measures used to create this volume will include forbearance on diversions and “turnback” of water that has been ordered. Some of this volume may include Intentionally Created Surplus (ICS) that could be available to CAP at some future date once shortage has ended and other conditions are met. Creation of the protection volume will incur some cost and will also reduce deliveries, which, together, may result in increases in water rates or increased use of property tax revenues or reserve balances.

NAVAJO GENERATING STATION EPA REGIONAL HAZE RULE

The U.S. Environmental Protection Agency (“*EPA*”) has issued a final Best Available Retrofit Technology (“*BART*”) rule for NGS that will require the shutdown of one of the three generating units by 2020, which will increase the cost per unit of electricity produced, and the installation of costly new controls to reduce nitrogen oxide emissions at the plant by 2030. In addition, the owners of NGS, including the Bureau of Reclamation, are in the process of finalizing negotiations on a plant site lease and coal supply agreement that both expire in 2019. Two of the owners plan to exit by the end of the current lease, and discussions are ongoing as to how that objective can be accomplished. Depending on the cost of the required new controls, and the resolution of the land lease and coal supply agreement and other outcomes that are currently uncertain, the owners of NGS could determine that the most economical alternative would be to close the plant, which would require the District to obtain another source of power. Either of these results, i.e., the installation of expensive new control equipment together with

increased costs due to new lease terms or the closure of NGS, could lead to substantial increases in CAP water rates, tax rates or both, and to reductions in revenues from sales of surplus NGS power.

ENERGY MARKET VOLATILITY

Reclamation's 24.3% ownership share of NGS represents about 4,200 gigawatt hours (GWH) in a typical year. CAP uses about 2,800 GWH for pumping, although a portion of this is sold and replaced by other electricity from the market in order to meet operational needs and to take advantage of shaping and displacement price opportunities, if any. The balance, approximately 1,400 GWH per year, is sold by Western as NGS Surplus and the proceeds are applied towards CAP's repayment obligation. Both CAP's energy costs and CAP's annual net repayment (after applying all applicable credits from the Basin Development Fund) are exposed to the market. CAP's rates are set in advance and, while they are reconciled for some customers, if rates do not anticipate large fluctuations in the energy market, there may be both short-term and longer-term impacts on CAP's reserves, either favorable or unfavorable. Energy prices dropped 30-50% in 2009 from where they had been the previous five years due to an oversupply situation in the natural gas market that occurred in part as a result of the recession. During 2012, natural gas prices dropped another 50% from 2009-2011 levels, which resulted in losses in market transactions. Energy prices recovered somewhat in 2013 and early 2014, but have again fallen to about the level they were in 2012.

INFRASTRUCTURE MAINTENANCE

Construction of the CAP began in the mid-1970s. The first water deliveries were in 1985 and the CAP was declared substantially complete in 1993. Consequently, many of the CAP infrastructure assets are up to 40 years old. The District has a robust reliability-centered maintenance program and capital improvement program in place. The District's operational and financial planning includes the use of an asset replacement forecasting model in conjunction with condition-based monitoring, routine inspections and other best maintenance practices to assist in planning and implementing required infrastructure repairs and replacements. While Arizona is not prone to natural hazards such as earthquakes, hurricanes or tornados, floods and high winds are possible. The 335-mile expanse of the CAP aqueduct includes both cut and fill sections. There are several buried pipelines and siphons as well as an extensive transmission system. The CAP was designed with a significant amount of redundancy where possible, but there are potential single points of failure that could interrupt operations. In 2012, the CAP experienced a breach in the canal lining and embankment in a fill section of the canal in the western part of Maricopa County. While repairs required approximately 3 weeks to complete, no customer deliveries were missed due to the availability of water in the District's regulatory storage reservoir, Lake Pleasant. However, a similar failure in another location might have had a different outcome. One of the projects that is being financed by this bond issue, the ED2-Saguaro transmission line, is an aging line constructed with wooden poles that has experienced failures in the past, and is being rebuilt with steel poles. The other two transmission projects being financed by this bond issue will add to the reliability and redundancy of the CAP transmission system.

SUMMARY

As discussed above, the District is experiencing challenges in a number of areas. The District is unable to predict the extent to which its operations will be affected by such factors, but they could result in incurrence of substantial additional costs and could adversely affect its revenues.

LITIGATION

THE DISTRICT

At the time of initial delivery of the Bonds, the General Counsel of the District will deliver an opinion to the effect that, except as described herein (including Appendix F hereof), to the best knowledge of the General Counsel of the District, after due inquiry, there is no action, suit, proceeding, inquiry or investigation at law or in equity by or before any court, public board or body pending or overtly threatened against the District that in any way questions the power of the District to enter into and deliver either the Indenture or the Bonds and perform its obligations thereunder or the validity of any proceedings taken by the District in connection with the execution of the Indenture by the District or the issuance of the Bonds or that might result in a material adverse change in the condition, financial or other, business or affairs of the District or wherein an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of any of the Indenture.

[INSERT SUMMARY DESCRIPTIONS OF ANY MATERIAL LITIGATION]

CONTINUING DISCLOSURE

The District will covenant for the benefit of certain owners of the Bonds to provide certain financial information and operating data relating to the District by not later than June in each year commencing June, 2016 (the “*Annual Reports*”), and to provide notices of the occurrence of certain listed events (the “*Notices*”), as set forth in Appendix D - “Form of Continuing Disclosure Certificate.” The Annual Reports and the Notices and any other documentation or information required to be filed by such covenants will be filed by the District with the MSRB in a format prescribed by MSRB. Currently, the MSRB requires filing through the MSRB’s EMMA, all as described in Appendix D. These covenants will be made in order to assist the Underwriters in complying with the Securities and Exchange Commission Rule 15c2-12 (the “*Rule*”). A failure by the District to comply with these covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Absence of continued disclosure, due to non-appropriation or otherwise, may adversely affect the transferability and liquidity of the Bonds and their market price.

To the reasonable belief and knowledge of the District, the District has complied with all of its existing continuing disclosure undertakings over the last five years in all material respects.

UNDERWRITING

The Bonds are being purchased by _____ (the “*Underwriters*”). The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$_____ plus accrued interest, pursuant to a bond purchase agreement among the District and the Underwriters. The aggregate purchase price reflects an Underwriters’ Discount of \$_____ and original issue discount of \$_____. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing such Bonds into investment trusts) and others at prices lower than the public offering prices stated on the cover page hereof. The Underwriters will purchase all of the Bonds if any are purchased. The District will indemnify the Underwriters, to the extent permitted by law, against certain losses, claims, damages and liabilities arising out of incorrect statements of information, including the omission of material facts pertaining to the District and certain other matters contained in this Official Statement. The public offering prices set forth on the inside front cover page hereof may be changed after the initial offering by the Underwriters.

RETIREMENT PLAN AND OTHER POST-EMPLOYMENT RETIREMENT BENEFITS

ARIZONA STATE RETIREMENT SYSTEM

The District’s employees are covered by the Arizona State Retirement System (“*ASRS*”), a cost-sharing, multiple-employer, public employee defined benefit plan. The annual contribution rates are prescribed to be the rate actuarially determined by ASRS’s actuary, with minimum employer and employee rate requirements of not less than 2.00%. For fiscal year 2013/14, the District’s and its employees’ annual contribution was 11.54% (11.30% Retirement Pension and Health Insurance Benefit, 0.24% Long Term Disability Income Plan) of payroll amounts. For fiscal year 2014/15, the District’s and its employees’ annual contribution is 11.60% (11.48% Retirement Pension and Health Insurance Benefit, 0.12% Long Term Disability Income Plan) of payroll amounts. The District is current on its contributions to ASRS. See Note 13 in Appendix A – “Comprehensive Annual Financial Report for the Fiscal Years ended December 31, 2014 and 2013” for further discussion of the District’s and its employees’ obligations to ASRS as of December 31, 2014.

