CERTIFICATES OF PARTICIPATION DEBT FINANCING PROGRAM

During 1988, the County Sanitation Districts of Orange County ("the Districts"), the nine (9) predecessor individual Districts to the current Orange County Sanitation District, embarked upon a 30-year planning program referred to as the "2020 VISION" Master Plan because it considers the planning needs of the District to the year 2020. The Master Plan was produced following the most comprehensive wastewater management study ever undertaken by the Districts. The two-year, $4.5 million evaluation of the engineering, environmental, public health, social and economic aspects of our wastewater collection treatment and disposal activities was conducted by a team of consultants in partnership with District staff.

The "2020 VISION" Master Plan established a Capital Improvement Plan (CIP) that identified significant annual expenses for the construction of Joint Works and trunk sewer projects, as well as ongoing operation and maintenance (O&M).

The Board adopted the "2020 Vision" Master Plan in 1989 based on the Districts' then-current treatment level, which assumed continuation of its current National Pollutant Discharge Elimination System (NPDES) permit concentration limits under Section 301(h) of the Clean Water Act. The treatment level allowed under this permit was a blend of 50 percent advanced primary and 50 percent secondary, a waiver from the Clean Water Act standard of full secondary treatment.

Prior to the 1989 Master Plan, the Districts had been able to meet capital requirements and O&M expenses from a combination of property tax revenues, user fees, connection fees, interest earnings, and federal and state grants.

Due to the magnitude of identified future annual capital and operations and maintenance expenditures, and the discontinuation of federal and state grant programs, the Master Plan concluded that it was necessary to utilize debt financing to meet our obligations. Debt financing, recommended by the Master Plan, would enable each District to meet projected construction schedules while achieving the lowest possible user fees, as well as long-term stability for the user fees.

A Ten-Year Financial Plan is maintained to establish financing parameters regarding the issuance of debt, the levying of user charges and the funding level for the four-part reserve structure. The Financial Plan is revised annually to reflect the most current cost and revenue figures resulting from capital program revisions and operating changes.

During 1998 and 1999, a new strategic plan was developed for the period 2000 to 2020. Strategic planning represents a shift from the traditional "size and build" approach to developing master plans to a more broadbased, multi-agency cooperative solution. The planning process included collection, treatment, and disposal facilities, management of peak flows, equitable financial charges and fee schedules, reuse of wastewater and biosolids, advances in technology and regulatory concerns and requirements.

Four treatment scenarios were evaluated by citizen groups, staff, consultants and Directors before a Preferred Alternative was selected. The projected capital cost of the Preferred Alternative was $1.53 billion through 2020 and included the Groundwater Replenishment System, a $472 million wastewater reclamation project with construction costs to be shared equally with the Orange County Water District.

In 2002, the District completed an Interim Strategic Plan Update that evaluated the advantages and disadvantages of several possible wastewater treatment alternatives. In July 2002, the Board of Directors approved a change from the existing level of treatment, a blend of 50 percent advanced primary and 50 percent secondary treated wastewater, to full secondary treatment standards. The reasoning behind the decision to move to secondary discharge standards included (1) the possibility that bacteria from the ocean outfall may at times reach the shoreline, (2) upgraded treatment will aid additional water reclamation with the Orange County Water District, (3) and the public clearly favored upgrading wastewater treatment at this time. The 2002 Interim Strategic Plan Update identified $422 million of additional capital improvements needed to move to full secondary standards over the next 9.5 years.

In preparation for the FY 2008-09 and FY 2009-10 Budget, District staff conducted strategic planning workshops with the Board of Directors to layout a capital program to deliver the levels of service desired by the Board of Directors. These levels of service and resulting capital projects are included in the District's 5-year Strategic Plan. This includes approximately $50 million of new CIP projects over the next 10 years. In addition, District staff has reviewed each CIP project to ensure that the scope of the project was appropriate, and that the cost estimates were accurate. The validated CIP includes 86 large capital projects and 28 special projects with a 15-year expenditure of $1.47 billion. This total represents a $149 million increase from the 2007-08 CIP estimate. This increase includes $50 million from the District's 5-year Strategic Plan, $28 million in newly identified rehabilitation and renewal needs, and $71 million in project budget revisions for on-going projects.

