PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 13, 2009

NEW ISSUE - BOOK-ENTRY-ONLY **RATINGS**

Standard & Poor's (Insured: "AAA," negative outlook/Underlying: "AA")

Moody's (Insured: "Aa2," review for possible downgrade /Underlying: "A2")

(See "CONCLUDING INFORMATION - Ratings on the Bonds" herein)

In the opinion of Garcia Calderón Ruíz, LLP, San Diego, California ("Bond Counsel"), based upon an analysis of existing statutes, regulations, rulings, and court decisions and assuming, among other things, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. In the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, although Bond Counsel observes that such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "LEGAL MATTERS - Tax Matters" herein.

$7,790,000*
OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
2009 GENERAL OBLIGATION REFUNDING BONDS
(San Diego County, California)
(BANK QUALIFIED)

Dated: Date of Issuance **Due: September 1, as Shown on the Inside Front Cover.**

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Otay Water District Improvement District No. 27, 2009 General Obligation Refunding Bonds (the "Bonds"), in the aggregate amount of $7,790,000,* are being issued to refund the outstanding Otay Water District Improvement District No. 27 San Diego County, California General Obligation Refunding Bonds, Series 1998 (the "1998 Bonds"). The Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution adopted by the Board of Directors (the "Board") of the Otay Water District (the "District"). See "INTRODUCTION – Authorization; Purpose" herein.

Interest on the Bonds is payable on March 1, 2010, and semiannually thereafter on September 1 and March 1 of each year until maturity (each, an "Interest Payment Date") (see "THE BONDS - General Provisions" herein). The Bonds are not subject to optional redemption prior to maturity. The Bonds are subject to mandatory sinking fund redemption as described herein. See "THE BONDS - Mandatory Sinking Fund Redemption."

The Bonds are general obligations of Improvement District No. 27 of the District ("ID 27"), and the Board is empowered and obligated to cause the levy of *ad valorem* taxes, without limitation of rate or amount, upon all property within ID 27 subject to taxation (except for certain classes of personal property which is taxable at a limited rate), for the payment of interest on and principal of the Bonds when due (see "SECURITY FOR THE BONDS" herein).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Corp.

ASSURED GUARANTY®

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Garcia Calderón Ruíz, LLP, San Diego, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the District by Garcia Calderón Ruíz, LLP, San Diego, California, as General Counsel to the District, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery in New York, New York on or about November 4, 2009, for deposit with The Depository Trust Company (see "APPENDIX F – DTC AND THE BOOK-ENTRY-ONLY SYSTEM" herein).

The date of this Official Statement is __________, 2009.

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* Preliminary, subject to change.

$7,790,000*
OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
2009 GENERAL OBLIGATION REFUNDING BONDS
(San Diego County, California)

MATURITY SCHEDULE

(Base CUSIP®† _________)

$___________ Serial Bonds

Maturity Date September 1	Principal Amount*	Interest Rate	Reoffering Yield	CUSIP®† Number
2010	$545,000			
2011	520,000			
2012	530,000			
2013	540,000			
2014	555,000			
2015	570,000			
2016	585,000			
2017	605,000			
2018	625,000			
2019	640,000			
2020	665,000			
2021	695,000			
2022	715,000			

* Preliminary, subject to change.

† CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2009 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. CUSIP® data herein is provided by Standard & Poor's CUSIP® Service Bureau. This data in not intended to create a database and does not serve in any way as a substitute for the CUSIP® Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the District, the Financial Advisor nor the Underwriter takes any responsibility for the accuracy of such numbers.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

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

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

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, ID 27, or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside front cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

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

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE" and "APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY."

OTAY WATER DISTRICT

SAN DIEGO COUNTY, CALIFORNIA

BOARD OF DIRECTORS

Gary D. Croucher, *President - Division 3*
José Lopez, *Vice President - Division 4*
Jaime Bonilla, *Treasurer - Division 2*
Larry Breitfelder, *Division 1*
Mark Robak, *Division 5*

MANAGEMENT TEAM

Mark Watton, *General Manager*
German Alvarez, *Assistant General Manager Finance & Administration*
Manny Magaña, *Assistant General Manager Engineering & Operations*
Joseph R. Beachem, *Chief Financial Officer*
Rom Sarno, Jr., *Chief of Administrative Services*
Geoff Stevens, *Chief Information Officer*
Rod Posada, *Chief of Engineering*
Pedro Porras, *Chief of Water Operations*

PROFESSIONAL SERVICES

Bond Counsel
Garcia Calderón Ruíz, LLP
San Diego, California

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

General Counsel to the District
Garcia Calderón Ruíz, LLP
San Diego, California

Financial Advisor
Harrell & Company Advisors, LLC
Orange, California

Paying Agent
Union Bank, N.A.
Los Angeles, California

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OFFICIAL STATEMENT

$7,790,000*
OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
2009 GENERAL OBLIGATION REFUNDING BONDS
(San Diego County, California)

This Official Statement which includes the cover page and appendices (the "Official Statement") is provided by the District to furnish certain information concerning the Otay Water District Improvement District No. 27, 2009 General Obligation Refunding Bonds (the "Bonds"), in the aggregate principal amount of $7,790,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Bonds (see "BOND OWNERS' RISKS" herein.

The District

The Otay Water District was established in 1956. The District is a municipal water district organized and existing under and in accordance with the Municipal Water District Law of 1911, being Division 20 of the Water Code of the State of California, commencing with Section 71000, as amended (the "Law"). The District's boundaries currently encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the San Diego metropolitan area and running from the City of El Cajon south to the Mexican border, abutting the cities of El Cajon and La Mesa and encompassing most of the City of Chula Vista, certain unincorporated areas of San Diego County and a small portion of the City of San Diego. The District currently serves a population of approximately 195,000. See "APPENDIX B – OTAY WATER DISTRICT."

Improvement District No. 27

ID 27 was formed by the Board pursuant to Resolution No. 2836, adopted November 1, 1989. ID 27 consisted of approximately 4,427 acres within the eastern boundaries of the City of Chula Vista when it was formed. Since formation, approximately 6,396 acres of adjacent properties have been annexed into ID 27. See "SECURITY FOR THE BONDS - Improvement District No. 27" herein.

Authorization; Purpose

At the time of formation of ID 27, there were less than 12 registered voters living within the boundaries of proposed improvement district. At a special election held on October 31, 1989, the landowners within the boundaries of proposed improvement district voted unanimously to authorize the issuance of general obligation bonds for ID 27. The maximum amount of general obligation bonds authorized for ID 27 is $100,000,000 (the "Authorization").

* Preliminary, subject to change.

The Bonds are issued pursuant to the Law and the provisions of Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Bond Law"), and pursuant to Resolution No. 4147 adopted by the Board on October 7_, 2009 (the "Resolution"), and are being issued to refund the 1998 Bonds issued by the District on behalf of ID 27.

Security and Sources of Repayment

The Bonds are payable solely from *ad valorem* taxes to be levied within ID 27 pursuant to the California Constitution and other State law. The Board is empowered and is obligated to cause the levy of *ad valorem* taxes upon all property subject to taxation within ID 27, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Bonds, all as more fully described herein. See "SECURITY FOR THE BONDS" herein.

The District does not anticipate issuing additional bonds for ID 27.

Legal Matters

In the opinion of Garcia Calderón Ruíz, LLP, San Diego, California, Bond Counsel, based on an analysis of existing statutes, regulations, rulings and court decisions, and in reliance on certain certificates, opinions, and other things, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, although Bond Counsel observes that such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. See "LEGAL MATTERS – Tax Matters" and "APPENDIX A" herein.

Professional Services

Union Bank, N.A., Los Angeles, California, will serve as the paying agent, registrar, authentication and transfer agent for the Bonds and perform the functions required of it under the Resolution for the payment of the principal of and interest on the Bonds and all activities related to the redemption of the Bonds. Garcia Calderón Ruíz, LLP, San Diego, California, will act as Bond Counsel and Stradling Yocca Carlson & Rauth, a Professional Corporation Newport Beach, California, will act as Disclosure Counsel. Harrell & Company Advisors, LLC, the Financial Advisor, advised the District as to the financial structure and certain other financial matters relating to the Bonds. Fees payable to Bond Counsel, Disclosure Counsel and the Financial Advisor are contingent upon the sale and delivery of the Bonds.

The District's financial statements for the Fiscal Year ended June 30, 2008, attached hereto as "APPENDIX C" have been audited by Teaman, Ramirez & Smith, Inc., Certified Public Accountants, Riverside, California. The District has not requested nor did the District obtain permission from Teaman, Ramirez & Smith, Inc. to include the audited financial statements as an appendix to this Official Statement. Teaman, Ramirez & Smith, Inc., has not performed any subsequent events review or other procedures relative to these audited financial statements since the date of its letter. Complete copies of all past and current financial statements may be obtained from the District.

Certain unaudited financial information for the Fiscal Year ended June 30, 2009 is included in "APPENDIX B."

Offering and Delivery of the Bonds

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Garcia Calderón Ruíz, LLP, San Diego, California, as Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about November 4, 2009.

Information Concerning this Official Statement

This Official Statement speaks only as of its date. Certain if the information set forth herein has been obtained by the District with the assistance of the Financial Advisor from sources other than the District which are believed to be reliable and information is believed to be accurate and complete, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not guaranteed as to accuracy by the District and is not to be construed as a representation by the Financial Advisor, Disclosure Counsel or the Underwriter. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact.

Preliminary Official Statement Deemed Final. The information set forth herein is in a form deemed final, as of its date, by the District for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for the omission of certain information permitted to be omitted under the Rule). The information herein is subject to revision, amendment and completion in a Final Official Statement. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the District since the date hereof.

Availability of Legal Documents. The summaries and references contained herein with respect to the Resolution, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Resolution. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Bonds from the District at Otay Water District, 2554 Sweetwater Springs Blvd., Spring Valley, California 91978 (619) 670-2222 upon request and payment of a charge for copying, mailing and handling.

While the District maintains an internet website for various purposes, none of the information on that website is intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the District or ID 27.

THE BONDS

General Provisions

Repayment of the Bonds. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof. Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal of the Bonds is payable on September 1 in each of the years and in the amounts set forth on the inside front cover page hereof. The Bonds will be issued in the minimum denomination of $5,000 each or any integral multiple thereof.

Each Bond will be dated as of the Closing Date. Interest on any Bond shall be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication, (ii) the date of authentication is after the 15th day of the month immediately preceding an Interest Payment Date (each, a "Record Date") but on or prior to the immediately succeeding Interest Payment Date, in which event interest shall be payable from such Interest Payment Date, or (iii) the date of authentication is prior to the close of business on the first Record Date in which event interest shall be payable from the Closing Date; provided, however, that if at the time of authentication of any Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment. Interest on any Bond shall be paid to the person whose name shall appear in the Bond Register as the owner of such Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Paying Agent mailed by first class mail, postage prepaid, to the owner at his or her address as it appears on the Bond Register.

Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover page hereof, upon surrender at the office of Union Bank, N.A., as Paying Agent (the "Paying Agent") in Los Angeles, California, or such other location as the Paying Agent shall designate to the District in writing. Interest on the Bonds will be paid by check of the Paying Agent mailed by first class mail to the person entitled thereto (except for interest paid to an account in the United States of America by wire transfer as requested in writing no later than the applicable Record Date by owners of $1,000,000 or more in aggregate principal amount of Bonds).

Book-Entry-Only System. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. Beneficial ownership interests in the Bonds will be initially issued in book-entry-only form through DTC's book-entry-only system (the "Book-Entry-Only System") and the ownership of one fully registered Bond for each maturity of the Bonds will be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Owners or Registered Owners of the Bonds will mean Cede & Co. and will not mean the beneficial owners of the Bonds through DTC's Book-Entry-Only System. For a description of the method of payment of principal of and interest on the Bonds and matters pertaining to transfers and exchanges while the Book-Entry-Only System is in place, see "APPENDIX F – DTC AND THE BOOK-ENTRY-ONLY SYSTEM." The District and the Paying Agent shall treat the Registered Owner of the Bonds (which will be DTC so long as the Book-Entry-Only System is in effect) as the absolute owner of the Bonds for the purpose of payment of debt service, giving all notices of redemption and all other matters with respect to the Bonds.

No Optional Redemption

The Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Fund Redemption

The Bonds maturing September 1, ____ (the "Term Bonds"), are subject to mandatory redemption in part, by lot, commencing September 1, ____, and on each September 1 thereafter to maturity, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from mandatory sinking fund payments, as follows:

SCHEDULE OF MANDATORY SINKING FUND PAYMENTS
TERM BONDS MATURING SEPTEMBER 1, ____

September 1 Year	Principal Amount

Defeasance

The Bonds may be defeased prior to maturity in the following ways:

(i) by depositing, in trust, at or before maturity, lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity;

(ii) by depositing, in trust, at or before maturity, Federal Securities (not callable or prepayable by the issuer thereof prior to maturity) the principal of and interest on which when due, in the opinion of a certified public accountant delivered to the District, will provide money sufficient to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or redemption price and interest become due.

If the District shall pay all Bonds Outstanding and shall also pay or cause to be paid all other sums payable under the Resolution, then and in that case, at the election of the District (evidenced by a certificate of a District Representative, filed with the Paying Agent, signifying the intention of the District to discharge all such indebtedness and the Resolution), and notwithstanding that any Bonds shall not have been surrendered for payment, the Resolution and other assets held under the Resolution and all covenants, agreements, and other obligations of the District under the Resolution shall cease, terminate, become void and be completely discharged and satisfied except only the obligation of the District to pay the Owners of the Bonds the principal of and interest on the Bonds when due, but only out of the monies or securities deposited in trust.

THE FINANCING PLAN

The Refunding Program

On the Closing Date, a portion of the proceeds of the Bonds will be deposited in trust with Union Bank, N.A., as escrow bank (the "Escrow Agent"). The deposit with the Escrow Agent will be in an amount sufficient to pay the redemption price of the 1998 Bonds pursuant to an optional redemption of the 1998 Bonds on December 15, 2009. On the Closing Date, the District will irrevocably elect to redeem all of the 1998 Bonds at a redemption price equal to 100% of the principal amount to be redeemed, without premium, together with accrued interest thereon to December 15, 2009. The lien of the 1998 Bonds, including, without limitation, the pledge of the *ad valorem* taxes levied upon property in ID 27 to repay the 1998 Bonds, will be discharged, terminated and of no further force and effect upon the deposit with the Escrow Agent.

Estimated Sources and Uses of Funds

The District will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources of Funds

Principal Amount of Bonds
Original Issue Premium (Discount)
Total Available Bond Proceeds

Uses of Funds

Deposit to Escrow Fund [(1)]
Costs of Issuance [(2)]
Underwriter's Discount
Total Uses

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(1) In addition to proceeds of the Bonds, the District will deposit approximately $230,000 to the Escrow Fund.

(2) Costs of issuance include fees of Bond Counsel, the Financial Advisor, Disclosure Counsel, the Paying Agent, rating fees, costs of printing the Official Statement, and certain other costs of issuance of the Bonds.

Debt Service Schedule

The following is the scheduled debt service on the Bonds.

Payment Date	Principal	Interest	Semi-Annual Payment	Annual Payment
March 1, 2010				
September 1, 2010				
March 1, 2011				
September 1, 2011				
March 1, 2012				
September 1, 2012				
March 1, 2013				
September 1, 2013				
March 1, 2014				
September 1, 2014				
March 1, 2015				
September 1, 2015				
March 1, 2016				
September 1, 2016				
March 1, 2017				
September 1, 2017				
March 1, 2018				
September 1, 2018				
March 1, 2019				
September 1, 2019				
March 1, 2020				
September 1, 2020				
March 1, 2021				
September 1, 2021				
March 1, 2022				
September 1, 2022				
Total				

BOND INSURANCE

The Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Corp. (“Assured Guaranty” or the “Insurer”) will issue its financial guaranty insurance policy (the “Policy”) for the Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

The Insurer

Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty’s financial strength is rated “AAA” (negative outlook) by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “Aa2” (on review for possible downgrade) by Moody’s Investors Service, Inc. (“Moody’s”) and “AA-” (negative outlook) by Fitch, Inc. (“Fitch”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Recent Developments

Ratings

On July 1, 2009, S&P published a Research Update in which it affirmed its “AAA” counterparty credit and financial strength ratings on Assured Guaranty. At the same time, S&P revised its outlook on Assured Guaranty to negative from stable. Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

On May 20, 2009, Moody’s issued a press release stating that it had placed the “Aa2” insurance financial strength rating of Assured Guaranty on review for possible downgrade. Subsequently, in an announcement dated July 24, 2009 entitled “Moody’s Comments on Assured’s Announcement to Guarantee and Delist FSA Debt”, Moody’s announced that it expected to conclude its review by mid-August 2009. Reference is made to the press release and the announcement, copies of which are available at www.moodys.com, for the complete text of Moody’s comments.

In a press release dated October 12, 2009, Fitch announced that it had downgraded the insurer financial strength rating of Assured Guaranty to "AA-" (negative outlook) from "AA" (ratings watch negative). Reference is made to the press release, a copy of which is available at www.fitchratings.com, for the complete text of Fitch's comments.

There can be no assurance as to the outcome of Moody's review, or as to the further action that Fitch or S&P may take with respect to Assured Guaranty.

For more information regarding Assured Guaranty's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed by AGL with the Securities and Exchange Commission ("SEC") on February 26, 2009, AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, which was filed by AGL with the SEC on May 11, 2009, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, which was filed by AGL with the SEC on August 10, 2009.

Acquisition of FSA

On July 1, 2009, AGL acquired the financial guaranty operations of Financial Security Assurance Holdings Ltd. ("FSA"), the parent of financial guaranty insurance company Financial Security Assurance Inc. For more information regarding the acquisition by AGL of FSA, see Item 1.01 of the Current Report on Form 8-K filed by AGL with the SEC on July 8, 2009.

Capitalization of Assured Guaranty Corp.