ASRS has reported changes in its unfunded liabilities. As of June 30, 2014, the total plan funded status is 76.9%. While the rate of return to the overall ASRS was positive for the fiscal years ended June 30, 2010, June 30, 2011, June 30, 2012, June 30, 2013 and June 30, 2014, previous years’ negative returns and the fiscal year 2012 positive return below assumed rates are still being recognized in the valuations. Investment losses are recognized in actuarial assets over a ten-year period. The actuarially assumed rate of return is 8%. The most recent actuarial valuations for ASRS may be accessed at: <https://www.azasrs.gov/content/annual-reports>. The increase in ASRS’s unfunded liabilities is expected to result in increased future annual contributions by the District and its employees to ASRS.

The Governmental Accounting Standards Board adopted Governmental Accounting Standards Board Statement Number 68, *Accounting and Financial Reporting for Pensions* (“*GASB 68*”), which, beginning with fiscal years starting after June 15, 2014, requires cost-

sharing employers to report their “proportionate share” of the plan’s net pension liability in their government-wide financial statements. GASB 68 will also require that the cost-sharing employer’s pension expense component include its proportionate share of ASRS’s pension expense, the net effect of annual changes in the employer’s proportionate share and the annual differences between the employer’s actual contributions and its proportionate share. Both the District and each covered employee contribute to ASRS. The new reporting requirements imposed by GASB 68 will change the financial statements of the District, but what the specific effect will be is unknown at this time.

OTHER POST-EMPLOYMENT BENEFITS

Pursuant to Governmental Accounting Standards Board Statement Number 45, *Accounting by Employers for Post-Employment Benefits Other than Pensions* (“GASB 45”), the District is required to report the actuarially accrued cost of post-employment benefits, other than pension benefits (“OPEB”), such as health and life insurance for current and future retirees. GASB 45 requires that such benefits be recognized as current costs over the working lifetime of employees and, to the extent such costs are not pre-funded, will require the reporting of such costs as a financial statement liability.

The District currently offers OPEB to its employees. Effective January 1, 2016, the District will no longer offer OPEB to employees who commence employment on or after that date. See Note 19 in Appendix A – “Comprehensive Annual Financial Report for the Fiscal Years ended December 31, 2014 and 2013” for discussion of the District’s OPEB as of December 31, 2014.]

INDEPENDENT AUDITORS

The financial statements of the District as of December 31, 2014 and 2013 included in Appendix A to this Official Statement have been audited by CliftonLarsonAllen LLP, independent auditors, as stated in their report appearing therein. The District neither requested nor obtained the consent of CliftonLarsonAllen LLP to include their report and CliftonLarsonAllen LLP has performed no procedures subsequent to rendering their opinion on the financial statements. The audited financial statements in Appendix A may not represent the current financial condition of the District.

FINANCIAL ADVISOR

The District has retained Piper Jaffray & Co. (“Piper Jaffray”) as its financial advisor. Although Piper Jaffray has assisted in the preparation of this Official Statement, Piper Jaffray is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

RATINGS

[Moody's Investors Service, Standard & Poor's Corporation and Fitch] have assigned ratings of "___," "___" and "___," respectively, to the Bonds. Any desired explanation of the significance of such ratings should be obtained from such rating agencies. Certain information and materials, including information and materials not included in this Official Statement, were furnished by the District to such rating agencies. Generally, such rating agencies base their ratings on the information and materials so furnished and on their investigations, studies and assumptions. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant.

CONCLUDING STATEMENT

The summaries or descriptions of provisions in the Indenture contained herein and all references to other materials not purporting to be quoted in full are only brief outlines of certain provisions thereof and do not constitute complete statements of such provisions and do not summarize all the pertinent provisions of such documents. For further information, reference should be made to the complete documents, copies of which are available as described under "INTRODUCTORY STATEMENT."

All projections, forecasts and other information in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or holders of any of the Bonds.

The attached Appendices A through G are integral parts of this Official Statement and must be read together with all of the foregoing statements.

This Official Statement has been prepared on direction of the District and has been approved by and executed for and on behalf of the District by its authorized representative indicated below.

CENTRAL ARIZONA WATER
CONSERVATION DISTRICT

By: _____
General Manager

Attest:

By _____
General Counsel

SELECTED INFORMATION CONCERNING THE DISTRICT AND CAP

The following information concerning the District and its operations is furnished for background information only. The Bonds are limited obligations payable solely from the respective revenues pledged therefor as more fully described in this Official Statement. The Bonds are limited obligations of the District payable solely out of the Pledged Revenues and other security (including investment earnings) pledged under the Indenture and does not constitute an indebtedness nor a general obligation of the District within the meaning of any state constitutional or statutory limitation and do not constitute, and will not give rise to, a pecuniary liability of the District other than from revenues specifically pledged for the Bonds or be a charge against its credit or general taxing powers.

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

ORGANIZATION

The District is a multi-county water conservation district organized within the state of Arizona, encompassing Maricopa, Pima, and Pinal counties. The District's elected Board of Directors serves as its governing body. The District was authorized in 1971 by the Arizona State Legislature for the primary purpose of creating a single entity to enter into an agreement (the "*Master Repayment Agreement*") with Reclamation, for repayment to the United States of the reimbursable cost of the Central Arizona Project (the "*CAP*"). The District is further empowered to serve as the operating agent of the CAP.

In 1993, the Arizona State Legislature gave the District additional authority and responsibility to provide replenishment services within the District's three-county service area. This authority is commonly referred to as the Central Arizona Groundwater Replenishment District ("*CAGRD*"). The CAGRD is responsible for using renewable water supplies to replenish (or recharge) excess groundwater used by its members.

THE CAP

The CAP is a multi-purpose water resource project which was authorized by the Congress of the United States in 1968 by the Colorado River Basin Project Act (the "*Project Act*") and was constructed by Reclamation. The CAP is intended to deliver an average of approximately 1.5 million acre-feet of Arizona's annual share of Colorado River water to central and southern Arizona, which will partially replace existing groundwater uses and supplement surface water supplies. It also provides flood control, power, recreation, and fish and wildlife benefits. The major authorized project features include (1) a 335-mile aqueduct system ("*water supply system*"), (2) New Waddell and Modified Roosevelt Dams ("*regulatory storage facilities*") and (3) Navajo Power Project. The District began operating the CAP in 1983 and became responsible for full operation in 1993. Water delivery began in 1985.

The United States retains a paramount right or claim in the CAP which arises from the original construction and operation of the CAP as a federal Reclamation project. The District's right to the possession and use of, and to all revenues produced by the CAP is evidenced by the Master Repayment Agreement, various laws, and other agreements with the United States. Legal title to the CAP will remain with the United States until otherwise provided by Congress.

NAVAJO POWER PROJECT

The Navajo Power Project, located on the Navajo Indian Reservation near the City of Page in northern Arizona, consists of the Navajo Generating Station (three 750,000 kilowatt coal-fired steam-electric generating units, which commenced operations in 1974, 1975 and 1976, respectively, "NGS"), a railroad to deliver fuel and the Navajo Transmission System (a system of 500-kilovolt transmission lines and switching stations to deliver the power and energy to the various participants). Salt River Project is the operating agent of the Navajo Generating Station and the railroad. Coal for the Navajo Generating Station is surface-mined and delivered from the Kayenta Mine of Peabody Coal Company located on the Navajo and Hopi Indian Reservations at Black Mesa. Navajo Power Project provides the primary source of operating electricity to operate the CAP.