The Series 2006 and Series 2007B were issued to fund current and future capital improvement expenditures. The Series 2007A and Series 2008A were issued to take advantage of the low interest rate market environment and partially refund the higher interest earning bonds of the Series 2003 and all of Series 1993. Figure 1 shows the status of all outstanding COPs at June 30, 2008.

Figure 1

Summary of Certificates of Participation

Series	1993 Series	2000 Series	2003 Series	2006 Series
Issue Name	Refunding COPs	Refunding COPs	COPs	COPs
Issue Date	09-21-1993	08-31-2000	08-26-2003	03-08-2006
Original Par	$46,000,000	$218,600,000	$280,000,000	$200,000,000
Outstanding Par	$26,900,000	$196,600,000	$191,500,000	$196,600,000
Payment Date	August 1	August 1	February 1	February 1
Use of Proceeds	Advance Refunding	Refund/Reimb.	Reimb./Future CIP	Current/Future CIP
Lien or Tier	Open Senior	Open Senior	Open Senior	Open Senior
Interest Rate Mode	Synthetic Fixed	Variable	Fixed	Variable
Final Maturity Date	08-01-2016	08-01-2030	02-01-2033	02-01-2036

Series	2007A Series	2007B Series	2008A
Issue Name	Refunding COPs	COPs	Refunding COPs
Issue Date	05-22-2007	12-20-2007	05-29-08
Original Par	$95,180,000	$300,000,000	$77,165,000
Outstanding Par	$93,655,000	$300,000,000	$77,165,000
Payment Date	February 1	February 1	August 1
Use of Proceeds	Advance Refunding	Current/Future CIP	Advance Refunding
Lien or Tier	Open Senior	Open Senior	Open Senior
Interest Rate Mode	Fixed	Fixed	Fixed
Final Maturity Date	02-01-2030	02-01-2032	08-01-2013

The Districts embarked upon its Debt Financing and Management Program, and specifically its Variable and Fixed Rate Debt Program (the "Program"), in 1990 with the issuance of $100 million in Certificates of Participation ("COP"), Capital Improvement Program, 1990 Series "A." The Program was established to accomplish:

- To finance assets with long useful lives with long-term debt;
- To achieve the lowest possible interest costs and highest investment returns, commensurate with the appropriate risk;
- To recoup reserve moneys that had previously been spent.

COPs are repayment obligations based on a lease or installment sale agreement. The COP structure was selected over other structures because COPs are not viewed as debt by the State of California, as the purchaser does not actually receive a "bond," but rather a share in an installment sale arrangement where the District serves as the purchaser. Accordingly, the District is not subject to the usual State restrictions surrounding the issuance of debt. COPs can be issued with fixed or variable interest rates.

Fixed-rate debt can be either traditional or synthetic in form:

- **Fixed-Rate Debt** traditionally has a final maturity between 20 and 30 years from the date of issuance. Generally, principal is amortized annually. Principal maturing in early years typically has a lower interest rate ("coupon") than later maturities. This structure typically produces a level debt service. The District's 2003 series is a traditional fixed-rate debt issuance.

- **Synthetic Fixed-Rate Debt:** Long-term, variable-rate debt can be issued and then the interest component can be swapped to a fixed rate. This form of fixed-rate debt achieves a balance between short and long-term interest costs and is frequently a less expensive form of debt. In some markets, this form of fixed-rate debt is less expensive to issue than the more traditional form of fixed-rate debt described above. The District's COP Refunding Series 1993 is a synthetic fixed rate debt issue.

Variable-rate debt can be traditional or synthetic:

- **Variable-Rate Debt:** has either a long or short nominal maturity, but periodic interest rate resets. Typically, the intervals for interest rate resets are daily, weekly or monthly, but any period is possible. Both the District's Series 2000 COPs and Series 2006 are variable-rate debt maturing in 30 years, but with sinking funds to retire a portion of the principal annually, and a daily interest rate reset.

- **Synthetic Variable-Rate Debt:** As described above for fixed-rate debt, variable-rate debt can be created from a fixed-rate issue by means of a floating-rate swap.

An important factor to keep in mind, however, when reviewing the historical difference between variable rate and fixed rate debt is that there are two fees that occur with variable rate debt in addition to the interest rate, liquidity fees and remarketing fees. Even including these extra fees, variable rates have been lower than fixed rates over the past several years.