As of June 30, 2009, Assured Guaranty had total admitted assets of $1,950,949,811 (unaudited), total liabilities of $1,653,306,246 (unaudited), total surplus of $297,643,565 (unaudited) and total statutory capital (surplus plus contingency reserves) of $1,084,906,800 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- the Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2008 (which was filed by AGL with the SEC on February 26, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009 (which was filed by AGL with the SEC on May 11, 2009);
- the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 (which was filed by AGL with the SEC on August 10, 2009); and
- the Current Reports on Form 8-K filed by AGL with the SEC relating to the periods following the fiscal year ended December 31, 2008.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "BOND INSURANCE - The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 31 West 52nd Street, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at *http://www.sec.gov* and at AGL's web site at *http://www.assuredguaranty.com*, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading "BOND INSURANCE."

SECURITY FOR THE BONDS

General

The Bonds are general obligations of ID 27. The Board is empowered and obligated to annually cause the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of the principal and interest on the Bonds as such becomes due and payable, upon all property subject to taxation (except for certain classes of personal property).

Such taxes will be levied annually in addition to all other taxes during the period that the Bonds are outstanding in an amount sufficient to pay the principal of and interest on the Bonds when due. Such taxes, when collected, will be deposited into the Debt Service Fund (the "Debt Service Fund"), which fund is maintained by the District and is kept separate and distinct from all other District funds, and which are required by the Refunding Bond Law to be applied for the payment of principal of and interest on the Bonds when due.

The monies in the Debt Service Fund, to the extent necessary to pay the principal of and interest on the Bonds as the same become due and payable, shall be transferred by the District to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal and interest to its Participants (as defined in Appendix F) for subsequent disbursement to the Beneficial Owners of the Bonds. See "APPENDIX F – DTC AND THE BOOK-ENTRY-ONLY SYSTEM."

The amount of the annual *ad valorem* tax levied to repay the Bonds will be determined by the relationship between the assessed valuation of taxable property in ID 27 and the amount of debt service due on the Bonds in any year. Fluctuations in the annual debt service on the Bonds and the assessed value of taxable property in ID 27 may cause the annual tax rate to fluctuate. Economic and other factors beyond the District's control, such as economic recession, general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), relocation out of ID 27 or financial difficulties or bankruptcy by one or more major taxpayers or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood, wildfire or toxic contamination, could cause a reduction in the assessed value of taxable property within ID 27 and necessitate a corresponding increase in the annual tax rate.

Improvement District No. 27

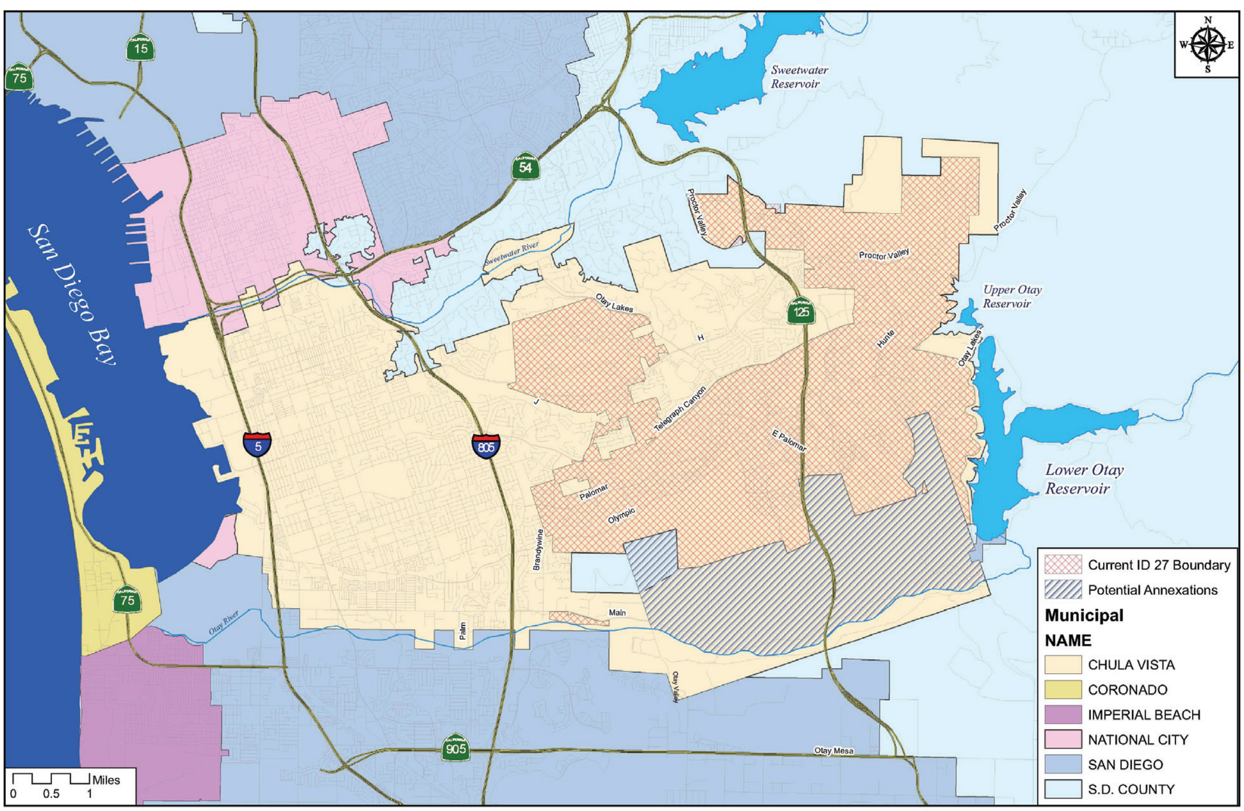
ID 27 was formed by the Board pursuant to Resolution No. 2836, adopted November 1, 1989, as an uninhabited improvement district (which is defined as an area having less than 12 resident voters at the time of formation). The landowners (voters) of the proposed uninhabited improvement district authorized the issuance of bonds for ID 27 in an amount not to exceed $100,000,000 for the purpose of the acquisition, construction and completion of water improvements and waterworks within ID 27. General obligation bonds in the amount of $11,500,000 were issued by ID 27 in 1992 (the "1992 Bonds") to construct a 30 million gallon reservoir as well as the replacement and construction of pipeline facilities associated with the reservoir. Proceeds from the sale of the 1998 Bonds were used for refinancing the 1992 Bonds.

ID 27 consisted of approximately 4,427 acres within the eastern boundaries of the City of Chula Vista when it was created. Since its formation, approximately 6,396 acres of surrounding properties have been annexed into ID 27. Such annexed property is served by the facilities constructed with the proceeds of the 1992 Bonds. Additional surrounding property served by these facilities may be annexed into ID 27 in the future. All annexed property is also subject to the *ad valorem* tax levy securing the Bonds.

The District estimates that remaining vacant land surrounding ID 27 that could possibly be annexed to ID 27 in the future totals approximately 4,130 acres. The District expects that some, but not all, of this acreage will be annexed to ID 27 prior to the maturity of the Bonds.

A map of the current boundaries of ID 27 is show below. There are currently over 26,000 parcels in ID 27. The map also indicates the maximum boundary for additional property that may be annexed into ID 27 since such property would be served by the facilities constructed with the proceeds of the 1992 Bonds.

OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
BOUNDARY MAP



Ad Valorem Property Taxes

Property taxes for properties situated in ID 27 are assessed and collected by the County of San Diego (the "County"). Taxes arising from the general 1% levy are apportioned among local taxing agencies on the basis of a formula established by State law. Taxes relating to voter-approved indebtedness, such as the Bonds, are allocated to the relevant taxing agency.

The County is permitted under State law to pass on costs for certain services provided to local government agencies including the collection of property taxes. The County imposed a fee on ID 27 of approximately $1,100 for tax collection services provided in Fiscal Year 2008/09.

Taxable Property and Assessed Valuation

All property is assessed using full cash value as defined by Article XIIIA of the State Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATION ON TAXES AND EXPENDITURES - Article XIIIA." State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals and charitable institutions. State law also allows exemptions from *ad valorem* property taxation at $7,000 of full value of owner-occupied dwellings and 100% of business inventories. Revenue losses to ID 27 from the homeowner's exemption are replaced by the State.

Future assessed valuation growth allowed under Article XIIIA (for new construction, certain changes of ownership and 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability to such entities of revenue from growth in tax bases may be affected by the establishment of redevelopment project areas which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

Over the last 12 months, the severe economic recession reverberated through the residential housing market in the City of Chula Vista. Between 2008/09 and 2009/10, the assessed valuation of property city-wide declined 10.4%, and declined by 15.6% in ID 27. The County Assessor reports that the County reduced the value of 225,000 properties throughout the County in 2009, with an average reduction of $112,000 for a single family home. Foreclosure rates have also increased significantly in the City of Chula Vista in the last 24 months. The District has no information available to it regarding how many properties in ID 27 are currently subject to foreclosure and the impact that foreclosures will have on the assessed value of property in ID 27 in future years. The District cannot guarantee that the market values and assessed values of property in ID 27 will not decline further.

Set forth in Table No. 1 are assessed valuations for secured and unsecured property within ID 27 since Fiscal Year 1999/00.

TABLE NO. 1
OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY
(in thousands)

Fiscal Year	Total Secured	Unsecured	Total
1999/00	$ 1,565,459	$10,721	$ 1,576,180
2000/01	2,069,731	17,204	2,086,935
2001/02	2,853,070	18,627	2,871,697
2002/03	3,864,066	28,976	3,893,042
2003/04	5,047,625	26,000	5,073,625
2004/05	6,454,910	30,975	6,485,885
2005/06	8,579,577	37,711	8,617,288
2006/07	10,348,663	41,201	10,389,864
2007/08	12,518,644	74,516	12,593,160
2008/09	12,326,016	86,916	12,412,932
2009/10	10,378,405	98,137	10,476,542

Source: San Diego County Auditor-Controller.

Tax Rates

Table No. 2 summarizes the total *ad valorem* tax rate levied per $100 of assessed value by all taxing agencies in a typical tax rate area within ID 27 for the last five years. The *ad valorem* tax rate does not reflect special taxes or other assessments that may be levied with respect to certain properties within ID 27 (see "SECURITY FOR THE BONDS – Direct and Overlapping Debt" and "BOND OWNERS' RISKS – Factors Affecting Property Tax Security for the Bonds - Debt Burden"). The District currently has approximately $1.1 million in excess ID 27 tax reserves. These were generated from supplemental assessments in prior years, or from larger than anticipated increases in assessed value after the tax rates were established for a particular year. The District set the tax rate for 2009/10 assuming that it would draw approximately $250,000 from these reserves to pay debt service during the current Bond year. In addition, the District will apply $230,000 of these funds to the refinancing of the 1998 Bonds. The District intends to maintain the balance as a reserve in order to maintain a stable tax rate and to offset expected delinquencies, to the extent possible, and as long as funds are available for such purpose.

TABLE NO. 2
TYPICAL AD VALOREM TAX RATE (TRA01265)
FOR PROPERTY LOCATED IN
IMPROVEMENT DISTRICT NO. 27

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
General	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000	$1.00000
Chula Vista Elementary School	0.02811	0.02738	0.02662	0.02029	0.01762	0.02507
Sweetwater Union High School	0.01818	0.02252	0.02016	0.04711	0.04621	0.05580
Southwestern Community College	0.01301	0.01505	0.01405	0.01253	0.01320	0.03442
Otay Water District ID 27	0.01200	0.01000	0.00700	0.00600	0.00500	0.00500
MWD	0.00580	0.00520	0.00470	0.00450	0.00430	0.00430
	$1.07710	$1.08015	$1.07253	$1.09043	$1.08633	$1.12459

Source: San Diego County Auditor-Controller.

Tax Levies, Collections and Delinquencies

Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in ID 27 as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of l½% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of l½% per month begins to accrue on November 1 of the Fiscal Year. The County has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The following is a five year history of the secured tax levy and the collected and uncollected taxes for ID 27. As of September 1, 2009, the District had $1,180,806 of excess ID 27 tax reserves. The District anticipates that it will draw approximately $250,000 from these reserves in 2009/10, which was incorporated into the tax rate set for 2009/10 (see "Tax Rates" above). In addition, the District will apply $230,000 of these funds to the refinancing of the 1998 Bonds. The District intends to maintain the balance as a reserve in order to maintain a stable tax rate and to offset expected delinquencies, to the extent possible, and as long as funds are available for such purpose.

TABLE NO. 3
IMPROVEMENT DISTRICT NO. 27
PROPERTY TAX COLLECTIONS AND DELINQUENCIES
AS OF JULY 2009 [1]

	2004/05	2005/06	2006/07	2007/08	2008/09
Total Levy (Opening Roll) Including Prior Year Receivables	$ 851,595	$ 953,206	$ 865,654	$ 915,299	$ 820,851
Prior Year Taxes Receivable	(87,332)	(109,547)	(90,112)	(142,612)	(121,412)
Current Year Tax Levy	$ 764,262	$ 843,659	$ 775,542	$ 772,686	$ 699,439
Remitted to the District, Including Supplemental Taxes:					
Secured Taxes	$ 914,187	$ 979,476	$ 744,859	$ 762,457	$ 550,399
State Secured Utility Taxes	53,579	66,412	75,097	98,611	82,560
Unsecured Taxes	7,958	8,175	4,559	5,547	2,261
	$ 975,724	$ 1,054,063	$ 824,515	$ 866,615	$ 635,220
Current Year Unpaid Taxes (Supplemental Taxes)	$ (211,462)	$ (210,404)	$ (48,974)	$ (93,929)	$ 64,219
Current Collections as a % of Current Year Tax Levy	127.7%	124.9%	106.3%	112.2%	90.8%
Prior Year Delinquent Collections	$ 17,499	$ 25,618	$ 37,180	$ 47,855	$ 110,722
Interest	1,261	2,309	2,299	2,698	1,233
Total Collections	$ 994,484	$1,081,990	$ 863,995	$ 917,168	$ 747,175
Total Collections as a % of Current Year Levy	130%	128%	111%	119%	107%

Source: Otay Water District.

[1] Foreclosure rates have increased significantly in the City of Chula Vista in the last 24 months. It is not possible to determine how many properties in ID 27 are currently subject to foreclosure. The foreclosure process takes a certain period of time and is likely to affect the timely payment of property taxes for those properties in foreclosure. Increased delinquency rates could have an adverse effect on the District's ability to make timely payments of principal of and interest on the Bonds if they exceed the amount of excess ID 27 reserves, estimated to be $930,000 as of September 1, 2010. Moreover, if mortgage loan defaults increase, bankruptcy filings by homeowners are also likely to increase. Bankruptcy filings by homeowners with delinquent property taxes would delay the commencement and completion of foreclosure proceedings to collect delinquent property taxes.

Largest Taxpayers

The principal taxpayers in ID 27 based on the 2008/09 tax roll and 2009/10 tax roll are as shown in Table Nos. 4 and 5.

TABLE NO. 4
IMPROVEMENT DISTRICT NO. 27
2008/09 LARGEST TAXPAYERS

	Property Owner	Land Use	Assessed Valuation	% of Total (1)
1.	Village II of Otay LP	Vacant Residential	$265,673,160	2.16%
2.	GGP-Otay Ranch LP	Shopping Center	183,317,833	1.49
3.	Shea Homes LP	Residential Development	134,552,652	1.09
4.	Regulo Place Apartments Investors LLC	Apartments	113,980,960	0.92
5.	EQR-Teresina LP	Apartments	89,394,657	0.73
6.	EQR-Missions at Sunbow LLC	Apartments	88,805,655	0.72
7.	Rancho Mesa LP	Vacant Residential	85,503,816	0.69
8.	Brookfield Otay Ranch LLC	Vacant Residential	64,258,907	0.52
9.	Camden USA Inc.	Apartments	61,550,299	0.50
10.	BRE Properties Inc.	Apartments	48,514,000	0.39
11.	Otay Ranch Twenty-Two LLC	Vacant Residential	37,880,670	0.31
12.	Eastlake Design District LLC	Commercial	35,141,018	0.29
13.	Otay Ranch Fourteen LLC	Vacant Residential	34,258,000	0.28
14.	Otay Ranch Village II PC-13 LLC	Vacant Residential	33,840,818	0.27
15.	Otay Ranch II Sun 12 LLC	Vacant Residential	32,909,526	0.27
16.	Winding Walk Residential LLC	Vacant Residential	32,640,000	0.26
17.	Otay Ranch Twenty-One LLC	Vacant Residential	31,153,509	0.25
18.	Montecito Crossings LLC	Condominiums	29,622,925	0.24
19.	GMAC Model Home Finance LLC	Residential Development	29,105,140	0.24
20.	Sevilla Apartments LP	Apartments	28,808,559	0.23
			$1,460,912,104	11.85%

(1) 2008/09 Local Secured Assessed Valuation: $12,326,015,751.

Source: California Municipal Statistics, Inc.

TABLE NO. 5
IMPROVEMENT DISTRICT NO. 27
2009/10 LARGEST TAXPAYERS

	Property Owner	Land Use	Assessed Valuation	% of Total (a)
1.	Village II of Otay (b)	Vacant Residential	$199,000,000	1.92%
2.	GGP-Otay Ranch LP	Shopping Center	175,996,663	1.70
3.	Regulo Place Apartments Investors LLC	Apartments	116,184,212	1.12
4.	EQR-Missions at Sunbow LLC	Apartments	90,550,330	0.87
5.	Shea Homes LP (c)	Residential Development	88,951,516	0.86
6.	EQR-Teresina LP	Apartments	72,946,040	0.70
7.	Rancho Mesa LP (d)	Vacant Residential	64,100,000	0.62
8.	Camden USA Inc.	Apartments	62,753,090	0.60
9.	BRE Properties Inc.	Apartments	49,603,482	0.48
10.	Brookfield Otay LLC	Vacant Residential	48,060,113	0.46
11.	Otay Ranch Fourteen LLC (e)	Vacant Residential	37,988,660	0.37
12.	Eastlake Design District LLC	Commercial	36,071,833	0.35
13.	Sevilla Apartments LP (f)	Apartments	29,306,718	0.28
14.	PR II Windstar Pointe Master LLC	Commercial	28,819,080	0.28
15.	Otay Ranch Twenty-Two LLC (g)	Vacant Residential	28,400,000	0.27
16.	Windingwalk Marketplace LLC	Shopping Center	26,789,260	0.26
17.	Otay Ranch Village II PC-13 LLC	Vacant Residential	25,300,000	0.24
18.	Winding Walk Residential LLC	Vacant Residential	25,209,844	0.24
19.	Otay Ranch II Sun 12 LLC	Vacant Residential	24,600,000	0.24
20.	Otay Ranch Twenty-One LLC (h)	Vacant Residential	23,300,000	0.22
			$1,253,930,841	12.08%

(a) 2009/10 Local Secured Assessed Valuation: $10,378,404,507.