The Navajo Power Project is jointly owned by six participants (the "Navajo Power Plant Participants") under a Participation Agreement dated as of September 30, 1969 (the "Navajo Power Plant Participation Agreement"). The Navajo Power Plant Participation Agreement sets forth the ownership interests and capacity entitlements in the Navajo Generating Station of each of the Navajo Power Plant Participants, as follows:

NAVAJO POWER PLANT PARTICIPANTS	NOMINAL CAPACITY(MW) (2)	ENTITLEMENT PERCENTAGE
United States (Reclamation) (1)	547	24.3%
Salt River Project	488	21.7
Department of Water & Power, Los Angeles	477	21.2
Arizona Public Service Company	315	14.0
Nevada Power Company	254	11.3
Tucson Electric Power Company	<u>169</u>	<u>7.5</u>
Total	<u>2,250</u>	<u>100.0%</u>

- (1) Salt River Project holds legal title to this interest of Navajo Power Plant for the use and benefit of Reclamation.
- (2) Actual amounts are contingent on the output of the Navajo Generating Station.

THE BUREAU OF RECLAMATION

The Reclamation Act of 1902 (43 U.S.C. 371 *et seq.*) authorized the Secretary of the Interior (the "Secretary") to administer a reclamation program that would provide the arid and semi-arid lands of the 17 contiguous Western States a secure, year-round water supply for irrigation. To perform the mission, the Reclamation Service was created within the U.S.

Geological Survey. In 1907 the Reclamation Service was separated from the U.S. Geological Survey, and in 1923 the name was changed to Bureau of Reclamation (“*Reclamation*”).

Under the supervision and direction of the Secretary, the reclamation of arid lands is administered by a Commissioner of Reclamation who is appointed by the President by and with the advice and consent of the Senate.

Through contracts with project beneficiaries, Reclamation arranges repayment to the Federal Treasury for construction, operation and maintenance costs. Reclamation’s project office overseeing the CAP is located in Phoenix.

THE WESTERN AREA POWER ADMINISTRATION

The Western Area Power Administration (“*Western*”) was established on December 21, 1977, pursuant to section 302 of the Department of Energy Organization Act (42 U.S.C. 7152). Western is responsible for the Federal electric power-marketing and transmission functions in 15 central and western States, encompassing a geographic area of 1.3 million square miles. Western sells power to 684 wholesale customers, consisting of cooperatives, municipalities, public utility districts, investor-owned utilities, Federal and State agencies, and irrigation districts.

Pursuant to an agreement among Western, Reclamation and the District, Western remarkets surplus power from NGS that is not required for the pumping needs of the CAP. Surplus power sales proceeds are dedicated to the District’s annual federal repayment obligation. In addition, Western maintains the CAP transmission system.

Western’s Desert Southwest Region, headquartered in Phoenix, includes portions of California, Nevada, Arizona, and New Mexico encompassing the metropolitan areas of Los Angeles, San Diego, Las Vegas, Phoenix, and Tucson.

ECONOMIC AND CUSTOMER GROWTH IN THE DISTRICT’S SERVICE AREA

The District serves the Phoenix-Mesa-Scottsdale metropolitan statistical area and the Tucson metropolitan statistical area. As the governmental and economic center of Arizona, the Phoenix-Mesa-Scottsdale metropolitan statistical area (MSA) possesses the largest percentage of the state’s residents, businesses, and income. It contains approximately 66% of the state’s population, and more than two-thirds of its total employment and total personal income.

The Phoenix-Mesa-Scottsdale Metropolitan Statistical Area is comprised of Maricopa and Pinal counties. According to the Census Bureau's 2014 population estimates, the Phoenix-Mesa-Scottsdale MSA had 4,489,109 residents, making it the 12th largest Metropolitan Area in the nation. It is also one of the fastest growing major metropolitan areas, gaining nearly 300,000 residents from 2010 to 2014, and more than 1.2 million since 2000.

As for the 2010 Census, the two-county metropolitan area was reported to have a population of 4,192,887. Metro Phoenix grew by 941,011 people from April 2000 to April 2010, making it one of the fastest growing metro areas in the country. This also contributed to the entire state's exceptional growth, as the area is home to just over two-thirds of Arizona's population.

The Phoenix-Mesa-Scottsdale MSA ranks 5th in the nation in economic growth, which is a major comeback from the 2008-2009 recession. The unemployment rate of the area is 5.3%, lower than the national rate of 6.3%. It also has slightly higher recent job growth (1.99% compared to 1.18%) and higher projected job growth (38.7% compared to 36.1%). Although the area has significantly higher sales tax rates compared with the nation as a whole (8.3% to 6%), income tax rates are lower than the national average (3.36% to 4.72%). The largest occupation by population is in the office/administrative sector, comprising more than a quarter of all jobs in the region.

The Tucson, AZ Metropolitan Statistical Area is comprised of Pima County. As of the 2010 census, the population was 980,263, making it the second-most populous county in Arizona, and the 2014 population estimate is over 1,000,000 people.

The vast majority of the county population lies in and around the city of Tucson, filling much of the eastern part of the county with urban development. Tucson, Arizona's second largest city, is a major commercial and academic center. Other urban areas include the Tucson suburbs of Oro Valley (population 41,335), Marana (population 35,232), Sahuarita (population 25,458), and South Tucson (population 5,695), a large ring of unincorporated urban development, and the growing satellite town Green Valley. The rest of the county is sparsely populated; the largest towns are Sells, the capital of the Tohono O'odham Nation, and Ajo in the far western region of the county.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
DEMOGRAPHIC AND ECONOMIC STATISTICS
DATA BY LAST AVAILABLE REPORT YEAR**

**TABLE 1
Population by County (1)**

<u>Year</u>	<u>Maricopa</u>	<u>Pinal</u>	<u>Pima</u>
2014	4,008,651	396,237	1,007,162
*2013	4,013,164	390,965	998,050
*2012	3,942,868	388,106	993,094
*2011	3,870,076	384,073	988,125
*2010	3,823,609	385,738	981,935

**TABLE 2
Unemployment Rate (1)**

<u>Year</u>	<u>Maricopa</u>	<u>Pinal</u>	<u>Pima</u>
2014	5.90%	7.20%	6.20%
2013	6.60	8.30	6.80
2012	7.30	8.80	7.40
2011	8.60	9.80	8.50
2010	9.50	10.70	9.30

**TABLE 3
Per Capita Income (2)**

<u>Year</u>	<u>Maricopa</u>	<u>Pinal</u>	<u>Pima</u>
2013	\$40,030	\$25,511	\$37,063
2012	39,781	25,304	36,692
2011	38,431	24,681	36,562
2010	36,617	22,892	34,504

**TABLE 4
Personal Income (2)
(Dollars in Thousands)**

<u>Year</u>	<u>Maricopa</u>	<u>Pinal</u>	<u>Pima</u>
2013	\$160,497,824	\$9,932,684	\$36,935,363
2012	156,763,179	9,793,208	36,412,855
2011	148,687,356	9,469,873	35,132,468
2010	139,988,331	8,830,620	33,883,172

SOURCES:

(1) Office of Employment and Population Statistics – As of August 20, 2015.

*Source: U.S. Census Bureau – Release Date: March 2015.

(2) U.S. Department of Commerce – Bureau of Economic Analysis. Last updated November 2014.

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
TOP TEN MAJOR EMPLOYERS – STATE OF ARIZONA**

TABLE 5

<u>Employer</u>	<u>Employees</u>	<u>Rank</u>	<u>2014</u>
			<u>Percentage of Total Employment</u>
State of Arizona	49,278	1	1.18
Wal-Mart Stores, Inc.	32,169	2	0.77
Banner Health	25,270	3	0.61
City of Phoenix	14,983	4	0.36
Wells Fargo	14,713	5	0.35
Maricopa County	12,698	6	0.30
Arizona State University	12,222	7	0.29
Intel	11,900	8	0.28
JP Morgan Chase	11,042	9	0.26
Bank of America	11,000	10	0.26

Source: Phoenix Business Journal 2014 Book of Lists.

MANAGEMENT

The District is governed by a fifteen-member Board of Directors elected for staggered six-year terms by voters in each of the three member counties. The number of directors from each county is based on population. Currently, ten members are elected from Maricopa County, four from Pima County and one from Pinal County. The District’s current staff of employees is supervised by the General Manager.