The maximum level of variable rate obligations incurred by the District should not exceed the level of invested reserves available. This policy will allow a hedge to be maintained between variable rate obligations and short-term investments. The periodic change in interest earnings on the District's unrestricted reserve funds (invested in short-term securities like Treasury Bills) will move in a fashion similar to the movement of the yield on the District's variable rate obligations.

This "floating hedge" will result in a generally consistent and predictable spread between the District's financing cost and the yield on the invested funds. Moreover, since the District's obligations are tax-exempt, while its reserves earn taxable yields, there is a potential legal arbitrage benefit which may actually lower the District's cost of funds. There are complex federal regulations that limit the interest (arbitrage) earnings on tax exempt financings and the District complies with them.

The District has entered into two types of swaps since 1990: fixed-to-floating and floating-to-fixed. Fixed-to-floating interest rate swaps allow an issuer to convert all or a portion of its fixed rate debt to a floating rate. This is accomplished as the issuer receives a fixed payment from a counterparty and makes floating rate based payments to that counterparty.

A floating-to-fixed interest rate swap allows the issuer to convert floating rate debt to fixed rate. The counterparty makes floating rate based payments to the issuer and, in return, the issuer makes fixed payments to the counterparty. The certificate holder, in both cases, receives the payment that the counterparty pays to the issuer. The certificate holder, or investor, always receives the original stream of payments.

Through discussions with the Rating Agencies, the District has been permitted to maintain an overall fixed versus variable rate debt mix of approximately 50:50. "Synthetic" fixed transactions are considered as fixed rate transaction by the Rating Agencies since the swap duration matches the maturity of the COP.

These ratios are higher than those traditionally allowed for most issuers, in part because of the District's reserve policy.

The District currently has outstanding synthetic fixed-rate and fixed-rate COPs of $689.2 million and variable-rate COPs of $393.0 million, for a ratio of 64:36.

Dedicated Funding Source

In 1992 and 2004 the Board of Directors formalized the dedication of certain funding sources. To assure the continuation of favorable credit ratings, revenues were dedicated to debt service in the following order:

1. Ad valorem property taxes
2. Sanitary sewer service charges
3. Other revenues

This apportionment of the ad valorem tax was consistent with and pursuant to the Revenue Program adopted in April 1979 to comply with regulations of the Environmental Protection Agency and the State Water Resources Control Board and in accordance with COP documents and Board policy.

Up until FY 2003-04, property tax revenues alone had been sufficient to meet current debt service payments. However, since the $280 million COP Series 2003 debt issuance, this revenue source now has to be augmented by sewer service charges or user fees. Annual increases in these user fees to offset property tax revenue shortfalls, as well as to assist in the funding of the CIP expansion, are projected for the next several years.

Establishment of Debt Policy

In 2001, the District developed a written debt policy for the following underlying reasons:

- promoting consistency and continuity;
- rationalizing the decision making process;
- committing to long-term financial planning;
- enhancing the quality of decisions; and
- promoting credit quality to rating agencies.

This Board adopted policy serves as the agency's guide in the management of existing debt and in the issuance of future debt.

Debt Coverage Ratios

The only legal debt limits pertaining to the District are those that are provided within the existing COP indenture agreements requiring minimum coverage ratios of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements for all senior lien COP debt. The coverage ratio for senior lien COP debt is being proposed at 2.51 and 2.22 for FY 2008-09 and FY 2009-10, respectively.

Future Debt Financings

In May 2008, the District issued $77.2 million of COP fixed rate debt to retire the outstanding amount owed on Series 1993. As the result of having a well-funded reserve policy, experienced management, and prudent planning, the District was able to secure "AAA" credit rating from Standard and Poors while maintaining "Aa' ratings from the other two rating agencies.

The District's long-range financing plan is designed to maintain these high ratings. Over the next 12 years, the District is projecting an additional $2.4 billion in future treatment plant and collection system capital improvements. In accordance with the District's long-term debt fiscal policy, the District will confine long-term borrowing to capital improvements that cannot be financed from current revenue. Before any new debt is issued, the impact of debt service payments on total annual fixed costs will be analyzed.