(b) As of September 8, 2009, this property owner is delinquent in the payment of property taxes on certain parcels due for 2008/09. ID 27's share of such delinquent taxes is $8,972.

(c) Consists of vacant residential lots and partially or fully developed homes.

(d) As of September 8, 2009, this property owner is delinquent in the payment of a portion of property taxes due for 2008/09. ID 27's share of such delinquent taxes is $2,899.

(e) As of September 8, 2009, this property owner is delinquent in the payment of property taxes due for 2008/09. ID 27's share of such delinquent taxes is $1,713.

(f) As of September 8, 2009, this property owner is delinquent in the payment of property taxes due for 2008/09. ID 27's share of such delinquent taxes is $1,440.

(g) As of September 8, 2009, this property owner is delinquent in the payment of property taxes due for 2008/09. ID 27's share of such delinquent taxes is $1,894.

(h) As of September 8, 2009, this property owner is delinquent in the payment of property taxes due for 2008/09. ID 27's share of such delinquent taxes is $1,558.

Source: California Municipal Statistics, Inc and Harrell & Company Advisors, LLC.

Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc., as of September 1, 2009. The Debt Report is included for general information purposes only. The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations are not payable from District's General Fund nor are they necessarily obligations secured by property within the District or ID 27. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

TABLE NO. 6
OTAY WATER DISTRICT
IMPROVEMENT DISTRICT NO. 27
DIRECT AND OVERLAPPING DEBT

2009/10 Assessed Valuation: $10,476,542,393

2008/09 Adjusted Assessed Valuation: $12,393,058,235

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable (1)	Debt 9/1/09	
Metropolitan Water District	0.672%	$ 1,971,816	
Otay Municipal Water District, I.D. No. 27	**100.000**	**7,960,000**	(2)
Southwestern Community College District	29.869	24,480,231	
Sweetwater Union High School District	34.964	120,174,560	
Sweetwater Union High School District Community Facilities Districts (Estimate)	68.841 - 100.000	148,619,620	
Chula Vista City School District	46.096	36,153,093	
Chula Vista City School District Community Facilities Districts (Estimate)	53.571	3,444,615	
City of Chula Vista Community Facilities Districts (Estimate)	24.412 - 100.000	176,397,103	
City of Chula Vista 1915 Act Bonds	84.459 - 100.000	24,269,471	
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$543,470,509	

(1) Based on 2008/09 ratios.

(2) Excludes general obligation bonds to be sold.

(Continued on next page)

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OVERLAPPING GENERAL FUND DEBT:	% Applicable (1)	Debt 9/1/09	
San Diego County General Fund Obligations	3.469%	$ 15,797,999	
San Diego County Pension Obligations	3.469	33,077,426	
San Diego County Superintendent of Schools Obligations	3.469	564,320	
Southwestern Community College District General Fund Obligations	29.869	507,773	
Sweetwater Union High School District Certificates of Participation	34.964	4,478,888	
Chula Vista City School District Certificates of Participation	46.096	58,263,039	
City of Chula Vista Certificates of Participation	52.387	66,678,174	
City of Chula Vista Pension Obligations	52.387	2,608,873	
Otay Municipal Water District Certificates of Participation	46.797	28,962,663	
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		$210,939,155	
Less: Otay Municipal Water District Certificates of Participation		28,962,663	
Sweetwater Union High School District QZABs supported by investment fund		1,748,220	
TOTAL NET OVERLAPPING GENERAL FUND DEBT		$180,228,272	
GROSS COMBINED TOTAL DEBT		$754,409,664	(2)(3)
NET COMBINED TOTAL DEBT		$723,698,781	(2)(3)

(1) Based on 2008/09 ratios.

(2) Excludes general obligation bonds to be sold.

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

Ratios to 2009/10 Assessed Valuation:

Direct Debt ($7,960,000).. 0.08%

Total Direct and Overlapping Tax and Assessment Debt....... 5.19%

Ratios to 2008/09 Adjusted Assessed Valuation:

Gross Combined Total Debt 6.09%

Net Combined Total Debt... 5.84%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

Source: California Municipal Statistics, Inc.

BOND OWNERS' RISKS

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

Factors Affecting Property Tax Security for the Bonds

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property in ID 27 and the scheduled debt service on the Bonds in each year, less any other lawfully available funds applied by the District for repayment of the Bonds. Fluctuations in the annual debt service on the Bonds, the assessed value of taxable property in ID 27, and the availability of such other funds in any year, may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by ID 27 of additional authorized bonds payable from *ad valorem* property taxes may cause the overall property tax rate to increase. The District currently has no plans to issue additional general obligation debt payable from *ad valorem* property taxes in ID 27.

The principal factors that may affect the District's ability to levy and collect sufficient taxes to pay scheduled debt service on the Bonds each year are discussed in detail in "SECURITY FOR THE BONDS - General."

Total Assessed Value of Taxable Property in the District: The lower the assessed value of taxable property in ID 27, the greater the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. Total assessed valuation of taxable property in the District for Fiscal Year 2009/10 is approximately $10.5 billion. See "SECURITY FOR THE BONDS – Taxable Property and Assessed Valuation" and accompanying discussion of assessed valuation.

Natural and economic forces can affect the assessed value of taxable property in ID 27. The District is located in a seismically active region, and damage from an earthquake in or near the District could cause moderate to extensive or total damage to taxable property. See "Earthquake, Fire and Other Risks" below. Other natural or manmade disasters, such as flood, fire, toxic dumping or acts of terrorism, could also cause a reduction in the assessed value of taxable property within ID 27.

Economic and market forces, such as the downturn in the national economy and the San Diego area economy generally, can also affect assessed values, particularly as these forces reverberate in the residential housing and commercial property markets, as has occurred in the San Diego area. San Diego and Chula Vista, like the rest of the State and nation, is in a severe economic recession, marked by falling home prices, growing job losses, reduced investment values, limited credit availability, and reduced consumer spending and business investment, among other factors. Between 2008/09 and 2009/10, the assessed valuation of property city-wide in the City of Chula Vista declined 10.4%, and declined by 15.6% in ID 27. The County Assessor reports that the County reduced the value of 225,000 properties throughout the County in 2009, with an average reduction of $112,000 for a single family home. The District cannot guarantee that market values of property in ID 27 will not decline further. For a discussion of the District's economy, see "APPENDIX D – ECONOMIC PROFILE FOR COUNTY OF SAN DIEGO AND CITY OF CHULA VISTA." In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Concentration of Taxable Property Ownership: The more property (by assessed value) owned by any single taxpayer, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. For Fiscal Year 2009/10, no single taxpayer owns more than 1.92% of the total taxable property in ID 27. See "SECURITY FOR THE BONDS – Largest Taxpayers."

Property Tax Rates: One factor impacting the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The total tax rate per $100 of assessed value (including the basic countywide 1% rate required by statute, but excluding special taxes and assessments) is shown for each of the last five years under "SECURITY FOR THE BONDS – Tax Rates."

Debt Burden: Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. Some of the property in ID 27 is also included within the boundaries of various assessment districts and community facilities districts established by either the City of Chula Vista, the Sweetwater Union High School District or the Chula Vista Elementary School District. The assessment districts and community facilities districts were primarily established to fund infrastructure and schools supporting development in the area. These special assessments can total over $2,000 per year for a single family home and are added to the homeowner's property tax bill. When added to the *ad valorem* tax, the total effective property tax burden for some homes in ID 27, based on the 2008/09 assessed value, was approximately 1.6% of its total value. If such home values were reduced by the County Assessor in 2009/10 by an average of 15.6%, the effective tax rate on the same home in 2009/10 would be approximately 1.7% of its total value. Further, the Sweetwater Union High School District has authorized by unissued general obligation bonds, that, when issued in the future, will add to the *ad valorem* property tax rate. Other overlapping taxing agencies may also have authorized but unissued general obligation bonds, special tax bonds or assessment bonds, or may authorize additional bonds in the future which if issued would also increase the effective overall tax rate for properties within ID 27.

Earthquake, Fire and Other Risks: Considerable damage may occur in ID 27 in the event of a significant earthquake or other calamity. Natural and man-made disasters and hazards, including, without limitation, earthquakes, fires, floods, mudslides and other calamities, may have the effect of reducing aggregate assessed valuations within the boundaries of the ID 27. ID 27 is located within the boundaries of the City of Chula Vista. According to the Public Safety Element of the City of Chula Vista's General Plan, the City is located in a seismically active region and could be impacted by a major earthquake originating from the numerous faults in the area. The City of Chula Vista is traversed by two potentially active faults, the Sweetwater Fault and La Nacion Fault and three inferred faults, the Otay River Fault, the Telegraph Canyon Fault and the San Diego Bay-Tijuana Fault. Seismic hazards encompass potential surface rupture, ground shaking, liquefaction and landslides.

A second hazard of primary concern is wildfire. A substantial portion of the residential area within the ID 27 is identified in the Public Safety Element of the City of Chula Vista's General Plan as being in an area where there is high or extreme danger of wildfire during dry months and periods of prolonged drought. Within the past 3 years, several residences were lost in an area adjacent to, but not in, ID 27 due to wildfires.

The City of Chula Vista has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide and fire risk and is required to comply with FEMA requirements for disaster relief funding.

Limitations on Remedies

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Additionally, there is no provision in the Resolution for acceleration of the Bonds in the event of default.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Resolution, to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Limited Secondary Market

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain annual financial and operating information, there can be no assurance that such information will be available to Bond Owners on a timely basis. See "CONCLUDING INFORMATION - Continuing Disclosure" below. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information based on the relative nonparticipation of the property owners in the issuance of the Bonds or the provision of continuing disclosure or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption

As discussed in the section herein entitled "LEGAL MATTERS - Tax Matters," interest on the Bonds could become includable in gross income for purposes of federal income taxation, retroactive to the date of issuance, as a result of acts or omissions of the District subsequent to issuance in violation of the District's covenants applicable to the Bonds. Should interest become includable in gross income, the Bonds are not subject to redemption by reason thereof and may remain outstanding.

CONSTITUTIONAL AND STATUTORY LIMITATION ON TAXES AND EXPENDITURES

Principal and interest on the Bonds are payable from the proceeds of an ad valorem tax levied by the County Board of Supervisors on behalf of the District for the payment thereof. See "SECURITY FOR THE BONDS" herein. Articles XIIIA, XIIIB, XIIIC and XIIID of the Constitution, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and to spend such tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Bonds. The tax levied by the District for payment of the Bonds was approved by ID 27 voters in compliance with Article XIIIA and all applicable laws.

Article XIIIA

Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other *ad valorem* property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed 2%. Article XIIIA has subsequently been amended to permit reduction of the 'full cash value' base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the 'full cash value' base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances.

The foregoing limitation does not apply to *ad valorem* taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition, such as the Bonds.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms "purchase" and "change of ownership," for purposes of determining full cash value of property under Article XIIIA, to not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first $1,000,000 of other property between parents and children. Proposition 60 amends Article XIIIA to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same County, to transfer the old residence's assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to the reappraisal of assessed value. Proposition 193 amended Article XIIIA so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first $1,000,000 of other property without a re-appraisal of assessed value.

<u>County of Orange v. Orange County Assessment Appeals Board No. 3</u>. In a ruling issued on December 27, 2001, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, Case No. 00CC03385, the Orange County Superior Court held that the Orange County assessor violated the 2% annual inflation adjustment provision of Article XIIIA when the assessor tried to "recapture" the taxable value of a single family residential property by increasing its assessed value by approximately 4% in a single year. The assessor had not increased the assessed value of the property during a year in which the market value of the property was determined by the assessor to have declined below its taxable value pursuant to Article XIIIA. In the following year, the assessor established the taxable value of the property by determining

that its then-current market value was greater than if the 2% annual inflation adjustment had been applied in the previous year. The assessor enrolled the property at a taxable value that recaptured the foregone 2% inflation adjustment from the previous year, resulting in a one-year increase of approximately 4%. The State Board of Equalization has approved this methodology for increasing assessed value in similar circumstances.

The case had been certified as a class action with all affected Orange County residents as class members. In 2002, two local courts (Los Angeles and San Diego) ruled differently on the "recapture" issue. Therefore the issues of uniformity and equal protection for each taxpayer statewide must be addressed. When local courts differ, the subject matter is often subject to a uniformity review. On June 12, 2003, the Orange County Assessor and the Orange County Tax Collector, in conjunction with Orange County, filed a notice to appeal the Superior Court ruling to State Court of Appeal, Fourth District. The Appellate Court heard oral arguments in the case on January 7, 2004, and issued its opinion on March 26, 2004, reversing the holding of the Orange County Superior Court, thus upholding the method of recapture used by Orange County. The Plaintiffs filed an appeal with the California State Supreme Court and on July 21, 2004, the California State Supreme Court by a 5-2 vote decided not to hear an appeal, ending this litigation.

Article XIIIB

On October 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIIIB to the California Constitution. The principal thrust of Article XIIIB is to limit the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The "base year" for establishing such appropriations limit is the 1978/79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Appropriations subject to Article XIIIB include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, certain State subventions, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of State and local appropriations limits. Proposition 111 made several changes to Article XIIIB. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") for the preceding year. Previously, the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the Fiscal Year was recomputed by adjusting the 1986/87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded appropriations for "qualified capital outlay for fiscal 1990/91 as defined by the legislature" from proceeds of taxes.

Proposition 46 and Proposition 39

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIIIA. Under this amendment to Article XIIIA, local governments and school and community college districts may increase the property tax rate above 1% for the period necessary to retire new, general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property. In 2000, Proposition 39 was approved for California voters, lowering the threshold for passage of general obligation bonds for local education facilities from two-thirds to 55% subject to certain constitutional and statutory requirements.

Proposition 218

On November 5, 1996, California voters approved Proposition 218 - Voter Approval for Local Government Taxes - Limitation on Fees, Assessments, and Charges - Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including water districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Article XIIIC also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the *ad valorem* property tax imposed pursuant to Article XIII and Article XIIIA of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIIIC. Article XIIIC then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions is to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairments of contracts.

Article XIIID conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIIID defines "fee" or "charge" to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIIID is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

The District has complied with the provisions of Article XIIID in setting its water and sewer rates and charges and does not currently anticipate that the provisions of Article XIIID will have a material adverse impact on its financial condition.

Future Initiatives and Legislation

Articles XIIIA, XIIIB and Proposition 218 were adopted as measures that qualified for the ballot pursuant to California's Constitutional initiative process and the State Legislature in the past has enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time other initiative measures or legislative measures could be adopted, affecting the District's revenues and its ability to increase appropriations.

LEGAL MATTERS

Approval of Legal Proceedings

Garcia Calderón Ruíz, LLP, San Diego, California, as Bond Counsel, will render an opinion which states that the Bonds are valid and binding obligations of ID 27 of the District and are payable from *ad valorem* property taxes which the Board of Supervisors of the County without limitation as to rate or amount. The legal opinion of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity.

The District has no knowledge of any fact or other information which would indicate that the Bonds are not so enforceable against the District or ID 27, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the District by its General Counsel, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. General Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement except as otherwise stated in their respective opinions to be delivered upon the issuance of the Bonds and such opinions are not addressed to and may not be relied upon by purchasers of the Bonds. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Tax Matters

In the opinion of Garcia Calderón Ruíz, LLP, San Diego, California, Bond Counsel, based on an analysis of existing statutes, regulations, rulings and court decisions, and in reliance on certain certificates, opinions, and other things, interest on the Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Bond Counsel is also of the opinion that interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, although Bond Counsel observes that such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix A.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at the maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount." The accrual of original issue discount, to the extent properly allocable to a Beneficial Owner, is treated as interest on the Bonds that is excludable from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of that maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to that maturity date on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of the Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment at maturity) of the Bonds. Beneficial Owners of Bonds sold with original issue discount should consult their own tax advisors with respect to the tax consequences of ownership of their Bonds, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium for Bonds, like the Premium Bonds, the interest on which is excludable from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond and, under Treasury Regulations, the amount of tax-exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Internal Revenue Code of 1986, as amended (the "Code") imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of interest on the Bonds.

Although Bond Counsel expects to render an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes and exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

In addition, no assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal or state income taxation, or otherwise prevent Beneficial Owners of the Bonds from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal or state tax legislation. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the Internal Revenue Service ("IRS"), including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds, or obligations that present similar tax issues, will not affect the market price or liquidity of the Bonds.

Qualified Tax Exempt Obligations

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. In connection with such designation, the District has covenanted that (i) the Bonds do not constitute private activity bonds as defined in Section 141 of the Code, and (ii) not more than $30,000,000 aggregate principal amount of obligations, the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income taxes (excluding, however, private activity bonds, as defined in Section 141 of the Code, other than qualified 50l(c)(3) bonds as defined in

Section 145 of the Code), including the Bonds, have been or shall be issued by or on behalf of the District, including all subordinate entities of the District, during the calendar year 2009.

Absence of Litigation

No litigation is pending or threatened concerning the validity of the Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. The District is not aware of any litigation pending or threatened that (i) questions the existence of ID 27, (ii) contests the ability of ID 27 to receive *ad valorem* taxes or to collect other revenues or (iii) contests the ability of ID 27 to issue and retire the Bonds.

CONCLUDING INFORMATION

Ratings on the Bonds

Standard & Poor's and Moody's are expected to assign their ratings of "AAA" and "Aa2," respectively, to the Bonds on the closing date, with the understanding that a bond insurance policy insuring payment when due of the principal of and interest on the Bonds will be issued on the closing date by Assured Guaranty Corp. In addition, Standard & Poor's and Moody's have assigned their underlying municipal bond ratings of "AA" and "A2," respectively, to the Bonds, notwithstanding the delivery of the bond insurance policy. Each rating reflects only the views of the applicable rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Some information provided to the rating agencies by the District may not appear in this Official Statement. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by any of such rating agencies, if in their respective judgments, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

Underwriting

___________________ (the "Underwriter") is offering the Bonds at the yields set forth on the inside cover page hereof. The initial reoffering yields may be changed from time to time and concessions from the reoffering yields may be allowed to dealers, banks and others. The Underwriter has purchased the Bonds at a price equal to $______________, which amount represents the principal amount of the Bonds ($_____________), less an original issue discount of $___________ less an Underwriter's discount of $______________. The Underwriter will pay certain of its expenses relating to the offering.