The current members of the District’s Executive Staff are as follows:

Interim General Manager	Theodore C. Cooke
Deputy General Manager – Finance and Administration	Theodore C. Cooke
Deputy General Manager – Operations and Maintenance	Thomas W. McCann
Deputy General Manager – Strategic Initiative and Public Policy	Marie S. Pearthree
General Counsel	Jay Johnson, Esq.
Associate General Manager – Communications and Public Affairs	Kathryn B. Royer

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
FULL-TIME EQUIVALENT EMPLOYEES BY FUNCTION/PROGRAM – LAST FIVE YEARS**

TABLE 6

<u>Function/Program</u>	<u>Full Time Equivalent Positions (Average)</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
General Manager	6.0	5.3	3.0	5.0	11.0
Strategic Initiative & Public Policy	3.8	4.9	4.6	5.0	17.5
Communications and Public Affairs	7.9	7.9	10.0	8.0	8.0
Employee Services	38.5	37.7	42.3	41.3	--
Administration	64.8	65.3	65.0	68.5	113.5
Legal Services	6.2	5.8	6.0	6.0	5.6
Maintenance	236.5	234.4	228.5	233.2	229.9
Operations, Planning and Engineering	<u>103.7</u>	<u>107.4</u>	<u>101.2</u>	<u>103.6</u>	<u>91.2</u>
Total	<u>467.4</u>	<u>468.6</u>	<u>460.6</u>	<u>470.6</u>	<u>476.7</u>

Source: The District.

HISTORY OF OPERATIONS

Construction of the CAP began in 1973. Long term contracts for water sales were entered into beginning in 1983. The aqueduct system first delivered water to Maricopa County in 1985 and to the Tucson metropolitan area in 1991. The CAP was substantially completed by 1993. Water deliveries for the last five years are shown below:

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
ACRE/FEET OF WATER DELIVERED BY WATER CUSTOMER TYPE – LAST FIVE YEARS**

TABLE 7

<u>Description</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Municipal & Industrial	426,724	452,466	489,207	496,394	503,518
Agricultural	400,684	400,532	401,223	400,817	400,741
Federal	332,819	501,553	548,374	532,645	534,281
Recharge	419,831	265,162	160,002	90,148	87,420
Interstate Water Banking	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Water Delivered	<u>1,599,058</u>	<u>1,619,713</u>	<u>1,598,806</u>	<u>1,520,004</u>	<u>1,525,960</u>

Source: The District.

WATER DELIVERY OPERATIONS

Long-term CAP water service began pursuant to contracts and subcontracts on October 1, 1993, upon issuance by the Secretary of notice of completion of the water supply system. Originally, the term of the contracts and subcontracts was generally 50 years beginning January 1, 1994. The Settlements Act (as defined under Repayment to the United States below) required

the Secretary to offer to amend all CAP contracts and subcontracts to, among other things, change the term of the contracts and subcontracts from 50 years to permanent water service, with an initial delivery term of 100 years. Pursuant to the Settlements Act, the District offered 60 new subcontracts and all were executed. In addition, the United States has entered into long-term contracts with eleven Indian entities for the delivery of CAP water. The District is not a party to these contracts but is obligated to deliver CAP water to Indian contractors under the Master Repayment Agreement. Total CAP water deliveries for 2014 and 2013 were 1,535,666 and 1,533,327 acre-feet (including credits), respectively.

The non-Indian subcontracts require the payment of a water service capital charge and an O&M charge. For Municipal and Industrial (“M&I”) subcontractors, the water service capital charge is applicable to each subcontractor’s maximum annual entitlement to CAP water.

MAJOR REVENUE SOURCES

The District has four principal sources of revenue:

- Water Operations and Maintenance (“O&M”) Charges
- Water Service Capital Charges
- Power and Basin Development Fund Revenues
- Property Tax Levy

Water Operations and Maintenance Charges

The O&M costs of the CAP are of two types: energy costs and fixed costs. Energy costs are incurred to pump water from the Colorado River through the CAP aqueduct system and fixed costs are the non-energy costs associated with operation and maintenance. The District completed a cost of service study to better define what components properly constitute fixed O&M costs and how to allocate those costs among classes of CAP water users.

The federal contracts and M&I subcontracts contain a “take or pay” provision for Fixed OM&R. In the event a customer does not take its scheduled amount of water for the year, the customer must still pay the Fixed OM&R charges on the amount that was scheduled or delivered, whichever is greater.

Indian tribes, or the United States on behalf of Indian tribes, pay the fixed O&M charges and pumping energy charges associated with the delivery of CAP water to Indian tribes. Under the Settlements Act, the United States may use funds available in the BDF to pay Indian fixed O&M charges. The United States pays all O&M charges for water delivered to the Ak-Chin Indian Community pursuant to a 1984 settlement of that tribe’s water rights claims. Disputes that existed with respect to the amounts of those charges and the proper method of calculating O&M charges were resolved as part of the Repayment Settlement.

As an integral part of the Repayment Settlement, the District also offers a special pool of excess water to non-Indian agricultural water users pursuant to two-party contracts between the District and non-Indian agricultural water users. Those users pay pumping energy charges, but not fixed O&M charges, for that water.

Water Service Capital Charges

The non-Indian subcontracts require the payment of a water service capital charge. For the M&I subcontractors, the water service capital charge is applicable to each subcontractor's maximum annual entitlement to CAP water. Under the M&I water service subcontracts and current District pricing structure, the M&I water service capital charge is a variable charge, which began at an annual rate of \$10.50 per acre-foot of entitlement in 1994, increasing to \$48 per acre-foot of entitlement by 1999. The M&I water service capital charge was reduced following the Repayment Settlement (as defined as defined under Repayment to the United States below). For 2014, the rate was \$20 per acre-foot. The amount of this M&I water service capital charge may be adjusted periodically by the District as a result of repayment determinations provided for in the Master Repayment Agreement and to reflect all sources of revenue, but the water service capital charge will not be greater than necessary to amortize project capital costs allocated to the M&I function with interest. Indian contractors of CAP water pay no water service capital charge, since the capital costs associated with the delivery of CAP water to Indian entities are not reimbursable by the District pursuant to the Master Repayment Agreement.

Rate Setting Process

The District's Board of Directors uses the District's Long-Range Financial Plan to assist in setting rates for water service. In 2005, the Board of Directors adopted a two-year planning cycle. The Board revised the policy in 2010. As a result, water service charges are set every other year, including firm rates for the next year, provisional rates for the following year, and advisory rates for the subsequent four years. The provisional rates become firm the subsequent year unless updated by the Board prior to the commencement of the second year during the rate update process. The water service charges charged to M&I subcontractors and the United States on behalf of Indian contractors of CAP water service for 2015 were confirmed by the Board of Directors on June 5, 2014, at which time the Board also approved provisional rates for 2016. The provisional rates for 2016 rates were not changed by the District's Board and became firm on June 4, 2015.