The District's cash flow forecast calls for the issuance of $200 million and $120 million of COP in FY 2008-09 and FY 2009-10, respectively, to help offset the CIP cash outlays scheduled to occur over this time period. A total of $550 million in COP debt issuance is being proposed over the next five years. These financings are needed early in the capital program scheduled out to 2020 because the bulk of the construction is scheduled during the next six years.

Figure 2

Schedule of Future Certificates of Participation Issues and CIP Cash Flows
(in millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
New COP Issues	$200.0	$120.0	$ 90.0	$ 60.0	$ 80.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
CIP Outlays	$373.7	$228.9	$182.5	$169.8	$188.7	$197.3	$168.1	$156.2	$167.0	$165.3

Total Certificates of Participation Debt Service Requirements

Principal and Interest Combined

Fiscal Year Of Payments	1993 Refunding (Series B Term)	2000 Refunding (Series A)	2000 Refunding CIP Reimb	2003 Acquisition/ Construction	2006 Acquisition/ Construction	2007A Refunding (partial 2003)	2007B Acquisition/ Construction	2008A Refunding (1992 Series)	Total Payment Per Fiscal Year
2008-09	1,370,370	6,605,648	1,995,777	9,575,000	7,569,100	4,365,911	19,403,337	17,805,094	68,690,237
2009-10	1,363,530	6,636,000	2,066,016	9,575,000	7,569,100	4,368,144	19,446,737	16,943,128	67,967,655
2010-11	1,356,690	6,636,000	2,030,016	9,575,000	7,569,100	4,365,061	19,490,371	16,969,602	67,991,840
2011-12	1,349,850	17,667,542	1,996,012	9,575,000	7,569,100	4,366,694	19,543,671	5,668,472	67,736,341
2012-13	1,390,920	16,157,694	2,058,487	9,575,000	7,569,100	4,367,927	19,591,087	7,103,694	67,813,909
2013-14	1,381,800	17,641,074	2,011,704	9,575,000	7,569,100	4,368,761	19,621,566	19,243,761	81,412,766
2014-15	9,038,280	15,895,079	2,068,592	9,575,000	7,569,100	4,369,194	19,612,962	-	68,128,207
2015-16	9,047,640	15,864,241	2,029,041	9,575,000	7,569,100	4,369,227	19,601,634	-	68,055,883
2016-17	9,134,580	20,226,504	1,981,726	9,575,000	7,569,100	4,368,861	19,581,025	-	72,436,796
2017-18	-	24,894,400	2,036,022	9,575,000	7,569,100	4,368,094	19,578,025	-	68,020,641
2018-19	-	24,899,025	1,992,296	9,575,000	7,569,100	4,366,927	19,566,817	-	67,969,165
2019-20	-	24,837,651	2,033,763	9,575,000	7,569,100	4,365,361	19,595,900	-	67,976,775
2020-21	-	24,864,667	1,983,427	9,575,000	7,569,100	8,780,978	19,633,646	-	72,406,818
2021-22	-	-	2,029,359	24,360,417	16,523,121	4,130,753	19,622,437	-	66,666,087
2022-23	-	-	2,070,027	24,295,729	16,566,354	4,129,179	19,614,209	-	66,675,498
2023-24	-	-	2,013,677	24,323,084	16,692,583	4,127,041	19,602,813	-	66,759,198
2024-25	-	-	2,044,323	24,259,730	16,799,563	4,129,239	19,597,042	-	66,829,897
2025-26	-	-	1,981,501	24,294,208	16,985,688	4,130,667	19,585,604	-	66,977,668
2026-27	-	-	2,015,364	5,409,000	17,148,713	23,030,094	19,572,396	-	67,175,567
2027-28	-	-	2,044,458	5,409,000	17,288,638	22,972,569	19,561,062	-	67,275,727
2028-29	-	-	2,068,381	5,409,000	17,405,463	22,916,494	19,545,209	-	67,344,547
2029-30	-	-	1,993,140	5,409,000	17,499,188	23,762,819	19,533,376	-	68,197,523
2030-31	-	-	2,012,932	30,451,188	17,668,208	-	19,518,917	-	69,651,245
2031-32	-	-	-	30,494,313	17,810,279	-	19,505,229	-	67,809,821
2032-33	-	-	-	57,304,000	17,925,400	-	19,490,563	-	94,719,963
2033-34	-	-	-	-	18,013,571	-	19,473,167	-	37,486,738
2034-35	-	-	-	-	18,173,188	-	19,456,188	-	37,629,376
2035-36	-	-	-	-	18,302,004	-	19,437,625	-	37,739,629
2036-37	-	-	-	-	-	-	19,420,375	-	19,420,375
Totals	$ 35,433,660	$ 222,825,525	$ 46,556,041	$ 385,893,669	$ 359,200,261	$ 174,519,995	$ 566,802,990	$ 83,733,751	$ 1,874,965,892