The Financial Advisor

The material contained in this Official Statement was prepared by the District with the assistance of the Financial Advisor, who advised the District as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein has been obtained from sources which are believed to be reliable, but such information is not guaranteed by the Financial Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Financial Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The District will covenant to provide annually certain financial information and operating data relating to the District by not later than nine months after the end of the District's Fiscal Year, each year commencing March 31, 2010 and to provide the audited General Purpose Financial Statements of the District for the Fiscal Year ending June 30, 2009 and for each subsequent Fiscal Year when they are available (together, the "Annual Report"), and to provide notices of the occurrence of certain other enumerated events if deemed by the District to be material. The Annual Report due March 31, 2010 shall consist solely of the Official Statement and the June 30, 2009 audited General Purpose Financial Statements of the District. The Annual Report and notices of material events can be accessed from the Electronic Municipal Market Access Website ("EMMA") operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are summarized in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE." Failure of the District to provide the required ongoing information may have a negative impact on the value of the Bonds in the secondary market.

The District has entered into three previous continuing disclosure undertakings with respect to the (i) 1998 Bonds, (ii) 2004 Certificates of Participation and (iii) 2007 Certificates of Participation to provide continuing disclosure pursuant to Rule 15c2-12. With respect to the undertaking for the 1998 Bonds, since 2004, the District filed its Comprehensive Annual Financial Report on a timely basis. However, the supplemental information required by the undertaking regarding the tax base for ID 27 was not timely filed. As of September 16, 2009 the District is current with all filing requirements.

Additional Information

The summaries and references contained herein with respect to the Resolution, the Continuing Disclosure Certificate, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute. Copies of theses documents are available for inspection during the period of initial offering on the Bonds at the offices of the Financial Advisor and may be obtained after delivery of the Bonds from the District through the Chief Financial Officer, Otay Water District, 2554 Sweetwater Springs Blvd., Spring Valley, California 91978.

References

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 and the purchasers or Owners of any of the Bonds.

Execution

The execution of this Official Statement has been duly authorized by the Otay Water District.

OTAY WATER DISTRICT

By: ____

Chief Financial Officer

APPENDIX A

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Board of Directors
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, California 91978

Members of the Board of Directors:

We have acted as bond counsel to the Otay Water District (the "District") in connection with the issuance of its $_________ Otay Water District Improvement District No. 27, 2009 General Obligation Refunding Bonds (San Diego County, California) (the "Bonds"). The Bonds are issued pursuant to the Municipal Water District Law of 1911, commencing with Section 71000 of the California Water Code and Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code. The issuance of the Bonds has been authorized and approved by Resolution No. 4147 and Resolution No. 4148 (collectively, the "Resolutions"), adopted by the Board of Directors of the District on October 7, 2009. The Bonds are being issued to refund the outstanding Otay Water District Improvement District No. 27 General Obligation Refunding Bonds, Series 1998 Bonds previously issued on June 24, 1998. All capitalized terms used herein and not otherwise defined shall have the respective meaning given to such terms in the Resolutions.

In our capacity as bond counsel to the District, we have reviewed the Resolutions; a tax certificate of the District, a certificate of the financial advisor of the District and a certificate of the original purchaser of the Bonds (the "Purchaser"), each dated the date hereof (collectively, the "Tax Certificate"); certificates of the District, the Purchaser and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the documents, 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. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Resolutions are subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California.

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 are valid and binding obligations of Improvement District No. 27 of the District.

2. The Resolutions have been duly and legally adopted by the Board of Directors of the District and constitute valid and binding obligations of the District.

3. The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation within the boundaries of Improvement District No. 27 (except certain personal property which is taxable at limited rates), for the payment of the Bonds and the interest thereon.

4. Interest on the Bonds is excludable from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from present State of California personal income taxes. Under the Code, interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations, although bond counsel observes that such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Other than as stated in paragraph 4 above, we express no opinion as to any other tax consequences arising with respect to the Bonds or related to the ownership or disposition thereof.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Respectfully submitted,

Garcia Calderón Ruíz, LLP

APPENDIX B
OTAY WATER DISTRICT

The information in this section concerning the operations of the District and the District's finances are provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the General Fund of the District. The Bonds are payable only from the revenues generated by an ad valorem tax levied by the County on behalf of the District on properties within ID 27 for the payment thereof. See "SECURITY FOR THE BONDS."

Organization, Purpose and Powers

The District was established in January 1956 and is a municipal water district organized and existing under and in accordance with the Municipal Water District Law of 1911, being Division 20 of the Water Code of the State of California, commencing with Section 71000, as amended (the "Law").

Most potable water delivered by the District is purchased from the San Diego County Water Authority ("SDCWA") who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California. A smaller amount of potable water is also purchased from the City of San Diego. In Fiscal Year 2007, the District began purchasing raw water from the SDCWA and entered into an agreement with the City of San Diego to treat the water to potable level before being introduced to the District's Water System. By taking raw water through SDCWA's system at a different connection, there is increased reliability of water supplied to the District. A 5.1-mile, 36" pipeline project currently under construction will, when complete, add another connection to the Helix Water District's system, where the District expects to establish an additional delivery point for treated water. Water delivered through the new pipeline will be stored in two recently constructed 10 million gallon reservoirs.

The District owns and operates a recycled water distribution network. Recycled water from the District's Ralph W. Chapman Water Recycling Facility ("RWCWRF") is used to irrigate golf courses, landscaping at schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista. The RWCWRF is cable of reclaiming wastewater at a rate of approximately 1.2 million gallons per day. The District is also in a partnership with the City of San Diego to beneficially reuse an additional six million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant (since Spring of 2007,) which required the District to construct over six miles of connecting pipeline, a pump station and a 12 million gallon reservoir. Using this new resource to meet recycled water demands on the Water System has resulted in the District being able to allocate approximately 3,000 acre-feet per year of potable water to other uses.

The District also owns and operates a wastewater collection and reclamation system, providing public sewer service to approximately 4,627 customers within the Jamacha drainage basin.

The Law authorizes the District to exercise the power of eminent domain, to levy and collect taxes, to fix, revise and collect rates or other charges for the delivery of water, use of facilities or property or provisions for service, to fix in each Fiscal Year a water standby or availability charge within the boundaries of the District to which water service is made available by the District. The District may also issue bonds, borrow money and incur indebtedness. For a discussion of current and potential limitations on the District's ability to maintain or increase taxes, fees and other charges, including such fees and other charges as may be limited by the terms of Proposition 218, see "CONSTITUTIONAL AND STATUTORY LIMITATION ON TAXES AND EXPENDITURES."

As authorized by Law, the District has established a number of special improvement districts within its service area for the purpose of providing certain water improvements for each such special improvement district and charging the costs of such improvements to each such special improvement district through certain fees, and in the case of ID 27, through *ad valorem* tax assessments, levied and collected on property located within the boundaries of each such special improvement district. The *ad valorem* taxes levied and collected with respect to ID 27 do not constitute revenues of either the District's water system or the District's wastewater system, and the general obligation bonds issued by the District on behalf of ID 27 constitute obligations of ID 27, not obligations of the District. In addition, the District provides water and sewer services to retail customers located within these special improvement districts and the charges for such services constitute revenues of the District's water and wastewater systems, respectively.

The District does not presently levy any taxes other than the taxes in respect of ID 27 for payment of the 1998 Bonds. However, as provided by California law, the District does receive its share of the county-wide one percent tax levied and collected by San Diego County, and the proceeds of such share are available, but not required to be used, to pay maintenance and operating costs of the District.

Board of Directors, Management and Employee Relations

The District is administered by a Board of Directors consisting of five members who are elected to four-year alternating terms by the voters residing within the District's boundaries. The District is divided into five divisions, with each Director representing a specific division within which he or she must reside. The current members of the Board and key administrative personnel are:

DIRECTORS

Gary D. Croucher, *President - Division 3*
José Lopez, *Vice President - Division 4*
Jaime Bonilla, *Treasurer - Division 2*
Larry Breitfelder, *Division 1*
Mark Robak, *Division 5*

MANAGEMENT TEAM

Mark Watton, *General Manager*
German Alvarez, *Assistant General Manager Finance & Administration*
Manny Magaña, *Assistant General Manager Engineering & Operations*
Joseph R. Beachem, *Chief Financial Officer*
Rom Sarno, Jr., *Chief of Administrative Services*
Geoff Stevens, *Chief Information Officer*
Rod Posada, *Chief of Engineering*
Pedro Porras, *Chief of Water Operations*

Employee Relations. The District currently has 166 budgeted full time equivalent positions. The OWD Employee Association (the "Union") represents 124 full-time and 1 part-time employees as a collective bargaining unit. The District has not experienced any strike or other labor actions. The current Memorandum of Understanding between the District and the Union covers a 6-year period, and expires June 30, 2013.

Defined Benefit Pension Plan. The District provides retirement benefits for its employees through a contractual agreement with the California Public Employees' Retirement System ("CalPERS"). Active members in the District's benefit pension plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the Fiscal Year ended June 30, 2009 was 19.369%, and a rate of 19.815% is projected by CalPERS for the current Fiscal Year 2009/10. The required contribution for Fiscal Year 2008/09 was determined as part of the June 30, 2007 actuarial valuation, pursuant to which the District had an unfunded actuarial accrued liability of approximately $11.4 million as of June 30, 2008. Due to significant investment losses, CalPERS will be significantly increasing contribution rates over the next several years. For the Fiscal Year ended June 30, 2009, the District's annual pension costs and actual contribution was $2,150,579, and, for Fiscal Year ending June 30, 2010, the District's annual pension cost and actual contribution is expected to be $2,240,538, a 4.18% increase. A decrease of 0.115% is expected for 2010/11 and a 1.5% increase is expected for 2011/12.

Other Benefits. In addition to the pension benefits described above, it is the District's practice and policy to provide certain life insurance and health care benefits ("Other Post Employment Benefits, or OPEB") for eligible retired employees, directors and eligible dependents. These benefits vary based on the hire date of the employee. As of the last actuarial projection, dated June 30, 2007, the District's Actuarial Accrued Liability for OPEB benefits was $11,408,000.

The District has chosen to fund this liability by investing funds with the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate is 7.7% of the annual covered payroll.

Based on the District's unaudited financial statements at June 30, 2009, the amount actually contributed to the CERBT and changes in the District's net OPEB obligation total $6.2 million. In addition, the District's Board has designated approximately $3.9 million of its reserves towards the remaining liabilities. In accordance with GASB Statement 45, and the requirements of the CERBT, the District will periodically update the actuarial projections and continue to fund the resulting ARC on an annual basis.

Insurance Programs

General Liability and Property Damage

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions and natural disasters. Beginning in July 2003, the District began participation in an insurance pool through Special Districts Risk Management Authority (SDRMA). Coverages through SDRMA are as follows: property coverage - $350 million/occurrence with replacement cost for scheduled property; $100 million for boiler and machinery; $200 million for workers' comp.; $500,000 for personal liability coverage for board members; $400,000 for employee dishonesty coverage; $750,000 for uninsured/underinsured motorists; and $10 million per occurrence for each of the following types of coverage, auto liability, public officials and employees errors, employment practices liability, employee benefits liability, and general liability.

Separate financial statements for SDRMA may be obtained at: Special District Risk Management Authority, 1112 I Street, Suite 300, Sacramento, California 95814.

Workers' Compensation

Through SDRMA, the District is insured up to $200 million Statutory Workers' Compensation and $5 million in Employer's Liability with a Zero Member Deductible. SDRMA currently has a pool of 328 agencies in the Workers Compensation Program.

Health insurance

The District maintains a self-insurance program covering all its employees, retirees, and other dependents. Health claims are processed and administered through a health insurance administrator and paid by the District upon presentation. The District has obtained a stop-loss insurance policy to cover individuals with claims exceeding $45,000. The District has estimated accrued claims to be $447,413 and $137,029 at June 30, 2007 and 2008, respectively.

Investment Policy

In accordance with State of California law, the District Board of Directors has approved an investment policy (the "Investment Policy") which complies with Sections 53601 and 53630 of the Government Code of the State of California providing legal authorization for the investment or deposit of funds of local agencies. All investments of the District conform to the restrictions of those laws. For additional information relating to the District's investments, see "APPENDIX C - DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2008," Note 2.

DISTRICT SERVICE AREA

The District's boundaries currently encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the San Diego metropolitan area and running from the City of El Cajon south to the Mexican border, abutting the cities of El Cajon and La Mesa and encompassing most of the City of Chula Vista and a small portion of the City of San Diego. The District currently serves a population of approximately 195,000.

While the District is currently providing water service to about 39 percent of its geographic service area, this percentage will continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve 277,000 people, creating an average daily demand of 56.3 million gallons per day (mgd).

For additional demographic and economic information relating to San Diego County, see "APPENDIX D ECONOMIC PROFILE FOR COUNTY OF SAN DIEGO AND CITY OF CHULA VISTA."

Water Supply

Service Area Water Supply - Potable. The District does not have a local source of ground or surface water, but purchases substantially all of its potable water from the SDCWA. Under a contractual arrangement with the SDCWA, the District also receives potable water from the Helix Water District's Levy Water Treatment Plant and, since Fiscal Year 2007, from the City of San Diego.

Service Area Water Supply - Recycled. The District produces approximately 1.2 million gallons a day of reclaimed water at the RWCWRF. The District has contracted with the City of San Diego to purchase at least six mgd of reclaimed water produced by the City of San Diego's South Bay Water Reclamation Plant and an additional 3.5 mgd if available. This contract with the City of San Diego has resulted in the District reducing its potable water use by approximately 3,000 acre-feet per year thereby increasing the availability of potable water for higher quality purposes.

SDCWA Water Supply. Currently, approximately 85% of the SDCWA's water supply is purchased from the Metropolitan Water District of Southern California ("MWD"). For the Fiscal Year ended June 30, 2009, the SDCWA supplied the District 35,557 acre-feet of potable water (quantities of water are expressed in terms of acre-feet which is the amount of water which will cover one acre to a depth of one foot and is equivalent to approximately 326,000 gallons and approximately the average annual water usage of two households).

MWD Water Supply. The SDCWA currently purchases all of its imported water from MWD and Imperial Irrigation District. SDCWA is MWD's largest member agency, purchasing up to 30 percent of MWD's supplies annually. MWD's principal sources of water consist of Colorado River water delivery contracts and deliveries from the State Water Project.

HISTORICAL FINANCIAL OPERATIONS

Operating Revenues

Water and sewer rates are established by the Board and are not subject to regulation by the California Public Utilities Commission or by any other local, state or federal agency. Water and sewer charges were ruled by the California Supreme Court to be considered fees or charges for purposes of Proposition 218. As a result, new or increased water and sewer rates are subject to majority protest proceedings and cannot exceed the cost of providing service. See "CONSTITUTIONAL AND STATUTORY LIMITATION ON TAXES AND EXPENDITURES."

Water and sewer rates were last approved at the May 21, 2009 Board meeting. Water rates increased an average of 19.9% for water customers effective September 1, 2009 and will increase 7.2% for sewer customers effective January 1, 2010. Much of the increase resulted from the passthrough of additional costs charged for potable water by SDCWA and MWD. The District's average water bill for a household using 15 HCF (hundred cubic feet) is approximately $64 per month, slightly less than the average charged by all water providers in San Diego County. The District's average sewer bill for a household using 15 HCF is approximately $39 per month, well below the average charged by all sewer providers in San Diego County.

The District has statutory authority to fix and impose upon customers one-time water and sewer connection fees. Meter charges range from $264 for a single family residence to $5,507 for a 10" meter.

The following table provides a summary of the District's gross revenues from water and sewer service and connection and other fees for the fiscal years ended June 30, 2005 through June 30, 2008, with estimated amounts for June 30, 2009.

Fiscal Year Ended June 30	Water	Wastewater	Connection and Other Fees	Total
2005	$39,348,056	$2,018,596	$1,969,263	$43,335,915
2006	43,755,610	2,331,094	1,774,384	47,861,088
2007	48,605,606	2,604,431	2,040,444	53,250,481
2008	50,808,825	2,386,285	2,519,735	55,714,845
2009 (1)	52,428,648	2,182,429	2,492,234	57,103,311

(1) Unaudtied.

Source: Otay Water District.

Non-Operating Revenues

Availability Fees. Under the law, the District may levy and collect an annual water standby charge (also referred to as an availability charge), as well as an annual sewage and wastewater standby or availability charge, on land within the boundaries of the District to which water and wastewater service, respectively, are made available by the District, whether or not the water or service is actually used. The District levies and collects annual standby availability charges. Current legislation provides that any availability charge in excess of $10 per acre shall be used only for the purpose of the improvement district for which it was assessed.

Standby charges are classified as assessments by the terms of Proposition 218. See "CONSTITUTIONAL AND STATUTORY LIMITATION ON TAXES AND EXPENDITURES."

Capacity Fees. The District charges customers to connect to the District's water and wastewater systems. Fees are determined by multiplying the demand factor for the meter size by the total of the District-wide capacity fee and applicable zone charge. Current capacity fees are approximately $5,442 for single family residential connections.

Annexation Fees. When service is requested outside the boundaries of an established improvement district of the District, the land to be serviced is annexed and an annexation fee is charged by the District. Current annexation fees are $1,603 for single family residential connections and are adjusted quarterly according to a cost of living index.

Taxes. As provided by California law, the District does receive its share of the county-wide one percent tax levied and collected by San Diego County. The District's share of property tax was $3.2 million in Fiscal Year 2007/08 and $3.4 million in Fiscal Year 2008/09. The District expects to see a reduction in property taxes in Fiscal Year 2009/10 resulting from reduced property values in its service area. In addition, for Fiscal Year 2009/10, the State of California has exercised its right to borrow a portion of the one percent *ad valorem* tax levy from local agencies throughout the State equal to 8% of each local agency's Fiscal Year 2008/09 levy. The State is required under the State Constitution to repay the amount borrowed, with interest, by June 2013. As a result, the District's one percent *ad valorem* property tax collection could be reduced by approximately $274,420 in Fiscal Year 2009/10.