Major Contractors and Subcontractors for Water Service

The following table identifies the District's principal contractors and subcontractors for water service for the years 2010 through 2014:

**CENTRAL ARIZONA WATER CONSERVATION DISTRICT
TOP TEN PRINCIPAL REVENUE PAYERS – LAST FIVE YEARS**

TABLE 8

Payers	2010	2011	2012	2013	2014
Ak-Chin Indian Community	\$ 10,322,214	\$ 10,600,855	\$ 10,486,257	\$ 11,059,993	\$ 12,342,417
Arizona Water Banking Authority	27,433,509	15,577,192	16,494,584	10,643,489	12,234,634
Central AZ Groundwater Replenishment District	N/A	N/A	N/A	6,438,149	7,054,001
Central Arizona Irrigation & Drainage District	N/A	6,840,630	5,457,789	5,824,235	N/A
City of Mesa	6,195,054	5,594,974	6,475,243	6,007,296	7,092,079
City of Peoria	N/A	N/A	N/A	N/A	N/A
City of Phoenix	18,756,876	16,795,082	17,964,754	17,937,549	20,947,703
City of Scottsdale	7,828,858	8,719,832	9,079,276	9,952,476	11,423,999
City of Tucson	13,249,141	17,149,975	19,751,564	20,760,768	23,808,133
Harquahala Valley Irrigation District	12,768,190	27,982,565	34,674,453	33,528,955	38,904,368
Maricopa Stanfield Irrigation & Drainage District	N/A	N/A	5,221,823	N/A	6,342,489
Resolution Copper Mining, LLC	N/A	6,850,000	N/A	N/A	N/A
Tohono O'odham Indian Nation	5,618,159	6,136,128	5,752,881	5,577,100	6,823,345
Town of Gilbert	12,385,931	N/A	N/A	N/A	N/A
Vidler Water Company	6,610,765	N/A	N/A	N/A	N/A

Note: Includes revenue from water O&M and capital

Source: The District.

**WATER OPERATIONS AND MAINTENANCE CHARGES
WATER SERVICE CAPITAL CHARGES
(DOLLARS IN THOUSANDS)**

TABLE 9A

<u>Operating Revenues</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water operations and maintenance charges	\$140,283	\$148,520	\$142,805	\$148,300	\$167,036
Water service capital charges	10,154	13,677	12,022	10,688	14,565

Source: The District.

DELIVERY RATES FOR VARIOUS CLASSES OF WATER SERVICE (a)(b)

TABLE 9B

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017(c)</u>
<u>MUNICIPAL AND INDUSTRIAL</u>				
Long Term Subcontract (B+C) ¹	\$146	\$157	\$161	\$166
Non-Subcontract (A+B+C) ²	166	179	184	190
Recharge (A+B+C) ³	166	179	184	190
AWBA Interstate Recharge (A+B+C+D) ⁴	189	n.p.	n.p.	n.p.
<u>FEDERAL</u> (B+C) ⁵	\$146	\$157	\$161	\$166
<u>AGRICULTURE</u>				
Settlement Pool (C) ⁶	\$67	\$75	\$76	\$79
<u>AGRICULTURE INCENTIVES⁶</u>				
Meet Settlement Pool Goals	(14)	(18)	(15)	(14)
Meet AWBA/CAGR D GSF Goals	(2)	(2)	(2)	(2)
Meet Recovery Goals	(2)	(2)	(2)	(2)

(a) Units = \$/acre-foot.

(b) Letter designations in formulas refer to the Rate Components shown below in Table 9C.

(c) Advisory data.

RATE COMPONENTS

TABLE 9C

<u>CAPITAL CHARGES</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017(a)</u>
(A) Municipal and Industrial – Long Term Subcontract ⁷	\$20	\$22	\$23	\$24
<u>DELIVERY CHARGES</u>				
(B) Fixed O&M ⁸	\$79	\$82	\$85	\$87
(C) Pumping Energy Rate 1 ⁹	67	75	76	79
(D) Property Tax Equivalency ¹⁰	23	n.p.	n.p.	n.p.

(a) Advisory data.

Notes to Table 9B and Table 9C:

1. Long-Term M&I Subcontract includes those users that hold a M&I subcontract.
2. Non-Subcontract includes M&I users that are taking water under an agreement other than a subcontract and may also be referred to as “Excess” water. It is administered according to CAP’s Access to Excess policy.

3. Recharge includes the Arizona Water Banking Authority, CAGR, BOR and M&I subcontract holders and other long-term storage credits. It is administered according to CAP's Access to Excess policy.
4. The AWBA Interstate Recharge rate is currently not published (n.p.) and will be provided upon request as there is not any anticipation of water available for this class.
5. Federal water may also be referred to as "Indian" water.
6. Rate is the Pumping Energy Rate 1 component. Incentives may be earned for meeting delivery goals in three areas. Any incentives earned are applied to Settlement Pool deliveries.
7. For M&I subcontract water, the Capital Charge is paid on full allocation regardless of amount delivered and not included in delivery rates.
8. Fixed O&M costs divided by projected total water volumes plus components to fund capital replacements and a rate stabilization reserve. This amount is collected on all ordered water whether delivered or not.
9. The energy rate applies to all actual water volumes as opposed to scheduled. The calculation is pumping energy costs divided by projected volumes.
10. The rate is based upon the tax levy for the previous elapsed tax year divided by the average water deliveries (excluding Federal deliveries and water storage credits) for the three previous completed delivery years (e.g., for 2012, the tax equivalency is the levy for the 2010-2011 tax year divided by the average water deliveries for 2008, 2009 and 2010). This rate is currently not published (n.p.) and is available upon request, although it is not anticipated there will be water available for this class.

Source: CAP.

POWER AND BASIN DEVELOPMENT FUND REVENUES

Power Purchases

The electricity needed for the operation of the CAP pumps is provided mainly from NGS, but some power is also obtained from a number of sources. Relatively small amounts of power are available from the Hoover power plant at Hoover Dam and from CAP's New Waddell Dam pump-generating station when water is released from Lake Pleasant. The balance of CAP's pumping power needs, with the exception of market purchases that may be made for economic or operational reasons, are provided by Reclamation's interest in the NGS.

Hoover B Power Purchases

The 1984 Hoover Power Plant Act ("*Hoover Act*") authorized upgrading the Hoover power plant, located at Hoover Dam, to increase generating capacity at the plant by 503 megawatts ("*MW*"). This additional capacity and its associated energy is known as Hoover B Power. The 1987 Hoover Act allocated 188 MW and 212,000 megawatt hours ("*MWh*") of associated firm annual energy of the Hoover B Power to purchasers in Arizona. The Arizona Power Authority distributes Arizona's share of the Hoover B Power. The District has contracted with Arizona Power Authority for all but 26.5 MW of Hoover B Power. The contract expires in 2017. The Arizona Power Authority has completed the post-2017 Hoover Power Allocation, and the District's allocation is 161.6 MW of contingent capacity and 171.4 MW of firm energy from the Arizona allocation. The Arizona Power Authority will develop 50-year Power Sales Contracts (PSCs) and issue those contracts to all eligible Prospective Purchasers. Contract negotiations will begin immediately after the PSCs are issued.

Power Revenues

Power revenues are generated from the sale of NGS Surplus (power associated with Reclamation's NGS entitlement that is in excess of CAP's pumping requirements of the CAP) and from a surcharge on energy sold in Arizona from the Boulder Canyon (Hoover) and Parker-Davis projects.

Navajo Generating Station

Reclamation is one of six participants in NGS, which consists of three 750,000 kilowatt coal-fired, steam-electric generating units that were brought on-line between 1974 and 1976, a railroad to deliver fuel and 500 kilovolt transmission lines and switching stations to deliver the power and energy to the various participants. An agreement among the participants governs the construction, operation, and maintenance of NGS. Reclamation entered into this agreement in order to acquire a portion of the capacity of NGS for supplying the power requirements of the CAP. Reclamation has a 24.3% entitlement in the generating station, resulting in a power entitlement of 546,750 kilowatts of nominal capacity. The District is charged for the costs associated with the energy used to operate the CAP, and the payments for this energy are deposited into the Development Fund.

Sale of NGS Surplus

On September 30, 2011, the District, Reclamation and Western entered into a contract, with associated operating procedures, for administration of the U.S. entitlement in the NGS Project. Pursuant to that contract, the District will notify Western and Reclamation by December 15 of each year as to the amount of NGS energy that is needed for CAP pumping for the following year. NGS energy not reserved for CAP use will be marketed by Western, with the proceeds of any sales to be deposited in the Development Fund for application against the annual payments due from the District under the Master Repayment Agreement and Repayment Settlement.