Certificates of Participation Debt Service Requirements

Annual Interest Payments

Fiscal Year Of Payments	1993 Refunding (Series B Term)	2000 Refunding (Series A)	2000 Refunding CIP Reimb	2003 Acquisition/ Construction	2006 Acquisition/ Construction	2007A Refunding (partial 2003)	2007B Acquisition/ Construction	2008A Refunding (1992 Series)	Total Interest Per Fiscal Year
2008-09	1,220,370	6,605,648	1,195,777	9,575,000	7,569,100	4,175,911	14,588,337	2,305,094	47,235,237
2009-10	1,213,530	6,636,000	1,166,016	9,575,000	7,569,100	4,168,144	14,391,737	1,708,128	46,427,655
2010-11	1,206,690	6,636,000	1,130,016	9,575,000	7,569,100	4,160,061	14,185,371	1,074,602	45,536,840
2011-12	1,199,850	6,267,542	1,096,012	9,575,000	7,569,100	4,151,694	13,968,671	843,472	44,671,341
2012-13	1,190,920	5,857,694	1,058,487	9,575,000	7,569,100	4,142,927	13,741,087	588,694	43,723,909
2013-14	1,181,800	5,341,074	1,011,704	9,575,000	7,569,100	4,133,761	13,476,566	48,761	42,337,766
2014-15	838,280	4,895,079	968,592	9,575,000	7,569,100	4,124,194	13,162,962	-	41,133,207
2015-16	447,640	4,464,241	929,041	9,575,000	7,569,100	4,114,227	12,826,634	-	39,925,883
2016-17	34,580	3,826,504	881,726	9,575,000	7,569,100	4,103,861	12,471,025	-	38,461,796
2017-18	-	2,994,400	836,022	9,575,000	7,569,100	4,093,094	12,108,025	-	37,175,641
2018-19	-	2,099,025	792,296	9,575,000	7,569,100	4,081,927	11,726,817	-	35,844,165
2019-20	-	1,137,651	733,763	9,575,000	7,569,100	4,070,361	11,360,900	-	34,446,775
2020-21	-	164,667	683,427	9,575,000	7,569,100	3,980,978	10,988,646	-	32,961,818
2021-22	-	-	629,359	9,260,417	7,423,121	3,860,753	10,547,437	-	31,721,087
2022-23	-	-	570,027	8,490,729	7,066,354	3,849,179	10,084,209	-	30,060,498
2023-24	-	-	513,677	7,683,084	6,692,583	3,837,041	9,597,813	-	28,324,198
2024-25	-	-	444,323	6,834,730	6,299,563	3,824,239	9,087,042	-	26,489,897
2025-26	-	-	381,501	5,944,208	5,885,688	3,810,667	8,550,604	-	24,572,668
2026-27	-	-	315,364	5,409,000	5,448,713	3,435,094	7,987,396	-	22,595,567
2027-28	-	-	244,458	5,409,000	4,988,638	2,537,569	7,396,062	-	20,575,727
2028-29	-	-	168,381	5,409,000	4,505,463	1,601,494	6,775,209	-	18,459,547
2029-30	-	-	93,140	5,409,000	3,999,188	607,819	6,123,376	-	16,232,523
2030-31	-	-	12,932	4,876,188	3,468,208	-	5,438,917	-	13,796,245
2031-32	-	-	-	3,569,313	2,910,279	-	4,720,229	-	11,199,821
2032-33	-	-	-	1,624,000	2,325,400	-	3,965,563	-	7,914,963
2033-34	-	-	-	-	1,713,571	-	3,173,167	-	4,886,738
2034-35	-	-	-	-	1,073,188	-	2,341,188	-	3,414,376
2035-36	-	-	-	-	402,004	-	1,467,625	-	1,869,629
2036-37	-	-	-	-	-	-	550,375	-	550,375
Totals	$ 8,533,660	$ 56,925,525	$ 15,856,041	$ 194,393,669	$ 162,600,261	$ 80,864,995	$ 266,802,990	$ 6,568,751	$ 792,545,892