Historical Operating Results

The following table summarizes the District's operating revenues, operating expenses and changes in net assets for the five Fiscal Years ended June 30, 2005 through 2009. The operating revenues, operating expenses and changes in Fiscal Years 2005 through 2008 are derived from the audited financial statements of the District, and the figures for the Fiscal Year ended June 30, 2009 are unaudited actual figures prepared by the District. The financial statements of the District for the year ended June 30, 2008 and the report thereon of Teaman, Ramirez & Smith, Inc., Certified Public Accountants, are included as Appendix C to this Official Statement.

OTAY WATER DISTRICT
HISTORICAL OPERATING RESULTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For Fiscal Year Ended June 30

	2005	2006	2007	2008	2009 [1]
OPERATING REVENUES					
Water Sales	$ 39,348,056	$ 43,755,610	$ 48,605,606	$ 50,808,825	$ 52,428,648
Wastewater Revenue	2,017,992	2,331,094	2,604,431	2,386,285	2,182,429
Connection and Other Fees	540,055	1,774,384	2,040,444	2,519,735	2,492,234
Total Operating Revenues	$ 41,906,103	$ 47,861,088	$ 53,250,481	$ 55,714,845	$ 57,103,311
OPERATING EXPENSES					
Cost of Water Sales	$ 29,655,869	$ 32,043,395	$ 33,994,841	$ 35,296,002	$ 37,252,482
Wastewater	2,521,861	1,899,957	1,508,672	2,009,876	1,890,804
Administrative and General	13,809,022	15,477,287	18,418,441	21,127,922	19,888,161
Depreciation	10,524,134	10,107,455	10,729,096	13,040,572	12,475,714
Total Operating Expenses	$ 56,510,886	$ 59,528,094	$ 64,651,050	$ 71,474,372	$ 71,507,161
Operating Income (Loss)	(14,604,783)	(11,667,006)	(11,400,569)	(15,759,527)	(14,403,850)
NON-OPERATING REVENUES (EXPENSES)					
Investment Income	$ 2,052,292	$ 3,188,645	$ 4,416,342	$ 4,538,791	$ 2,252,335
Taxes and Assessments	2,326,526	2,779,635	4,151,956	4,591,023	4,586,823
Availability Charges	556,590	609,099	715,664	744,722	625,065
Gain on Sale of Capital Assets	2,196,655	142,922	1,817	15,243	5,206
Miscellaneous Revenues	2,518,285	1,835,710	1,809,802	3,676,963	6,569,644
Donations	(35,894)	(75,000)	(80,000)	(80,541)	(95,270)
Interest Expense	(1,327,844)	(959,225)	(950,479)	(2,601,252)	(1,340,110)
Miscellaneous Expenses	(523,905)	(279,506)	(271,410)	(261,492)	(1,671,597)
Total Non-operating Revenues (Expenses)	7,762,705	7,242,280	9,793,692	10,623,457	10,932,096
Income (Loss) Before Contributions	(6,842,078)	(4,424,726)	(1,606,877)	(5,136,070)	(3,471,754)
Capital Contributions	34,969,305	15,401,580	26,563,075	14,941,962	6,989,208
Change in Net Assets	28,127,227	10,976,854	24,956,198	9,805,892	3,517,454
Total Net Assets, Beginning	$382,961,246	$411,088,473	$422,065,327	$447,021,525	$456,827,417
Total Net Assets, Ending	$411,088,473	$422,065,327	$447,021,525	$456,827,417	$460,344,871

[1] Unaudited actual figures for the District from July 1, 2008 through June 30, 2009.

APPENDIX C
DISTRICT AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2008

Otay Water District

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2008

Spring Valley, California

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

640-1 and 640-2 Reservoirs Project - October 2007

Prepared by the Finance Department

Spring Valley, California

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Introductory

...Dedicated to Community Service
2554 SWEETWATER SPRINGS BOULEVARD, SPRING VALLEY, CALIFORNIA 91978-2004
TELEPHONE: 670-2222, AREA CODE 619

October 24, 2008

Honorable Board of Directors
Otay Water District

I am pleased to present the Otay Water District's (the "District") Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2008.

This report was prepared by the District's Finance Department following guidelines set forth by the Government Accounting Standards Board (GASB) and generally accepted accounting principles (GAAP). Responsibility for both the accuracy of the data presented, and the completeness and fairness of the presentation, including all disclosures, rests with District management. We believe the data, as presented, is accurate in all material respects and that it is presented in a manner that provides a fair representation of the financial position and results of operation of the District. Included are all disclosures we believe necessary to enhance your understanding of the financial condition of the District. GAAP requires that management provide a narrative introduction, overview and analysis, to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A), which should be read in conjunction with this report. The District's MD&A can be found immediately following the Independent Auditors' Report.

The District's financial statements have been audited by Teaman, Ramirez and Smith Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the District's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

REPORTING ENTITY

The District is a publicly-owned water and sewer agency, authorized on January 27, 1956 as a California special district by the State Legislature, with an entitlement to import water under the provisions of the Municipal Water District Act of 1911. Its ordinances, policies, taxes, and rates for service are set by five Directors, elected by voters in their respective divisions, to serve staggered four-year terms on its Governing Board. The District is a "revenue neutral" public agency, meaning that each end-user pays only their fair share of the District's costs of water acquisitions and the construction, operation, and maintenance of the public facilities.

The General Manager reports directly to the Board of Directors, and through two Assistant General Managers and the District management, oversees day-to-day operations. One Assistant General Manager oversees the departments of Administrative Services, Finance, Information Technology and Strategic Planning, while the other oversees the Water Operations and Engineering departments. These and other lines of reporting are shown on the organization chart on page 9.

Over the last 52 years, the District has grown from a handful of customers and two employees to become an organization operating a network with more than 903 miles of pipelines, 43 operational reservoirs, a sewer treatment plant, and one of the largest recycled water distribution networks in San Diego County. The character of the service area has also changed from predominantly dry-land farming and cattle ranching, to businesses, high-tech industries, and large master-planned communities.

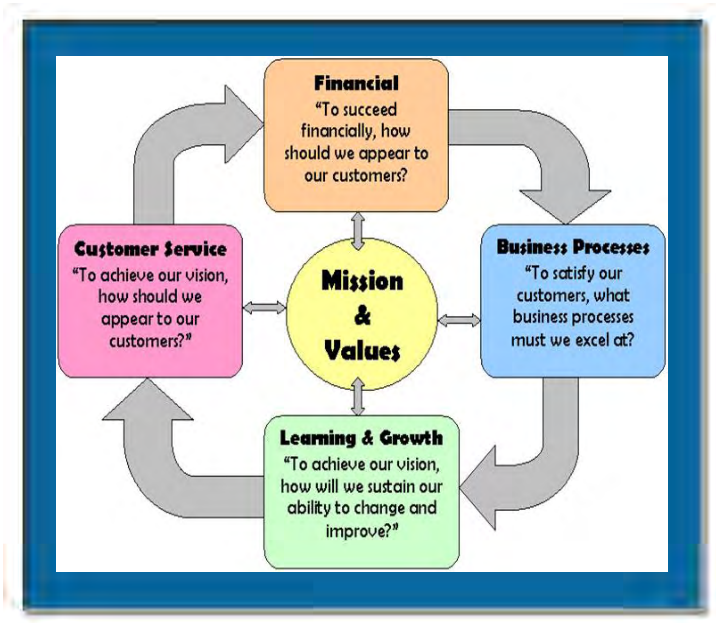
Today the District provides water service to nearly 47,340 potable and 640 recycled customers within approximately 125 square miles of southeastern San Diego County. In the past, all of the potable water delivered by the District was purchased from the San Diego County Water Authority (CWA) who in turn purchases water from the region's water importer, the Metropolitan Water District of Southern California (MWD). Last year the District began purchasing raw water from CWA and having that water treated by the Helix Water District. This action brought regional water treatment closer to our customers and reduced dependence on water treatment located outside of San Diego proper.

The District also owns and operates a wastewater collection and recycling system to provide public sewer service to approximately 4,630 homes and businesses, equivalent to 6,640 Assigned Service Units, within portions of the communities of La Mesa, Rancho San Diego, El Cajon, Jamul, and Spring Valley. Recycled water from the Ralph W. Chapman Water Recycling Facility (RWCWRF) is capable of reclaiming wastewater at a rate of 1.3 million gallons per day. The District also purchases up to 6 million gallons per day of recycled water from the City of San Diego's South Bay Reclamation Plant. Recycled water from these two sources is used to irrigate golf courses, schools, public parks, roadway landscapes, and various other approved uses in eastern Chula Vista.

MISSION, CURRENT ECONOMIC CONDITIONS, AND OUTLOOK

The mission of the District is to provide customers with the best quality water, wastewater, and recycled water service in a professional, effective, and efficient manner. To do so, this year and in coming years, we will be faced with several key challenges. These challenges include: the slowdown in the local and national economy; instability in the financial markets; widespread home foreclosures; the likelihood of continued drought in the Southwest; and possible water shortages due in part to the reduction in water deliveries from the Sacramento – San Joaquin Bay Delta.

Given these uncertain times, the District must find the best solutions that balance the expectations placed on it by our customers and key community and financial stakeholders with the significant challenges we face. Meeting these challenges requires dedication and a commitment to continuous improvement and the innovative use of technologies and resources.



While overall growth in San Diego County has slowed over the last two years, population within the District's service area continues to increase albeit at a much reduced rate. As of July 2008, it is estimated that the District served 191,500 residents. The San Diego Association of Governments (SANDAG), the regional planning agency, has estimated the District's growth will continue for a decade or more. The District projects an ultimate customer population of 277,000 residents.

BUDGET SUMMARY

The District's Fiscal Year 2009 budget is $98 million, with operating expenditures of $67.1 million and capital expenditures of $30.9 million. The District's goal is to provide the most effective and efficient service possible while maintaining affordability of the water supply for the community.

The District's operating expenditures are derived from its three major sectors: potable water, recycled water, and sewer, totaling $67,062,700 for Fiscal Year 2009. Revenues from potable and recycled water for Fiscal Year 2009 are projected to be $55,573,900, about $4.8 million (9.5%) greater than Fiscal Year 2008. Water sales volumes are expected to decrease as a result of the slowing economy and expanded efforts to promote water conservation, while the cost of water increases due to supply limitations. Sewer revenues are projected to be $2,145,300, about $270,000 less than Fiscal Year 2008, due to a change in sewer billing methodology and lower water consumption. The remaining non-operating revenues of $9,343,500 consist of investment income, taxes and assessments, availability charges, and miscellaneous revenues.

Significant aspects of the Operating Budget are:

- A balanced budget meeting the goals of the Strategic Plan.
- An updated a six-year Rate Model to ensure sound financial planning and reserve levels.
- Unprecedented water supply rate increases of 13.2% from CWA because of the high cost of supply programs, in addition to higher energy and operating costs.
- Planned rate increases in potable and recycled water and sewer. This included pass-through rate increases from CWA, and County of San Diego who raised costs to water and sewer customers.
- Expanded residential, landscape, and commercial water conservation programs.
- In response to the economic slowdown, the District has reduced staffing levels from 173 full time equivalents to 169, and cut operating expenditures by $885,800 due to program deferrals and other discretionary spending cuts.
- Of San Diego County's 23 water agencies, Otay's water rate is the ninth-lowest and below the county-wide average.

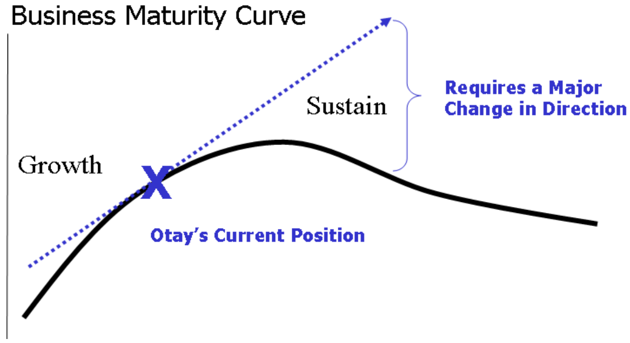
The Capital Budget consists of 66 projects and a budget of $30,939,000. The budget emphasizes long-term planning for on-going programs while functioning within fiscal constraints and population growth. This year's CIP budget was reduced by $7.5 million, compared to last year's projection, in response to the housing slowdown.

STRATEGIC PLAN

The primary way to achieve our objectives is to improve all aspects of our core business processes. The main tool we will utilize in this regard is the Strategic Business Plan, which was updated this year and adopted by your Board for the 2009 through 2011 timeframe.

Efficiency improvements have become the new competitive advantage for utilities. As a result, the theme of the plan is to capitalize on the infrastructure investments we have already made in the last few years. We will use the slowdown in the regional economy to realign our energies and optimize how we manage and maintain the nearly half billion dollars of "in-ground" assets, utilizing the technology we have recently put in place.

The Strategic Business Plan also carries forth the District's transformation from a growth-centric to a maintenance-based organization. Where capital and developer fees supported growth, the District was very successful in managing long-term maintenance and replacement of our infrastructure.



This necessary change is illustrated by the business maturity curve. During high growth, we focus on achieving the macro targets of building and installing new infrastructure. In the future, the resources required to support slower growth are reduced but the effort to maintain and improve assets increases. Income, however, will be derived more from rates and less from fees. Consequently, increased costs place pressure more directly on rates. Therefore, to meet our customer and financial goals, the District will emphasize internal efficiency and development of technology assisted best practices. In effect, we will use our investments in technology to do more with the same or fewer resources.

<u>The Future</u>

The coming years will be challenging times for everyone in the water industry. Following Governor Schwarzenegger's declaration of a statewide drought in California in June, the District declared a Level 1 drought watch. By doing so, we have begun calling on all customers to achieve up to a 10 percent reduction in their water use through voluntary measures. By summer of next year we estimate we could be in Level 2 drought alert, or perhaps even a drought emergency where voluntary conservation gives way to mandatory measures and all customers are required to cut water use by 30 to 40 percent.

As you would expect, this will impact the finances of the District and staff throughout the District are working diligently to prepare for the consequences of an extended drought, should it come to pass. With that in mind, our strength as an organization is vastly enhanced by the practices and policies put in place by your Board to ensure the strength and stability of the District as we move forward into uncertain times. These actions will assure our success as an organization and the well-being of the customers we serve.

<u>ACCOUNTING SYSTEM</u>

The Finance Department is responsible for providing financial services to the District, including financial accounting, reporting, payroll, accounts payable, investment of funds, billing and collection of water and wastewater charges, taxes, and other revenues. The District's books and records are maintained on an enterprise basis, matching revenues against the costs of providing services. Revenues and expenses are recorded on the accrual basis in the period in which revenue is earned and expenses are incurred.

INTERNAL CONTROLS

Otay Water District operates within a system of internal controls established and continually reviewed by management. This provides reasonable assurance that assets are adequately safeguarded and transactions are recorded correctly according to District policies and procedures. When establishing or reviewing controls, management must consider the cost of the control and the value of the benefit derived from its utilization. Management normally maintains and implements all sensitive controls and those controls whose value adequately exceeds their cost.

Management believes the District's internal controls, procedures, and policies adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. In addition, the District maintains controls to provide for compliance with all finance related legal and contractual provisions. Management believes the activities reported within the presented Comprehensive Annual Financial Report (CAFR) comply with these finance related legal and contractual provisions, including bond covenants and fiduciary responsibilities.

BUDGETING CONTROLS

The District views the budget as an essential tool for proper financial management. The budget is developed with input from the various departments of the organization and is adopted prior to the start of each fiscal year. It is designed and presented for the general needs of the District, its staff, and customers. It is a comprehensive and balanced financial plan that features District services, resources and their allocation, financial policies, and other useful information to allow the users to gain a general understanding of the District's financial status and future. Monthly comparison reports of budget to actual are prepared and distributed along with variance explanations to all department heads, with top level information provided to the Board at the monthly Board meetings.

CASH MANAGEMENT

During the year, available funds are invested in eligible securities, as required by law, and in accordance with the District's own investment policy adopted by the Board of Directors. The investment objectives of the District, in order of priority, are: 1) to preserve the capital of the portfolio; 2) to maintain adequate liquidity to meet cash flow requirements; and 3) to obtain a reasonable rate of return without compromising the first two objectives.

RISK MANAGEMENT

In 2003, the District became a member of the Special District Risk Management Authority (SDRMA), a pool program which provides the District's coverage for property, auto, liability, health benefits, and workers' compensation claims. During Fiscal Year 2007-2008, the District continued its proactive liability risk management role through careful monitoring of losses and designing and implementing programs to minimize risks and losses. In addition, the District's

Safety Committee analyzes workers' compensation issues by monitoring work conditions, and organizing and implementing safety training programs to reduce employee exposure to hazards.

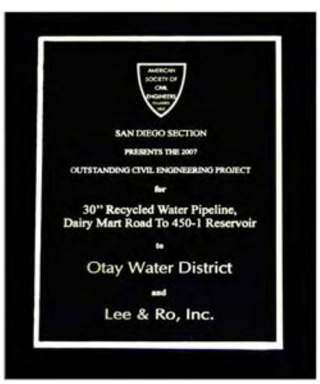
PENSION PLANS

In addition to participating in Social Security, the District provides a defined benefit pension plan for its employees through the California Public Employees' Retirement System (CalPERS). The District contributes a specified percentage of covered employees' payroll, which is invested by CalPERS. Upon retirement, District employees are entitled to a specified retirement benefit. The plan is more fully described in Note 8 to the Financial Statements.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The District provides other post-employment benefits (OPEB) as a part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes healthcare and other forms of benefits (for example life insurance), in addition to the benefits provided from specific pension plans. Financial reporting of the actuarial accrued liabilities corresponding to all promised benefits associated with past services of District employees is not required until Fiscal Year 2008-2009. However, setting the District apart from most state and local government employers, during Fiscal Year 2007-2008 the District elected to set up an OPEB trust fund with CalPERS and pre-funded $5.6 million of its net OPEB obligations, approximately half of the actuarial accrued liability, as of the latest actuarial projection, dated June 30, 2007. The District has also designated an additional $5.8 million to allow for significant funding of the remaining obligations. For additional information see Note 9 to the Financial Statements.