SRP Power Purchase Agreement

SRP and Western have entered into a NGS Power Purchase Agreement for the sale of a portion of NGS Surplus power for the period October 1, 2011, through September 30, 2031. SRP will purchase up to 220,800 MWh per year on a unit contingent basis. The price will be actual production cost, excluding capital, for all energy delivered to SRP plus a premium. After the first year, increases in production cost are capped at 4% per year, but re-priced to actual cost every three years. The premium is \$25 million in 2012 escalated at 3% annually. The premium is to be re-priced in year 11 of the contract based on the change in natural gas prices and subject to a maximum change of \$7,000,000 in either direction and escalating at 3% annually thereafter. The proceeds from this contract are to be deposited into the BDF to be applied towards CAP Repayment.

Hoover Surcharge

The Hoover Act also provided for the addition of a surcharge to the rates for energy sold in Arizona from the Boulder Canyon (Hoover) and Parker-Davis projects of 4.5 mills per kilowatthour. Revenues from the surcharge on Hoover power sales began in 1987 and revenues from Parker-Davis power sales began in 2005. Revenues from this surcharge are credited to the Development Fund.

The District records these revenues as funds held by the federal government as of December 31 of each year and then applies them against the annual payment due from the District the following January 20. The application of these revenues against the annual payments due from the District under the Master Repayment Agreement is required by the Repayment Settlement.

**POWER AND BASIN DEVELOPMENT FUND REVENUES
(DOLLARS IN THOUSANDS)**

TABLE 10

<u>Operating Revenues</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Power and basin development fund revenues	\$59,421	\$46,800	\$21,611	\$28,555	\$29,665

Source: The District.

TAX LEVY AUTHORITY

The District has the authority to levy two limited ad valorem taxes against all taxable property within its boundaries. The first ad valorem tax, which may not exceed 10 cents per \$100 of assessed valuation, is for the District’s operations and payment of the District’s repayment obligation to the United States. The second ad valorem tax, which may not exceed 4 cents per \$100 of assessed valuation, is for water storage to the extent that it is not required for the District’s operations or payment of the repayment obligation. The ad valorem tax for operations and repayment was levied at 10 cents per \$100 of assessed valuation for tax years 2014 and 2013 and 6 cents per \$100 of assessed valuation for tax year 2012. The ad valorem tax for water storage was levied at 4 cents per \$100 of assessed valuation for the tax years ended 2012, 2013 and 2014. The ad valorem tax for water storage is deposited with the District to be used by the District to defray annual operation and maintenance cost. However, in 2014, the District amended its intergovernmental agreement (IGA) with the Arizona Water Banking Authority (AWBA) to allow the AWBA to request a portion of the water storage tax to purchase long-term storage credits in the subsequent year.

In 2014, Proposition 117 was passed by Arizona voters and limits the annual growth in the Primary Limited Property Values (LPV) of all locally assessed property to no more than 5% per annum. In addition, although the Secondary Full Cash Value (FCV) will continue to be determined by the county assessors, all property taxation in Arizona is now based on the LPV.

The ad valorem property tax is levied against all taxable property in the District. The respective counties collect property taxes on behalf of the District. In each county within the

District, the County Assessor establishes a full cash value for each parcel of taxable property. Based on the applicable property classification ratio, the assessed value of each parcel is determined. (For example, commercial and industrial property is assessed at 18.5% of full cash value, owner occupied residential property is assessed at 10% of full cash value.)

**DISTRICT
COMBINED FULL CASH VALUE AND ASSESSED VALUE**

TABLE 11

	<u>General Tax Rate</u>	<u>Water Storage Tax Rate</u>	<u>Full Cash Value</u>	<u>Assessed Value</u>
2014	\$ 0.10	\$ 0.04	\$ 433,462,010,696	\$ 44,675,371,869
2013	\$ 0.10	\$ 0.04	\$ 403,224,528,684	\$ 41,836,049,147
2012	\$ 0.06	\$ 0.04	\$ 419,142,979,943	\$ 44,758,562,011
2011	\$ 0.06	\$ 0.04	\$ 456,157,812,248	\$ 48,999,660,396
2010	\$ 0.06	\$ 0.04	\$ 546,257,909,981	\$ 60,702,230,824

The property taxes due to the District are billed, along with State, County and other property taxes, in September of the tax year and are payable in two installments, October and March. The delinquent tax dates are November 1 and May 1 and delinquent taxes are subject to a penalty of 16% per annum unless the full year tax is paid by December 31. At the close of the tax collection period, the County Treasurer prepares a delinquent property tax list and the property so listed is advertised for sale in February of the succeeding year. In the event that there is no purchaser for the property at the tax sale, the title to such property is vested in the State, and the property is reoffered for sale from time to time until such time as it is sold, subject to redemption, for an amount sufficient to cover all delinquent and current taxes.

The following table sets forth the real and secured personal property tax collections of the District for the past five fiscal years:

DISTRICT PROPERTY TAX LEVY AND COLLECTIONS

TABLE 12

Fiscal Year	Tax Levy	Collected to June 30 End of Tax Fiscal Year (a)		Total Collections (b)	
		Amount	Percent of Tax Levy	Amount	Percent of Tax Levy
2014-15	\$ 62,095,736	(c)		(c)	(c)
2013-14	\$ 58,162,280	\$ 56,850,330	97.74%	\$ 681,284	\$ 57,531,615 98.92%
2012-13	\$ 44,439,905	\$ 43,816,998	98.60%	\$ 223,657	\$ 44,040,655 99.10%
2011-12	\$ 49,088,421	\$ 48,243,194	98.28%	\$ 219,005	\$ 48,462,199 98.72%
2010-11	\$ 61,230,739	\$ 59,714,093	97.52%	\$ 363,534	\$ 60,077,628 98.12%

(a) Reflects collections made through June 30, the end of the taxing fiscal year, on such year's levy.

(b) Reflects collections made through **December 31, 2013** against current and prior levies.

(c) In the process of collection.

Source: Maricopa, Pima and Pinal County Treasurer's Offices.

MAJOR OBLIGATIONS OF THE DISTRICT

As the designated entity for operating and maintaining the CAP and repaying the United States a portion of the costs of the CAP, the District has three main areas of responsibility:

Repayment to the United States of the construction costs of the CAP properly allocated to the District;
Payment of the O&M Costs of the CAP:
 Fixed Costs
 Power Costs;
Non-Indian Agricultural 9(d) Debt.

REPAYMENT TO THE UNITED STATES

The Master Repayment Agreement

Pursuant to the Master Repayment Agreement the District is obligated to repay (1) the reimbursable construction costs of the CAP properly allocated to the M&I and non-Indian agricultural water supply and the power functions of the CAP, (2) O&M costs during construction properly allocated to the non-Indian water supply and power functions, and (3) interest during construction on costs allocated to the M&I water and the power functions.

Under the Master Repayment Agreement, the principal amount of the repayment obligation is repaid over 50 years. The portion allocated to water use by non-Indian agriculture is non-interest bearing. The balance bears interest at 3.342% per annum.

Reclamation declared both the water supply system and the regulatory storage facilities of the CAP (the principal CAP features) substantially complete on October 1, 1993, which triggered repayment obligations.

Litigation and Settlement under the Master Repayment Agreement

As a result of disputes regarding the District's repayment obligation under the Master Repayment Agreement, the District filed a lawsuit against the United States in July 1995, seeking judicial determination of these issues. The United States also filed a lawsuit against the District. The lawsuits were consolidated into a single action in the United States District Court (the "Court") in Phoenix, Arizona (the "Repayment Litigation").