Certificates of Participation Debt Service Requirements

Annual Principal Payments

Fiscal Year Of Payments	1993 Refunding (Series B Term)	2000 Refunding (Series A)	2000 Refunding CIP Reimb	2003 Acquisition/ Construction	2006 Acquisition/ Construction	2007A Refunding (partial 2003)	2007B Acquisition/ Construction	2008A Refunding (1992 Series)	Total Principal Per Fiscal Year
2008-09	150,000	-	800,000	-	-	190,000	4,815,000	15,500,000	21,455,000
2009-10	150,000	-	900,000	-	-	200,000	5,055,000	15,235,000	21,540,000
2010-11	150,000	-	900,000	-	-	205,000	5,305,000	15,895,000	22,455,000
2011-12	150,000	11,400,000	900,000	-	-	215,000	5,575,000	4,825,000	23,065,000
2012-13	200,000	10,300,000	1,000,000	-	-	225,000	5,850,000	6,515,000	24,090,000
2013-14	200,000	12,300,000	1,000,000	-	-	235,000	6,145,000	19,195,000	39,075,000
2014-15	8,200,000	11,000,000	1,100,000	-	-	245,000	6,450,000	-	26,995,000
2015-16	8,600,000	11,400,000	1,100,000	-	-	255,000	6,775,000	-	28,130,000
2016-17	9,100,000	16,400,000	1,100,000	-	-	265,000	7,110,000	-	33,975,000
2017-18	-	21,900,000	1,200,000	-	-	275,000	7,470,000	-	30,845,000
2018-19	-	22,800,000	1,200,000	-	-	285,000	7,840,000	-	32,125,000
2019-20	-	23,700,000	1,300,000	-	-	295,000	8,235,000	-	33,530,000
2020-21	-	24,700,000	1,300,000	-	-	4,800,000	8,645,000	-	39,445,000
2021-22	-	-	1,400,000	15,100,000	9,100,000	270,000	9,075,000	-	34,945,000
2022-23	-	-	1,500,000	15,805,000	9,500,000	280,000	9,530,000	-	36,615,000
2023-24	-	-	1,500,000	16,640,000	10,000,000	290,000	10,005,000	-	38,435,000
2024-25	-	-	1,600,000	17,425,000	10,500,000	305,000	10,510,000	-	40,340,000
2025-26	-	-	1,600,000	18,350,000	11,100,000	320,000	11,035,000	-	42,405,000
2026-27	-	-	1,700,000	-	11,700,000	19,595,000	11,585,000	-	44,580,000
2027-28	-	-	1,800,000	-	12,300,000	20,435,000	12,165,000	-	46,700,000
2028-29	-	-	1,900,000	-	12,900,000	21,315,000	12,770,000	-	48,885,000
2029-30	-	-	1,900,000	-	13,500,000	23,155,000	13,410,000	-	51,965,000
2030-31	-	-	2,000,000	25,575,000	14,200,000	-	14,080,000	-	55,855,000
2031-32	-	-	-	26,925,000	14,900,000	-	14,785,000	-	56,610,000
2032-33	-	-	-	55,680,000	15,600,000	-	15,525,000	-	86,805,000
2033-34	-	-	-	-	16,300,000	-	16,300,000	-	32,600,000
2034-35	-	-	-	-	17,100,000	-	17,115,000	-	34,215,000
2035-36	-	-	-	-	17,900,000	-	17,970,000	-	35,870,000
2036-37	-	-	-	-	-	-	18,870,000	-	18,870,000
Totals	$ 26,900,000	$ 165,900,000	$ 30,700,000	$ 191,500,000	$ 196,600,000	$ 93,655,000	$ 300,000,000	$ 77,165,000	$ 1,082,420,000

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