AWARDS AND ACKNOWLEDGMENTS



To recognize the District's Supply Link Project, connecting our recycled water system to the City of San Diego's South Bay Water Reclamation Plant, the American Society of Civil Engineers (ASCE) presented the District the *2007 Outstanding Civil Engineering Project* for the 30" Recycled Water Pipeline, Dairy Mart Road to the 450-1 Reservoir. Additionally, for this same project, the Construction Management Association of America (CMAA) presented Otay Water District the *2008 Project Achievement Award* for the Recycled Water Pipeline to recognize outstanding achievement in the practice of construction management.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to Otay Water District for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007. This was the fourth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

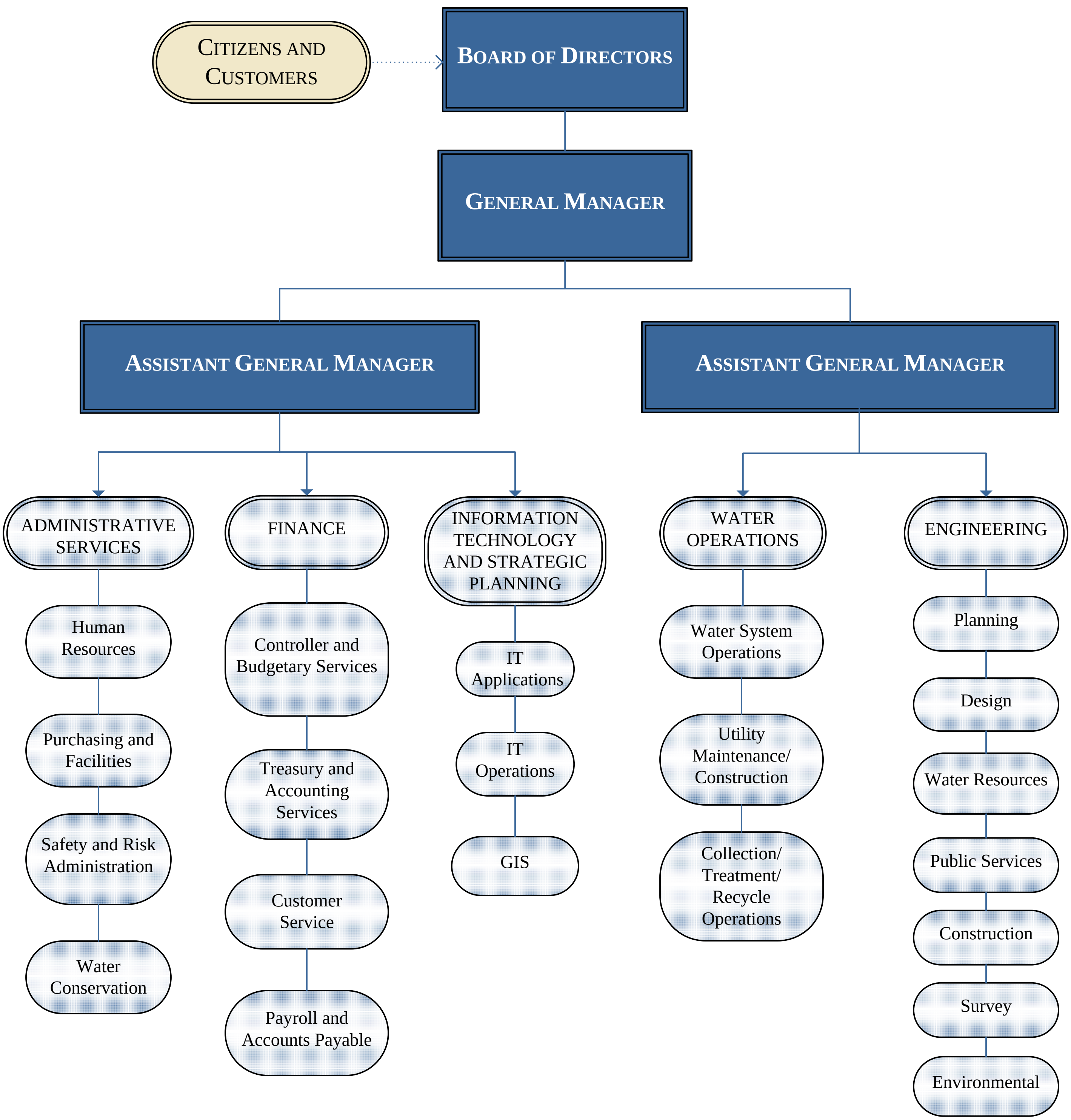
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The District also received a *Distinguished Budget Presentation Award* from the GFOA for the District's Operating and Capital Budget for Fiscal Year beginning July 1, 2007, as well as four awards from the CSMFO for *Excellence in Budgeting, Excellence in Capital Budgeting, Meritorious in Public Communications,* and *Meritorious in Innovation*. These prestigious awards recognize conformance with the highest standards for preparation of state and local government financial reports.

I would like to thank all of the staff involved for their efforts in preparing this Comprehensive Annual Financial Report, and for their hard work to ensure a successful outcome. I would also like to thank the firm of Teaman, Ramirez and Smith, Inc., for their professional work and opinion. To the Board of Directors, staff and I acknowledge and appreciate their continued support and direction in achieving excellence in financial management.

Mark Watton, General Manager

Organization Chart



LIST OF PRINCIPAL OFFICIALS
FISCAL YEAR 2007-2008

Board of Directors

Listed from Left to Right

Larry Breitfelder - Division 1

Jose Lopez – Vice President, Division 4

Jaime Bonilla – Treasurer, Division 2

Mark Robak - Division 5

Gary Croucher - President, Division 3

District Financial Management

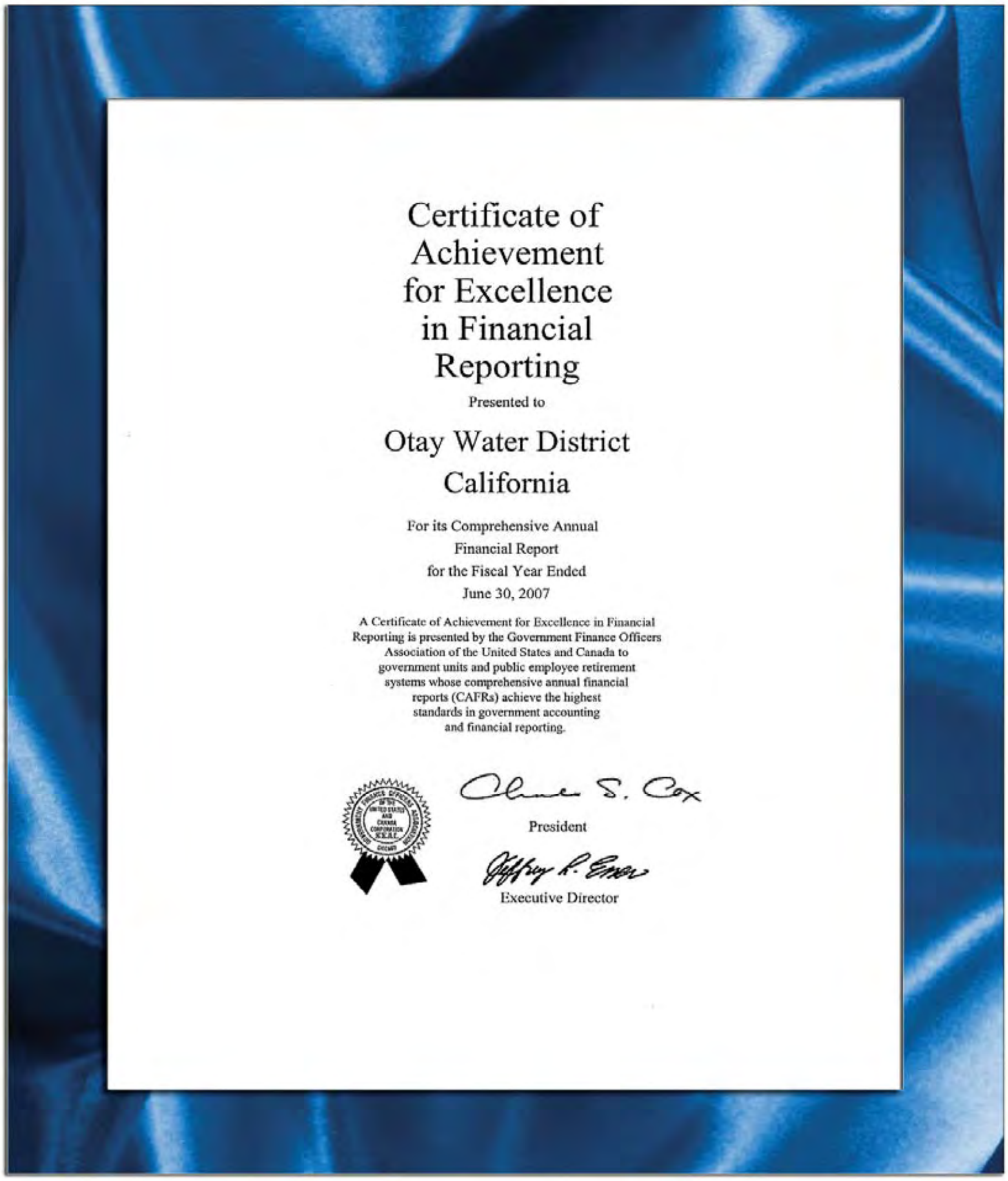
Mark Watton - General Manager

German Alvarez - Assistant General Manager, Finance and Administration

Manny Magaña - Assistant General Manager, Engineering and Operations

Joseph R. Beachem - Chief Financial Officer

AWARD



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Otay Water District
California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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Financial

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Otay Water District
Spring Valley, California

We have audited the accompanying financial statements of the business-type activities of the Otay Water District, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Otay Water District, as of June 30, 2008 and 2007, and the cash flows where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008 on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Otay Water District's basic financial statements. The introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Teaman Ramirez & Smith

October 24, 2008

Richard A. Teaman, CPA • Greg W. Fankhanel, CPA • David M. Ramirez, CPA • Javier H. Carrillo, CPA
4201 Brockton Ave. Suite 100, Riverside CA 92501 • **951.274.9500** • 951.274.7828 FAX • www.trscpas.com

As management of the Otay Water District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2008. Please read it in conjunction with the District's financial statements that follow Management's Discussion and Analysis. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $456.8 million *(net assets).* Of this amount, $82.0 million *(unrestricted net assets)* may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by $9.8 million. This is primarily attributable to capital contributions of $14.9 million during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of the following: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Net Assets, 3) Statement of Cash Flows, and 4) Notes to the financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

The S*tatement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or weakening.

The S*tatement of Revenues, Expenses and Changes in Net Assets* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The *Statement of Cash Flows* presents information on cash receipts and payments for the fiscal year.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data supplied in each of the specific financial statements listed above.

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District's progress in funding its obligation to provide pension benefits to its employees.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by $456.8 million at the close of the most recent fiscal year.

By far the largest portion of the District's net assets, $372.5 million (82%), reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets
(In Millions of Dollars)

	2008	2007	2006
Assets			
Current and Other Assets	$ 106.4	$ 122.1	$ 86.4
Capital Assets	446.7	424.3	397.0
Total Assets	553.1	546.4	483.4
Liabilities			
Long-term Debt Outstanding	71.7	74.2	33.9
Other Liabilities	24.6	25.2	27.4
Total Liabilities	96.3	99.4	61.3
Net Assets			
Invested in Capital Assets Net of Related Debt	372.5	374.6	361.6
Restricted	2.3	2.1	2.4
Unrestricted	82.0	70.3	58.1
Total Net Assets	$ 456.8	$ 447.0	$ 422.1

At the end of FY-2008 the District is able to report positive balances in all categories of net assets. This situation also held true for the prior two fiscal years. In FY-2008 total Net Assets increased approximately $9.8 million, to $456.8 million, as compared to FY-2007 when Net Assets increased by over $24.9 million. While the District's operations and population continue to grow, albeit at slower rates than in prior years, the pattern of reduced growth of the District's Net Assets is indicative of the reduction in new development projects within the District. This reduction is a result of the ongoing national housing slump and financial crisis.

The increase in Current and Other Assets of $35.7 million in FY-2007 corresponds with the increase in Long-term Debt of $40.3 million, due to the issuance of $42 million in new Certificates of Participation (COPS-2007). (See Note 5 in the Notes to Financial Statements). These funds are being used as a part of the District's substantial Capital Improvement Plan (CIP), as evidenced by an increase in Capital Assets of $27.3 million (net of accumulated depreciation) in FY-2007. In FY-2008 use of the COPS-2007 funds to finance the CIP program continued, contributing to the increase in Capital Assets of $22.4 million. The use of the COPS-2007 funds is also reflected in the decrease of Current and Other Assets of $15.7 million. (See Note 3 in the Notes to Financial Statements).

Statements of Revenues, Expenses, and Changes in Net Assets
(In Millions of Dollars)

	2008	2007	2006
Water Sales	$ 50.8	$ 48.6	$ 43.8
Wastewater Revenue	2.4	2.6	2.3
Connection and Other Fees	2.5	2.1	1.8
Non-operating Revenues	13.6	11.1	8.5
Total Revenues	69.3	64.4	56.4
Depreciation Expense	13.0	10.8	10.1
Other Operating Expense	58.5	53.9	49.5
Non-operating Expense	2.9	1.3	1.2
Total Expenses	74.4	66.0	60.8
Loss Before Capital Contributions	(5.1)	(1.6)	(4.4)
Capital Contributions	14.9	26.5	15.4
Change in Net Assets	9.8	24.9	11.0
Beginning Net Assets	447.0	422.1	411.1
Ending Net Assets	$ 456.8	$ 447.0	$ 422.1

Water Sales increased by $4.8 in FY-2007 and $2.2 million in FY-2008, mainly due to reduced rainfall during both years as well as rate increases in both years. Growth also had a partial impact, with new water meter sales of 548 and 220 meters respectively. Non-operating Revenues increased by $2.6 million in FY-2007 due primarily to rising rates of return on investment income. Despite a reversal of market rates of return in FY-2008, Non-operating Revenues increased an additional $2.5 million due to the increased level of investments from the COPS-2007, increased property tax revenues, and healthcare reimbursements from CalPERS for other post employment benefits (OPEB). (See Note 9 in the Notes to Financial Statements).

Depreciation Expense increased by a modest $0.7 million in FY-2007 and then $2.2 million in FY-2008, due to a comprehensive review and write-off of long-term fixed assets that were obsolete and/or no longer serviceable. Other Operating Expense increased by approximately $4.4 million in FY-2007 and $4.6 million in FY-2008 as a result of the cost of the additional water sold each year, as well as increases in outside services and higher pension costs. Non-operating Expense was consistent from FY-2006 to FY-2007, but increased $1.6 million in FY-2008 due to a full year of interest expense from the COPS-2007.

Capital Contributions increased $11.1 million in FY-2007 due to the completion of several developer construction projects. However, because of the nationwide housing mortgage crisis throughout FY-2008, developers either slowed-down or totally stopped work on as many projects as possible until economic conditions improve and the demand for growth returns, resulting in a decrease in Capital Contributions of $11.6 million from the prior year.

Capital Assets and Debt Administration

Capital Assets. The District's capital assets as of June 30, 2008, totaled $446.7 million (net of accumulated depreciation). Included in this amount is land. The total increase in the District's capital assets was 6.9% for FY-2007 and 4.6% in FY-2008.

Capital Assets
(In Millions of Dollars)

	2008	2007	2006
Land	$ 13.0	$ 13.0	$ 12.5
Construction in Progress	42.3	40.3	58.9
Water System	365.6	356.6	333.0
Recycled Water System	93.0	73.5	49.1
Sewer System	36.7	37.7	37.7
Buildings	17.6	17.6	17.5
Transportation Equipment	3.1	3.1	2.9
Engineering Equipment	5.7	5.6	5.7
Power Operated Equipment	1.6	1.6	1.6
Other Equipment	19.7	18.5	10.9
	598.3	567.5	529.8
Less Accumulated Depreciation	(151.6)	(143.2)	(132.8)
Net Capital Assets	$ 446.7	$ 424.3	$ 397.0

As indicated by figures in the table above, the majority of capital assets added during both fiscal years were related to the potable and recycled water systems. In addition, the majority of the cost of construction in progress is also related to these water systems.

Additional information on the District's capital assets can be found in Note 3 of the Notes to Financial Statements.

Long-term Debt. At June 30, 2008, the District had $71.7 million in outstanding debt which consisted of the following:

General Obligation Bonds	$ 7.7
Certificates of Participation	63.3
Notes Payable	0.7
Total Long-term Debt	$ 71.7

Additional information on the District's long-term debt can be found in Note 5 of the Notes to Financial Statements.

Fiscal Year 2008-2009 Budget

Economic Factors

Growth in the San Diego area has slowed over the last 2 years, and demand for housing is reflected in a similarly reduced pace. The District currently provides water service to about 69% of its total projected population, serving approximately 191,500 people. Long-term, this percentage should continue to increase as the District's service area continues to develop and grow. Ultimately, the District is projected to serve approximately 277,000 people, creating an average daily demand of 56 million gallons per day (MGD).

The District is projected to deliver approximately 38,800 acre-feet of water to 47,340 customers during Fiscal Year 2008-2009. Management feels that these projections are very realistic after accounting for low growth, supply changes, and a focus on conservation. Current economic conditions throughout America have created an unprecedented uncertainty for business and economic projections in the current fiscal year. The nationwide housing mortgage crisis has resulted in hundreds of foreclosures throughout the District. Additionally, the crisis in the banking and financial industry has begun to have a ripple effect of employee layoffs across a wide swath of the business community. One of the subsequent results of these two broad events is the relocation of many homeowners and renters into new housing arrangements throughout San Diego County. However, as housing patterns change throughout the District, people's need for water remains an underlying constant.

Financial

The District has implemented a six-year rate study projection that forecasts minimum essential rate increases in order to fund required growth and improvements in infrastructure, as well as to pass along cost increases from the City of San Diego, the County of San Diego, and the San Diego County Water Authority. The expanding demand for water service over the past few years continues to support the incremental costs associated with meeting this increase in demand. As a result, the District has been able to implement strategic changes that will provide long-term benefits to the District, while only increasing rates at modest levels.