On May 9, 2000, the Repayment Litigation was settled, contingent upon the satisfaction of certain conditions within a specified time period (the "Repayment Settlement"). On April 8, 2003, the settlement was amended to extend the time for satisfaction of the conditions necessary for entry of final judgment. On December 10, 2004, the Arizona Water Settlements Act was enacted (the "Settlements Act"), which facilitated final judgment in the Repayment Litigation by

authorizing actions that were necessary to satisfy the conditions of the Repayment Settlement. These conditions were subsequently satisfied. On November 21, 2007, a final judgment was entered based upon a stipulation for judgment filed by all of the parties to the Repayment Litigation. The time for appeal of the final judgment has expired. Accordingly, the Repayment Settlement is now fully effective. The major matters resolved by the Repayment Settlement are discussed below.

The Settlements Act

The Repayment Settlement required that there be a reallocation of CAP water supplies such that the total amount of CAP water allocated for federal uses be increased to 667,724 acre-feet, or approximately 47% of average annual CAP supplies. The remaining CAP supplies, 47,276 acre-feet, or approximately 53% of average annual CAP supplies, were required to be made available for non-Indian agricultural, municipal and industrial use.

This reallocation was accomplished through the relinquishment of long-term CAP entitlements by non-Indian agricultural CAP subcontractors and the eventual reallocation of those entitlements and other, uncontracted non-Indian agricultural (“NIA”) priority CAP water to Indian and M&I water users. In return for the receipt of certain benefits, including the opportunity to purchase excess CAP water under short term contracts at energy-only rates through 2030, non-Indian agricultural CAP subcontractors were offered the opportunity to relinquish their rights to NIA water under their long-term CAP subcontracts. All of the non-Indian agricultural CAP subcontractors agreed to permanently relinquish their entitlements to NIA water. (The Arizona State Land Department, a landowner within the Maricopa Stanfield Irrigation and Drainage District (“MSIDD”), initially elected to retain an entitlement of 9,026 acre-feet of MSIDD's entitlement under a long-term NIA CAP subcontract, but was subsequently terminated on September 1, 2009).

On August 25, 2006, the Secretary reallocated 197,500 acre-feet of the relinquished and uncontracted NIA water for use by Arizona Indian tribes, bringing the total amount of CAP water allocated for federal use to 650,724 acre-feet. Under the Settlements Act, an additional 17,000 acre-feet of M&I priority CAP water may be transferred from non-federal to federal uses in the future. If that additional water ultimately is not transferred, the District and the United States would adjust the District's repayment obligation as described below.

In the August 25, 2006, allocation decision, the Secretary also reallocated up to 96,295 acre-feet of NIA priority CAP water to the Arizona Department of Water Resources to be held in trust for eventual reallocation to non-Indian M&I entities and reallocated 65,647 acre-feet of previously un-contracted M&I priority CAP water to M&I entities. New CAP subcontracts, incorporating the additional allocations of M&I water and certain amendments required by the Settlements Act, were offered to all subcontractors of CAP water service. All of those subcontracts have been fully executed, bringing the total amount of non-Indian M&I priority CAP water under subcontract to 620,678 acre-feet. This, together with the NIA priority water allocated to the Arizona Department of Water Resources, brings the total amount of CAP water currently in non-Indian hands to 764,276 acre-feet.

Repayment Obligation

The Repayment Settlement established the principal amount of the District's repayment obligation for the water supply system and regulatory storage facilities stages of the CAP at \$1,646,462,500 based upon the agreement to increase the amount of CAP water allocated for federal use to 667,724 acre-feet. The Repayment Settlement provides that the repayment obligation is subject to further adjustment, up or down, by \$1,415 per acre-foot if the total amount of CAP water ultimately made available for federal use is not 667,724 acre-feet. The District's repayment obligation would vary inversely with the amount of CAP water allocated for federal use. Thus, if the total amount of CAP water ultimately made available for federal use is less than 667,724 acre-feet, the District's repayment obligation would be increased by \$1,415 per acre-foot of the difference. There was no adjustment to the District's repayment obligation related to the CAP water allocated for federal use in 2014 and 2013.

Construction Deficiencies and Other Credits

Certain disputes regarding financial responsibility for CAP construction deficiencies were resolved by the Repayment Settlement, with the District receiving appropriate credit against payments due under its repayment obligation for work performed by the District to correct these deficiencies. Certain other credits against the annual payments due from the District were also recognized and applied in the Repayment Settlement.

In 2011, the District applied a one-time prepayment of \$12,000,000 from the sale of NGS Surplus Power pursuant to the Repayment Settlement. This amount has reduced the last \$12,000,000 due of the non-interest bearing portion of the Repayment Obligation.

Application of Development Fund Revenues

The Repayment Settlement provided that all net miscellaneous revenues and net power revenues accumulating in the BDF of the United States Treasury in each year will be credited annually against the amount due from the District on its repayment obligation.

OPERATIONS

Operations and Maintenance Agreement

Reclamation has transferred responsibility for operation and maintenance of completed CAP features to the District. The District performs these responsibilities under the Master Repayment Agreement, an agreement with Reclamation for the operation and maintenance of the facilities (the O&M Transfer Contract), and an Operating Agreement between Reclamation and the District that took effect as part of the Repayment Settlement.

NON-INDIAN AGRICULTURAL (NIA) 9(D) DEBT

During 2007, and as the result of the Settlements Act, long-term entitlements to CAP NIA water were relinquished by CAP NIA subcontractors. Those rights will be reallocated to

M&I users. Upon reallocation, the District will collect charges from those M&I users sufficient to repay the District's costs in facilitating the relinquishment of the agricultural water rights. It is anticipated that 46,629 acre-feet will be reallocated by the end of 2017. The Arizona Department of Water Resources has made a recommendation to the Secretary of the Interior regarding this reallocation and Reclamation is in the process of completing National Environmental Policy Act (NEPA) compliance reviews.

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2014 AND 2013

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Redemption notices shall be sent to DTC. 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 Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Bond Registrar and Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

No assurance can be given by the District that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The District is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the Bonds, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Unless otherwise noted, certain of the information contained in this Appendix C has been extracted from information furnished by DTC. The District does not make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
CENTRAL ARIZONA WATER CONSERVATION DISTRICT
(CENTRAL ARIZONA PROJECT)
WATER DELIVERY O&M REVENUE BONDS, SERIES 2016

CONTINUING DISCLOSURE CERTIFICATE
(CUSIP Base No. _____)

This Continuing Disclosure Certificate (the “*Disclosure Certificate*”) is undertaken by the Central Arizona Water Conservation District (Central Arizona Project) (the “*District*”) in connection with the issuance of Water Delivery O&M Revenue Bonds, Series 2016 (the “*Bonds*”). In consideration of the initial sale and delivery of the Bonds, the District covenants as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule (as hereinafter defined).

Section 2. Definitions. Any capitalized term used herein shall have the following meanings, unless otherwise defined herein:

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

“*Bond Counsel*” shall mean Gust Rosenfeld P.L.C. or such other nationally recognized bond counsel as may be selected by the District.

“*Bondholder*” shall mean any registered owner or beneficial owner of the Bonds.

“*Dissemination Agent*” shall mean the District or any person designated in writing by the District as the Dissemination Agent.

“*EMMA*” shall mean the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of MSRB, or any successor thereto approved by the United States Securities and Exchange Commission, as a repository for municipal continuing disclosure information pursuant to the Rule.

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

“*MSRB*” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“*Official Statement*” shall mean the final official statement dated _____, 2016 relating to the Bonds.

“*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.

“*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.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than June 30th of each year (the “*Filing Date*”), commencing June 30, 2016, provide electronically to MSRB, in a format prescribed by MSRB, an Annual Report for the fiscal year ending on the preceding December 31 which is consistent with the requirements of Section 4 of this Disclosure Certificate. Currently, filings are required to be made with EMMA. Not later than fifteen (15) business days prior to such Filing Date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District).

(b) If the District is unable or for any reason fails to provide electronically to EMMA an Annual Report or any part thereof by the Filing Date required in subsection (a) above, the District shall, in a timely manner, send a notice to EMMA in substantially the form attached as *Exhibit A* not later than such Filing Date.