Conversely, lower than average levels of rainfall over the last three years have caused historic dry conditions and depleted water reserves throughout the entire state. Following Governor Schwarzenagger's declaration of a statewide drought in California in June 2008, the District declared a Level 1 drought watch. By doing so, we have begun calling on all customers to achieve up to a 10 percent reduction in their water use through voluntary measures. By summer of next year, we estimate we could be in Level 2 drought alert where voluntary conservation gives way to mandatory measures and all customers are required to cut water use by up to 20 percent. Mitigating the impact of this revenue decrease would be corresponding reductions in expenses, to include the cost of water and the associated electricity required for pumping.

Management is unaware of any other conditions that could have a significant past, present, or future impact on the District's current financial position, net assets or operating results.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the Otay Water District's finances for the Board of Directors, taxpayers, creditors, and other interested parties. Questions concerning any of the information provided in the report or requests for additional information should be addressed to the District's Finance Department, 2554 Sweetwater Springs Blvd., Spring Valley, CA 91978-2004.

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Basic Financial Statements

640-1 and 640-2 Reservoirs Project - October 2008

Pipes feeding the 640-1 and 640-2 Reservoirs

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Statement of Net Assets

June 30, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$ 23,351,911	$ 8,048,633
Restricted Cash and Cash Equivalents (Note 2)	3,753,983	11,191,213
Investments (Note 2)	60,682,507	68,912,864
Restricted Investments (Note 2)		19,975,538
Accounts Receivable	7,689,720	8,675,458
Accrued Interest Receivable	715,900	1,559,081
Restricted Taxes and Availability Charges Receivable	537,195	443,854
Inventory	711,240	633,697
Prepaid Expenses and Other Current Assets	1,908,028	1,164,300
Total Current Assets	99,350,484	120,604,638
Non-current Assets:		
Net OPEB Obligation	5,649,008	
Capital Assets, Net of Depreciation (Note 3)	446,714,397	424,260,968
Other Non-current Assets (Note 4)	1,408,971	1,490,515
Total Non-current Assets	453,772,376	425,751,483
Total Assets	553,122,860	546,356,121
LIABILITIES		
Current Liabilities:		
Current Maturities of Long-term Debt (Note 5)	2,445,214	1,519,048
Accounts Payable	11,075,807	10,930,658
Accrued Payroll Liabilities	2,491,182	2,270,958
Other Accrued Liabilities	1,615,402	1,597,012
Customer Deposits	2,719,331	2,622,646
Liabilities Payable From Restricted Assets:		
Accounts Payable	2,629,759	4,492,364
Accrued Interest	886,642	882,888
Total Current Liabilities	23,863,337	24,315,574
Non-current Liabilities:		
Liabilities Payable From Restricted Assets:		
Prepaid Capacity Fees	690,709	890,473
Long-term Debt (Note 5)		
General Obligation Bonds	7,678,302	8,045,029
Certificates of Participation	63,361,579	65,051,790
Notes Payable	701,516	1,031,730
Total Non-current Liabilities	72,432,106	75,019,022
Total Liabilities	96,295,443	99,334,596
NET ASSETS (NOTE 7)		
Invested in Capital Assets, Net of Related Debt	372,527,786	374,667,591
Restricted for Construction	2,314,400	2,071,307
Unrestricted	81,985,231	70,282,627
Total Net Assets	$ 456,827,417	$ 447,021,525

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Assets
For The Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING REVENUES		
Water Sales	$ 50,808,825	$ 48,605,606
Wastewater Revenue	2,386,285	2,604,431
Connection and Other Fees	2,519,735	2,040,444
Total Operating Revenues	55,714,845	53,250,481
OPERATING EXPENSES		
Cost of Water Sales	35,296,002	33,994,841
Wastewater	2,009,876	1,508,672
Administrative and General	21,127,922	18,418,441
Depreciation	13,040,572	10,729,096
Total Operating Expenses	71,474,372	64,651,050
Operating Income (Loss)	(15,759,527)	(11,400,569)
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	4,538,791	4,416,342
Taxes and Assessments	4,591,023	4,151,956
Availability Charges	744,722	715,664
Gain on Sale of Capital Assets	15,243	1,817
Miscellaneous Revenues	3,676,963	1,809,802
Donations	(80,541)	(80,000)
Interest Expense	(2,601,252)	(950,479)
Miscellaneous Expenses	(261,492)	(271,410)
Total Non-operating Revenues (Expenses)	10,623,457	9,793,692
Income (Loss) Before Contributions	(5,136,070)	(1,606,877)
Capital Contributions	14,941,962	26,563,075
Change in Net Assets	9,805,892	24,956,198
Total Net Assets, Beginning	447,021,525	422,065,327
Total Net Assets, Ending	$ 456,827,417	$ 447,021,525

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	$ 54,276,851	$ 49,477,123
Cash from Other Operating Activities	2,520,417	2,040,444
Other Receipts	1,797,869	894,234
Cash Payments to Suppliers	(41,996,845)	(41,462,779)
Cash Payments to Employees	(23,670,840)	(15,835,985)
Other Payments	(135,104)	(167,472)
Net Cash Provided (Used) By Operating Activities	(7,207,652)	(5,054,435)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from Taxes and Assessments	4,497,682	4,026,192
Receipts from Property Rents and Leases	977,313	951,020
Net Amounts Paid for Acquisition and Maintenance of Demonstration Garden	(80,541)	(80,000)
Net Cash Provided (Used) By Noncapital Financing Activities	5,394,454	4,897,212
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Capital Contributions	6,807,761	17,476,332
Proceeds from Sale of Capital Assets	15,243	1,817
Proceeds from Debt Related Taxes and Assessments	744,722	715,664
Proceeds from Long-Term Debt (Note 5)		40,989,797
Principal Payments on Long-Term Debt (Note 5)	(1,519,048)	(1,529,848)
Acquisition and Construction of Capital Assets	(27,359,800)	(28,915,737)
Interest Paid	(2,597,498)	(481,033)
Net Cash (Used) By Capital and Related Financing Activities	(23,908,620)	28,256,992
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received on Investments	5,381,971	3,676,059
Proceeds from Sale and Maturities of Investments	88,909,995	44,708,111
Purchase of Investments	(60,704,100)	(71,000,000)
Net Cash Provided (Used) by Investing Activities	33,587,866	(22,615,830)
Net Increase (Decrease) in Cash and Cash Equivalents	7,866,048	5,483,939
Cash and Cash Equivalents - Beginning of Year	19,239,846	13,755,907
Cash and Cash Equivalents - End of Year	$ 27,105,894	$ 19,239,846

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Net Operating Income (Loss)	$ (15,759,527)	$ (11,400,569)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	13,040,572	10,729,096
Miscellaneous Revenues	2,712,869	894,234
Miscellaneous Expenses	(135,104)	(167,472)
(Increase) Decrease in Accounts Receivable	985,738	(1,866,459)
(Increase) Decrease in Inventory	(77,543)	(41,271)
(Increase) Decrease in Net OPEB Obligation	(5,649,008)	
(Increase) Decrease in Prepaid Expenses and Other Current Assets	(743,728)	(500,167)
Increase (Decrease) in Accounts Payable	(1,717,456)	(3,827,697)
Increase (Decrease) in Accrued Payroll and Related Expenses	220,224	(77,895)
Increase (Decrease) in Other Accrued Liabilities	18,390	913,662
Increase (Decrease) in Customer Deposits	96,685	133,545
Increase (Decrease) in Prepaid Capacity Fees	(199,764)	156,558
Total Cash Provided (Used) By Operating Activities	$ (7,207,652)	$ (5,054,435)
SUPPLEMENTAL DISCLOSURES		
Non-cash Investing and Financing Activities Consisted of the Following:		
Contributed Capital for Water and Sewer System	$ 8,134,201	$ 8,812,611
Change in Fair Value of Investments and Recognized Gains/Losses	109,847	223,829
Capital Contribution Resulting from Prepaid Capacity Fees	33,356	156,558
Amortization Related to Long-term Debt	126,387	103,938
Cash Paid for Interest Expense	$ 2,970,780	$ 1,478,461

The accompanying notes are an integral part of this statement.

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1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

Otay Water District (the "District") is a public entity established in 1956 pursuant to the Municipal Water District Law of 1911 (Section 711 et. Seq. of the California Water Code) for the purpose of providing water and sewer services to the properties in the District. The District is governed by a Board of Directors consisting of five directors elected by geographical divisions based on District population for a four-year alternating term.

B) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basic financial statements of the Otay Water District have been prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting financial reporting purposes.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise. The intent of the District is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Fund equity is displayed as three components: (1) Invested in capital assets, net of related debt, which reflects the cost of capital assets less accumulated depreciation and less the outstanding principal of related debt not associated with unspent bond proceeds; (2) Restricted, which reflects the carrying value of assets less related liabilities that are restricted by outside covenants or by law; and (3) Unrestricted, which represents the remaining fund equity balance.

The District distinguishes operating revenues and expenses from those revenues and expenses that are non-operating. Operating revenues are those revenues that are generated by water sales and wastewater services while operating expenses pertain directly to the furnishing of those services. Non-operating revenues and expenses are those revenues and expenses generated that are not directly associated with the normal business of supplying water and wastewater treatment services.

The District recognizes revenues from water sales, wastewater revenues, and meter fees as they are earned. Taxes and assessments are recognized as revenues based upon amounts reported to the District by the County of San Diego, net of allowance for delinquencies of $59,688 and $49,317 at June 30, 2008 and 2007, respectively.

Additionally, capacity fee contributions received in an amount corresponding to expansion specific operating expenses are offset against these expenses and included in Cost of Water Sales in the Statement of Revenues and Expenses and Changes in Net Assets.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounting policies of the District conform to generally accepted accounting principles (GAAP) as applicable to governmental enterprise funds. In accordance with GASB Statement 20, the District has elected to follow all GASB Pronouncements and apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, with the exception of those that conflict with or contradict GASB Pronouncements.

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity period, at purchase, of three months or less to be cash equivalents.

D) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the District's investments are stated at fair value, which is determined using selected basis. Short-term investments are reported at cost, which approximates fair value. Investments in government obligations are valued on over-the-counter bid quotations available at year-end. Cash deposits are reported at carrying amount, which reasonably estimates fair value. Investments in governmental investment pools are reported on the fair value per share, of the pool's underlying portfolio.

E) Inventory and Prepaids

Inventory consists primarily of materials used in the construction and maintenance of the water and sewer system and is valued at weighted average cost. Both inventory and prepaids use the consumption method whereby they are reported as an asset and expensed as they are consumed.

F) Capital Assets

Capital assets are recorded at cost, where historical records are available, and at an estimated historical cost where no historical records exist. Infrastructure assets in excess of $20,000 and other Capital assets in excess of $10,000 are capitalized if they have an expected useful life of two years or more. The cost of purchased and self-constructed additions to utility plant and major replacements of property are capitalized. Costs include materials, direct labor, transportation, and such indirect items as engineering, supervision, employee fringe benefits, and interest incurred during the construction period. Repairs, maintenance, and minor replacements of property are charged to expense. Donated assets are capitalized at their approximate fair market value on the date contributed.

The District capitalizes interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of water system assets and is depreciated on the straight-line basis over the estimated useful lives of such assets.

Depreciation is calculated using the straight-line method over the following estimated useful lives:

Water System	15-70 Years
Engineering Equipment	2-50 Years
Buildings	30-50 Years
Power Operated Equipment	5-10 Years
Transportation Equipment	2-4 Years
Other Equipment	2-10 Years
Reclaimed Water System	50-75 Years
Sewer System	25-50 Years

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G) Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for unused vacation and sick leave balances since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time-off or payment upon termination or retirement.

H) Restricted Assets and Liabilities

Certain current liabilities have been classified as current liabilities payable from restricted assets as they will be funded from restricted assets.

I) Allowance for Doubtful Accounts

The District charges doubtful accounts arising from water sales receivable to bad debt expense when it is probable that the accounts will be uncollectible. Uncollectible accounts are determined by the allowance method based upon prior experience and management's assessment of the collectibility of existing specific accounts.

J) Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by management.

K) Property Taxes

Tax levies are limited to 1% of full market value (at time of purchase) which results in a tax rate of $1.00 per $100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

The County of San Diego (the "County") bills and collects property taxes on behalf of the District. The County's tax calendar year is July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

L) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

2) CASH AND INVESTMENTS

The primary goals of the District's Investment Policy are to assure compliance with all Federal, State, and Local laws governing the investment of funds under the control of the organization, protect the principal of investments entrusted, and generate income under the parameters of such policies.

The District's Investment Policy and State statues authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, prime commercial paper, and negotiable certificates of deposit. Funds may also be invested in the State Treasurer's Local Agency Investment Fund (LAIF) and the San Diego County Treasurer's Pooled Money Fund.

2) CASH AND INVESTMENTS - Continued

Cash and Investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Cash Equivalents	$ 23,351,911
Investments	60,682,507
Restricted:	
Cash and Cash Equivalents	3,753,983
Total Cash and Investments	$ 87,788,401

Cash and investments consist of the following:

Cash on Hand	$ 2,800
Deposits with Financial Institutions	2,655,933
Investments	85,129,668
Total Cash and Investments	$ 87,788,401

Investments Authorized by the California Government Code and the District's Investment Policy

The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's Investment Policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's Investment Policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio[1]	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
Federal Agency Securities	5 years	None	None
Certificates of Deposit	5 years	15%	None
Corporate Medium-Term Notes	5 years	15%	None
Commercial Paper	270 days	15%	10%
Money Market Mutual Funds	N/A	15%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

(1) Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

2) CASH AND INVESTMENTS - Continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's Investment Policy.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities, so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary, to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments (including investments held by the bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity.

		Remaining Maturity (in Months)			
Investment Type		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Federal Agency Securities	$ 58,630,803	$	$ 22,018,478	$ 36,612,325	$
Local Agency Investment Fund (LAIF)	12,228,060	12,228,060			
Corporate Medium-Term Notes	2,051,704			2,051,704	
San Diego County Pool	12,219,101	12,219,101			
Total	$ 85,129,668	$ 24,447,161	$ 22,018,478	$ 38,664,029	$ 0

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code or the District's Investment Policy, or debt agreements, and the actual rating as of year end for each investment type.

		Minimum Legal	Rating as of Year End		
Investment Type		Rating	AAA	AA	Not Rated
Federal Agency Securities	$ 58,630,803	N/A	$ 58,630,803	$	$
Local Agency Investment Fund (LAIF)	12,228,060	N/A			12,228,060
Corporate Medium-Term Notes	2,051,704		2,051,704		
San Diego County Pool	12,219,101	N/A			12,219,101
Total	$ 85,129,668		$ 60,682,507	$ 0	$ 24,447,161

2) CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, Sections 53600 through 53692. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments are as follows:

Issuer	Investment Type	Reported Amount	
Federal Home Loan Bank	Federal Agency Securities	$	38,641,000
Federal Home Loan Mortgage Corp	Federal Agency Securities	$	13,987,228

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Entity's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, $1,442,408 of the District's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2008, District investments in the following investment types were held by the same broker-dealer (counter party) that was used by the District to buy the securities:

Investment Type	Reported Amount	
Federal Agency Securities	$	58,630,803

Local Agency Investment Fund (LAIF)

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost-basis.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The District may invest up to $40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2008 was 3.11%. The carrying value and estimated market value of the LAIF Pool at June 30, 2008 was $70,027,950,242 and $70,024,464,150, respectively. The District's share of the Pool at June 30, 2008 was approximately 0.018 percent. Included in LAIF's investment portfolio are structured notes and asset-backed securities totaling $6,113,006,000 and $4,188,272,000, respectively. LAIF's and the District's exposure to risk (credit, market or legal) is not currently available. The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by statute.

2) CASH AND INVESTMENTS - Continued

San Diego County Pooled Fund

As permitted by its Investment Policy, the District has placed funds with the San Diego County Pooled Fund. The pool may invest some of their portfolios in derivatives. Detailed information on derivative investments held by this pool is not readily available.

Collateral for Deposits

All cash and Certificates of Deposit are entirely insured or collateralized.

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits.

The District may waive the 110% collateral requirement for deposits which are insured up to $100,000 by the FDIC.

3) CAPITAL ASSETS

The following is a summary of changes in Capital Assets for the year ended June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets, Not Depreciated				
Land	$ 12,971,479	$ 53,885	$	$ 13,025,364
Construction in Progress	40,300,055	27,173,621	(25,135,456)	42,338,220
Total Capital Assets Not Depreciated	53,271,534	27,227,506	(25,135,456)	55,363,584
Capital Assets, Being Depreciated				
Infrastructure	467,803,021	31,880,962	(4,434,610)	495,249,373
Field Equipment	9,358,862	122,501	(51,087)	9,430,276
Buildings	17,607,655	28,469		17,636,124
Transportation Equipment	3,056,708	239,024	(193,071)	3,102,661
Communication Equipment	599,452	90,502		689,954
Office Equipment	15,787,313	1,060,821	(22,541)	16,825,593
Total Capital Assets Being Depreciated	514,213,011	33,422,279	(4,701,309)	542,933,981
Less Accumulated Depreciation:				
Infrastructure	119,327,467	10,219,528	(4,414,282)	125,132,713
Field Equipment	8,577,175	187,951	(51,087)	8,714,039
Buildings	5,064,435	573,250		5,637,685
Transportation Equipment	2,614,884	137,328	(193,071)	2,559,141
Communication Equipment	265,119	104,445		369,564
Office Equipment	7,374,497	1,818,070	(22,541)	9,170,026
Total Accumulated Depreciation	143,223,577	13,040,572	(4,680,981)	151,583,168
Total Capital Assets Being Depreciated, Net	370,989,434	20,381,707	(20,328)	391,350,813
Total Capital Assets, Net	$ 424,260,968	$ 47,609,213	$ (25,155,784)	$ 446,714,397

Depreciation expense for the year ended June 30, 2008 and 2007 was $13,040,572 and $10,729,096, respectively.

4) OTHER NON-CURRENT ASSETS

Contracts receivable totaled $41,375 and $55,759, net of no allowance as of June 30, 2008 and 2007, respectively.