(c) If the District’s audited financial statements are not submitted with the Annual Report and the District fails to provide to EMMA a copy of its audited financial statements within 30 days of receipt thereof by the District, then the District shall, in a timely manner, send a notice to EMMA in substantially the form attached as *Exhibit B*.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date(s) for providing the Annual Report and audited financial statements the proper address of EMMA; and

(ii) if the Dissemination Agent is other than the District, file a report or reports with the District certifying that the Annual Report and audited financial statements, if applicable, have been provided pursuant to this Disclosure Certificate, stating the date such information was provided and listing where it was provided.

Section 4. Content of Annual Reports.

(a) The Annual Report may be submitted as a single document or as separate documents comprising an electronic package, and may incorporate by reference other information as provided in this Section, including the audited financial statements of the District; provided, however, that if the audited financial statements of the District are not available at the time of the filing of the Annual Report, the District shall file unaudited financial statements of the District with the Annual Report and, when the audited financial statements of the District are available, the same shall be submitted to EMMA within 30 days of receipt by the District.

(b) The District's Annual Report shall contain or incorporate by reference the following:

(i) Type of Financial and Operating Data to be Provided:

(A) Subject to the provisions of Sections 3 and 4(a) hereof, annual audited financial statements for the District.

(B) Annually updated financial information and operating data of the type contained in the following subsections or tables of the Official Statement:

- (i) Water Deliveries
- (ii) Current Year Published Rate Schedules
- (iii) Prior Year Reconciled Rates
- (iv)
- (v)
- (vi)
- (vii) Summary of Historical Operating Results
- (viii) District's Fiscal Year End Cash Balances
- (ix) Historical Cash Flow and Coverage Ratio (for most recently completed fiscal year only)

(C) In the event of an amendment pursuant to Section 8 hereof not previously described in an Annual Report, an explanation, in narrative form, of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided and, if the amendment is made to the accounting principles to be followed, 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, including a qualitative discussion of the differences, and the impact on the presentation and, to the extent feasible, a quantitative comparison.

(ii) Accounting Principles Pursuant to Which Audited Financial Statements Shall Be Prepared: The audited annual financial statements shall be prepared in accordance with generally accepted accounting principles and state law requirements as are in effect from time to time. A more complete description of the accounting principles currently followed in the preparation of the District's audited annual financial statements is contained in Note 1 of the audited financial statement included within the Official Statement.

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

Section 5. Reporting of Listed Events.

This Section 5 shall govern the giving of notices by the District of the occurrence of any of the following events with respect to the Bonds, and the District shall in a timely manner, not in excess of ten business days after the occurrence of the event, provide notice of the following events with EMMA:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service (the “IRS”) of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the District;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Note to Paragraph (12) above: For the purposes of the event identified in paragraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Termination of Reporting Obligation. The District’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Such termination shall not terminate the obligation of the District to give notice of such defeasance or prior redemption.

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

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate if:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in identity, nature or status of the District, or the type of business conducted;

(b) This Disclosure Certificate, as amended, would, in the opinion of 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 amendment does not materially impair the interests of Bondholders, as determined by Bond Counsel.

Notice of any amendment to the accounting principles shall be sent within 30 days to EMMA.

Section 9. Filing with EMMA. The District shall, or shall cause the Dissemination Agent to, electronically file all items required to be filed with EMMA.

Section 10. Additional Information. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Bondholder may seek specific performance by court order to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance and such failure shall not constitute a default under the Bonds or the Indenture authorizing the Bonds.

Section 12. Compliance by the District. The District hereby covenants to comply with the terms of this Disclosure Certificate. The District expressly acknowledges and agrees that compliance with the undertaking contained in this Disclosure Certificate is its sole responsibility and the responsibility of the Dissemination Agent, if any, and that such compliance, or monitoring thereof, is not the responsibility of, and no duty is present with respect thereto for, the Participating Underwriter, Bond Counsel or the District's financial advisor.

Section 13. Undertaking Payable from Pledged Revenues. The District's undertaking to provide information under this Disclosure Certificate is payable solely from its Pledged Revenues (as such term is defined in the Official Statement), to cover the costs of preparing and sending the Annual Report and notices of listed events to EMMA.

Section 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Bondholders, and shall create no rights in any other person or entity.

Section 15. Governing Law and Interpretation of Terms. This Disclosure Certificate shall be governed by the law of the State of Arizona and any action to enforce this Certificate must be brought in an Arizona state court. The terms and provisions of this Disclosure Certificate shall be interpreted in a manner consistent with the interpretation of such terms and provisions under the Rule and the federal securities law.

Section 16. Notice Concerning Cancellation of Contracts. To the extent applicable by provision of law, this Disclosure Certificate is subject to cancellation pursuant to Arizona Revised Statutes, Section 38-511, as amended.

Date: _____, 2016

**CENTRAL ARIZONA WATER CONSERVATION
DISTRICT (CENTRAL ARIZONA PROJECT)**

By _____
Its General Manager

EXHIBIT A
NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Central Arizona Water Conservation District (Central Arizona Project)
Name of Bond Issue: \$_____ Water Delivery O&M Revenue Bonds, Series 2016
Dated Date of Bonds: _____, 2016 CUSIP: _____

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Disclosure Certificate dated _____, 2016. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

Central Arizona Water Conservation District (Central Arizona Project)

By _____
Its _____

EXHIBIT B
NOTICE OF FAILURE TO FILE AUDITED FINANCIAL STATEMENTS

Name of Issuer: Central Arizona Water Conservation District (Central Arizona Project)
Name of Bond Issue: \$_____ Water Delivery O&M Revenue Bonds, Series 2016
Dated Date of Bonds: _____, 2016 CUSIP: _____

NOTICE IS HEREBY GIVEN that the District failed to provide its audited financial statements with its Annual Report or, if not then available, within 30 days of receipt as required by Section 4(a) of the Disclosure Certificate dated _____, 2016, with respect to the above-named Bonds. The District anticipates that the audited financial statements for the fiscal year ended December 31, ____ will be filed by _____.

Dated: _____

Central Arizona Water Conservation District (Central Arizona Project)

By _____
Its _____

_____, 2016

Board of Directors
Central Arizona Water Conservation District
Phoenix, Arizona

Re: \$50,000,000* Central Arizona Water Conservation District (Central Arizona Project) Water Delivery O&M Revenue Bonds, Series 2016

Ladies and Gentlemen:

We have acted as bond counsel to the Central Arizona Water Conservation District (Central Arizona Project) (the “*District*”) in connection with the issuance by the District of \$50,000,000 aggregate principal amount of its Water Delivery O&M Revenue Bonds, Series 2016 (the “*Bonds*”). The Bonds have been issued pursuant to Article 3 of Chapter 22 of Title 48 of the Arizona Revised Statutes (the “*Act*”) and the Master Indenture of Trust, dated as of January 1, 2016*, as supplemented by the First Supplemental Indenture of Trust, dated as of January 1, 2016* (together, the “*Indenture*”), each between the District and Zions First National Bank, as trustee (the “*Trustee*”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Act, the Indenture, the Tax Certificate, dated the date hereof, relating to the Bonds (the “*Tax Certificate*”), certificates of the District, the Trustee and others, opinions of counsel to the District, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine or to inform any person whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions,

* Preliminary, subject to change.

referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including without limitation covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability 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 the limitations on legal remedies against electrical districts in the State of Arizona. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding special, limited obligations of the District.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the District. The Indenture creates a valid pledge of the Trust Estate to secure the payment of the principal of and interest on the Bonds, subject to the provisions of the Indenture permitting the application of the Trust Estate for the purposes and on the terms and conditions set forth therein.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Arizona income tax. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes; however, such interest income must be taken into account for federal income tax purposes as an adjustment to alternative minimum taxable income for certain corporations. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Very truly yours,

Gust Rosenfeld P.L.C.

FINANCIAL FEASIBILITY ANALYSIS