Deferred bond issue costs totaled $1,198,791 and $1,254,821, net of accumulated amortization of $389,352 and $357,952 as of June 30, 2008 and 2007, respectively. The 2004 COPS had refunding transactions net of accumulated amortization of $168,805 for June 30, 2008 and $179,935 for June 30, 2007. The costs are amortized on the straight-line method based on the estimated term of the related bond debt. Amortization expense of $31,400 for the years ended June 30, 2008 and 2007 is included with miscellaneous expense.

5) LONG-TERM DEBT

Long-term liabilities for the year ended June 30, 2008 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation Bonds:					
Improvement District No. 27	$ 9,210,000	$	$ 400,000	$ 8,810,000	$ 415,000
Unamortized Bond Discount	(110,953)		(7,397)	(103,556)	
Deferred Amount of Funding	(654,018)		(40,876)	(613,142)	
Net General Obligation Bonds	8,445,029		351,727	8,093,302	415,000
Certificates of Participation:					
1996 Certificates of Participation	12,800,000		300,000	12,500,000	400,000
2004 Certificates of Participation	11,335,000		500,000	10,835,000	515,000
2007 Certificates of Participation	42,000,000			42,000,000	785,000
1996 COPS Unamortized Discount	(14,903)		(745)	(14,158)	
2007 COPS Unamortized Discount	(268,307)		(9,044)	(259,263)	
Net Certificates of Participation	65,851,790		790,211	65,061,579	1,700,000
Notes Payable					
State Water Resource Control Board	1,350,778		319,048	1,031,730	330,214
Total Long-Term Liabilities	$ 75,647,597	$	$ 1,460,986	$ 74,186,611	$ 2,445,214

General Obligation Bonds

In June 1998, the District issued $11,835,000 of General Obligation Refunding Bonds. The proceeds of this issue, together with other lawfully available monies, were to be used to establish an irrevocable escrow to advance refund and defease in their entirety the District's previous outstanding General Obligation Bond issue. These bonds are general obligations of Improvement District No. 27 (ID 27) of the District. The Board of Directors has the power and is obligated to levy annual ad valorem taxes without limitation, as to rate or amount for payment of the bonds and the interest upon all property which is within ID 27 and subject to taxation. The General Obligation Bonds are payable from District-wide tax revenues. The Board may utilize other sources for servicing the bond debt and interest.

5) LONG-TERM DEBT - Continued

The refunding resulted in a deferred amount of $1,021,903, which is being amortized over the remaining life of the refunded debt. Amortization for the years ended June 30, 2008 and 2007 was $40,876 for each year and is included in miscellaneous non-operating expenses. As of June 30, 2008 and 2007, the amortized deferred amount of refunding is $613,142, and $654,018, respectively.

The 1998 General Obligation Bonds have interest rates from 4.5% to 5% with maturities through Fiscal Year 2023.

Future debt service requirements for the bonds are as follows:

For the Year Ended June 30,	Principal	Interest
2009	$ 415,000	$ 422,047
2010	435,000	402,705
2011	455,000	382,235
2012	475,000	360,607
2013	495,000	337,565
2014-2018	2,870,000	1,287,673
2019-2023	3,665,000	475,875
	$ 8,810,000	$ 3,668,707

The following General Obligation Bonds have been authorized by the Board of Directors, but were unissued as of June 30, 2008:

Date Authorized	Improvement District (ID)	Construction Purpose	Bond Amount
December 30, 1960	5	Water System	$ 605,000
December 20, 1960	6	Sewer System	705,000
August 23, 1960	1 - 3	Sewer System	405,000
August 23, 1960	1 - 4	Water System	75,000
March 18, 1970	U - 18	Sewer System	2,700,000
April 19, 1971	U - 19	Water System	1,000,000
May 17. 1971	U - 20	Water System	13,000,000
June 5, 1972	U - 22	Water System	6,000,000
May 1, 1978	U - 25	Water System	5,050,000
November 1, 1989	U - 27	Water System	88,500,000

Certificates of Participation (COPS)

In June 1996, COPS with face value of $15,400,000 were sold by the Otay Service Corporation to finance the cost of design, acquisition, and construction of certain capital improvements. An installment purchase agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principal and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates bear interest at a variable weekly rate not to exceed 12%. The interest rate at June 30, 2008 was 1.33%. The installment payments are to be paid annually at $350,000 to $900,000 from September 1, 1996 through September 1, 2026.

5) LONG-TERM DEBT - Continued

Certificates of Participation (COPS) - Continued

In July 2004, Refunding Certificates of Participation (COPS) with a face value of $12,270,000 were sold by the Otay Service Corporation to advance refund $11,680,000 of outstanding 1993 COPS. An installment agreement between the District, as Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principle and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates are due in annual installments of $445,000 to $895,000 from September 1, 2005 through September 1, 2023; bearing interest at 3% to 4.625%.

In March 2007, Revenue Certificates of participation (COPS) with face value of $42,000,000 were sold by the Otay Service Corporation to improve the District's water storage system and distribution facilities. An installment purchase agreement between the District, as a Buyer, and the Corporation, as Seller, was executed for the scheduled payment of principle and interest associated with the COPS. The installment payments are to be paid from taxes and "net revenues," as described in the installment agreement. The certificates are due in annual installments of $785,000 to $2,445,000 from September 1, 2007 through September 1, 2036; bearing interest at 3.7% to 4.47%.

There is no aggregate reserve requirement for the COPS. Future debt service requirements for the certificates are as follows:

For the Year	1996 COPS		2004 COPS		2007 COPS	
Ended June 30,	Principal	Interest*	Principal	Interest	Principal	Interest
2009	$ 400,000	$ 160,930	$ 515,000	$ 418,309	$ 785,000	$ 1,730,532
2010	400,000	155,610	530,000	402,634	815,000	1,701,487
2011	400,000	150,290	545,000	386,236	850,000	1,671,333
2012	400,000	144,970	565,000	368,607	885,000	1,639,458
2013	500,000	138,320	580,000	349,566	920,000	1,606,270
2014-2018	2,800,000	583,870	3,250,000	1,401,425	5,175,000	7,485,187
2019-2023	3,700,000	361,760	3,955,000	660,819	6,260,000	6,411,638
2024-2028	3,900,000	82,460	895,000	20,697	7,670,000	5,028,046
2029-2033					9,460,000	3,261,119
2034-2037					9,180,000	1,025,500
	$ 12,500,000	$ 1,778,210	$ 10,835,000	$ 4,008,293	$ 42,000,000	$ 31,560,570

* Variable Rate - Interest reflected at June 30, 2008 at a rate of 1.33%.

Note Payable

In December 1990, the District entered into a 3.5% note payable to the State Water Resources Control Board. This note is unsecured and payable in annual installments of $366,325 including principal and interest from 1994 through 2010. The total amount outstanding at June 30, 2008 and aggregate maturities of the note for the fiscal years subsequent to June 30, 2008, are as follows:

For the Year Ended June 30,	Principal	Interest
2009	$ 330,214	$ 36,111
2010	341,772	24,553
2011	359,744	12,591
	$ 1,031,730	$ 73,255

6) SEGMENT INFORMATION

The District issued Certificates of Participation to finance certain capital improvements. Both the water and sewer departments are accounted for in a single fund. The sewer department operates the District's sewage treatment plant, sewage pumping stations, and collection systems, while the water department accounts for all other services. However, investors in the Certificates of Participation rely solely on the revenues generated by the individual activities for repayment.

Summary financial information for the water and sewer departments is presented below.

Condensed Statement of Net Assets

	Water	Sewer	Total
Assets:			
Current Assets	$ 94,971,245	$ 88,061	$ 95,059,306
Current Restricted Assets	4,291,178		4,291,178
Net OPEB Obligation	5,649,008		5,649,008
Capital Assets	430,098,108	16,616,289	446,714,397
Other Non-current Assets	1,408,971		1,408,971
Total Assets	536,418,510	16,704,350	553,122,860
Liabilities:			
Current Liabilities	20,025,537	321,399	20,346,936
Current Liabilities Payable from Restricted Assets	3,423,865	92,536	3,516,401
Non-current Liabilities Payable from Restricted Assets	683,209	7,500	690,709
Non-current Liabilities	71,741,397		71,741,397
Total Liabilities	95,874,008	421,435	96,295,443
Net Assets:			
Invested in Capital Assets, Net of Related Debt	355,911,497	16,616,289	372,527,786
Restricted	2,314,400		2,314,400
Unrestricted	82,318,605	(333,374)	81,985,231
Total Net Assets	$ 440,544,502	$ 16,282,915	$ 456,827,417

6) SEGMENT INFORMATION - Continued

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	Water	Sewer	Total
Operating Revenues	$ 53,328,560	$ 2,386,285	$ 55,714,845
Depreciation	(12,160,845)	(879,727)	(13,040,572)
Other Operating Expenses	(56,423,924)	(2,009,876)	(58,433,800)
Operating Income	(15,256,209)	(503,318)	(15,759,527)
Non-operating Revenues (Expenses):			
Investment Income	3,947,418	591,373	4,538,791
Taxes and Assessments	4,197,092	393,931	4,591,023
Availability Charges	688,123	56,599	744,722
Gain on Sale of Capital Assets	15,243		15,243
Other Non-operating Revenues	3,676,963		3,676,963
Donations	(80,541)		(80,541)
Interest Expense	(2,560,489)	(40,763)	(2,601,252)
Other Non-operating Expenses	(261,492)		(261,492)
Transfers	1,198,468	(1,198,468)	0
Capital Contributions	14,941,962		14,941,962
Total Non-operating Revenues (Expenses)	25,762,747	(197,328)	25,565,419
Change in Net Assets	10,506,538	(700,646)	9,805,892
Total Net Assets, Beginning*	430,037,964	16,983,561	447,021,525
Total Net Assets, Ending	$ 440,544,502	$ 16,282,915	$ 456,827,417

*Beginning balances were restated from the prior year to reclassify infrastructure capital assets from water to sewer activities.

Condensed Statement of Cash Flows

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	$ (6,462,401)	$ (745,251)	$ (7,207,652)
Non-capital Financing Activities	5,000,523	393,931	5,394,454
Capital and Related Financing Activities	(23,668,567)	(240,053)	(23,908,620)
Investing Activities	32,996,493	591,373	33,587,866
Net Increase (Decrease)	7,866,048	0	7,866,048
Beginning Cash and Cash Equivalents	19,239,846	0	19,239,846
Ending Cash and Cash Equivalents	$ 27,105,894	$ 0	$ 27,105,894

7) NET ASSETS

A summary of changes in net assets for the year ended June 30, 2008 is as follows:

Description	Investment in Capital Assets (Net of Related Debt)	Restricted Net Assets	Unrestricted Net Assets	Total
Beginning of Year	$ 374,667,591	$ 2,071,307	$ 70,282,627	$ 447,021,525
Income (Loss) Before Contributions	(13,040,572)*	2,734,492	5,170,010	(5,136,070)
Capital Contributions				
Construction of Water and Sewer Systems	8,134,201			8,134,201
Capacity Fees and Capital Contributions		6,281,326		6,281,326
Annexation Fees			526,435	526,435
Decrease in Related Capital Debt/(Transfers)	(24,593,234)	26,054,220	(1,460,986)	0
Acquisition and Construction/(Transfers)	27,359,800	(34,826,945)	7,467,145	0
End of Year	$ 372,527,786	$ 2,314,400	$ 81,985,231	$ 456,827,417

*Depreciation Expense

Designated Net Assets

In addition to the restricted net assets, unrestricted net assets have been designated by the Board of Directors for the following purposes as of June 30, 2008 and 2007:

	2008	2007
Replacement Reserve	$ 31,785,910	$ 31,779,960
Insurance Reserve	10,458,191	16,893,128
Expansion Reserve	34,877,733	17,809,405
Total	$ 77,121,834	$ 66,482,493

8) DEFINED BENEFIT PENSION PLAN

Plan Description

The District's defined plan, (the "Plan"), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The Plan selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

8) DEFINED BENEFIT PENSION PLAN - Continued

Funding Policy

Active members in the Plan are required to contribute 8% of their annual covered salary. The District has elected to contribute 7% on behalf of its employees. The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year ended June 30, 2008 was 19.523%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by the CalPERS.

Annual Pension Costs

For the fiscal year ended June 30, 2008, the District's annual pension cost and actual contribution was $2,252,601. The required contribution for the fiscal year ended June 30, 2008, was determined as part of the June 30, 2005 actuarial valuation.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25% to 14.45% Depending on Age, Service, and Type of Employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.

Initial unfunded liabilities are amortized over a closed period that depends on the Plan's date of entry into CalPERS. Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of the plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	2,252,601	100%	0
6/30/07	1,925,758	100%	0
6/30/06	2,120,529	100%	0

Fund Status and Funding Progress

As of June 30, 2006, the most recent actuarial valuation date, the plan was 74.4% funded. The actuarial accrued liability (AAL) for benefits was $54,228,041, and the actuarial value of assets was $40,321,483, resulting in an unfunded actuarial accrued liability (UAAL) of $13,906,558. The covered payroll (annual payroll of active employees covered by the plan) was $10,470,766, and the ratio of the UAAL to the covered payroll was 132.8%.

The schedule of funding progress, presented as *required supplementary information* following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

9) OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's defined benefit postemployment healthcare plan, (DPHP), provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers' Retiree Benefit Trust Fund (CERBT), an agent multiple-employer plan administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. DPHP selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through District resolution. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the Board of Directors. DPHP members receiving benefits contribute based on their selected plan options of EPO, Silver or Gold and if they are located outside the State of California. Contributions by plan members range from $38 to $65 per month for coverage to age 65, and from $30 to $53 per month, respectively, thereafter.

The District is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.7% of the annual covered payroll.

Annual OPEB Cost

For 2008, the District's annual OPEB cost (expense) of $846,000 for DPHP was equal to the ARC. In addition to the ARC, the District contributed an additional $5,000,000 and has cash and implied subsidy (healthcare reimbursements from CalPERS) amounts of $649,008 to the plan. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the 2008 and the two preceding years were as follows:

THREE-YEAR TREND INFORMATION FOR CERBT

Fiscal Year	Annual OPEB Cost (AOC)	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/08	$ 846,000	100%	$ (5,649,008)
6/30/07	*	*	*
6/30/06	*	*	*

*The information for the two preceding years is unavailable. GASB 45 was implemented in fiscal year 2008.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2007, was as follows:

Actuarial Accrued Liability (AAL)	$ 11,408,000
Actuarial Value of Plan Assets	$ 0
Unfunded Actuarial Accrued Liability (UAAL)	$ 11,408,000
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll (Active Plan Members)	$ 10,951,000
UAAL as a Percentage of Covered Payroll	104.2%

9) OTHER POST EMPLOYMENT BENEFITS - Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	30 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (Net of Administrative Expenses)
Projected Salary Increase	3.25%
Inflation	3.00%
Individual Salary Growth	CalPERS 1997-2002 Experience Study

10) WATER CONSERVATION AUTHORITY

In 1999 the District formed the Water Conservation Authority (the “Authority”), a Joint Powers Authority, with other local entities to construct, maintain and operate a xeriscape demonstration garden in the furtherance of water conservation. The authority is a non-profit public charity organization and is exempt from income taxes. During the years ended June 30, 2008 and 2007, the District contributed $80,541 and $80,000, respectively, for the development, construction and operation costs of the xeriscape demonstration garden.

A summary of the Authority’s June 30, 2007 audited financial statement is as follows (latest report available):

Assets	$ 2,556,885
Liabilities	97,538
Revenues, Gains and Other Support	685,299
Changes in Net Assets	12,540

11) COMMITMENTS AND CONTINGENCIES

Construction Commitments

The District had committed to capital projects under construction with an estimated cost to complete of $1,992,831 at June 30, 2008.

Litigation

Certain claims, suits and complaints arising in the ordinary course of operation have been filed or are pending against the District. In the opinion of the staff and counsel, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involved such amounts, as would not have significant effect on the financial position or results of operations of the District if disposed of unfavorably.

Refundable Terminal Storage Fees

The District has entered into an agreement with several developers whereby the developers prepaid the terminal storage fee in order to provide the District with the funds necessary to build additional storage capacity. The agreement further allows the developers to relinquish all or a portion of such water storage capacity. If the District grants to another property owner the relinquished storage capacity, the District shall refund to the applicable developer $746 per equivalent dwelling unit (EDU). There were 17,867 EDUs that were subject to this agreement. At June 30, 2007, 1,750 EDUs had been relinquished and refunded, 13,424 EDUs had been connected, and 2,693 EDUs have neither been relinquished nor connected. At June 30, 2008, 1,750 EDUs had been relinquished and refunded, 14,622 EDUs had been connected, and 1,495 EDUs have neither been relinquished nor connected.

Developer Agreements

The District has entered into various Developer Agreements with developers towards the expansion of District facilities. The developers agree to make certain improvements and after the completion of the projects the District agrees to reimburse such improvements with a maximum reimbursement amount for each developer. Contractually, the District does not incur a liability for the work until the work is accepted by the District. As of June 30, 2008, none of the 6 outstanding developer agreements had been accepted, however it is anticipated that the District will be liable for an amount not to exceed $924,831 at the point of acceptance. Accordingly, the District did not accrue a liability as of year end.

12) RISK MANAGEMENT

General Liability

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. The District pays an annual premium for commercial insurance covering general liability, excess liability, property, automobile, public employee dishonesty, and various other claims. Coverage limits range up to $100 million. Accordingly, the District retains no risk of loss.

Workers' Compensation

The District is a member of the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District is insured up to $300,000,000 for statutory workers' compensation and $5,000,000 for employers' liability coverage with no deductible. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

12) RISK MANAGEMENT - Continued

Health Insurance

The District maintains a self-insurance program covering all of its employees, retirees, and other dependents. Health claims are processed and administered through a health insurance administrator and paid by the District upon presentation. The District has obtained a stop-loss insurance policy to cover individuals with claims exceeding $45,000. The District has estimated accrued claims to be $137,029 and $474,413 at June 30, 2008 and 2007, respectively. Accrued health costs are included in other accrued liabilities. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended June 30, 2008	Year Ended June 30, 2007
Unpaid Claims, Beginning of Fiscal Year	$ 474,413	$ 422,327
Incurred Claims (Including IBNRS)	1,712,810	1,399,661
Claim Payments	(2,050,194)	(1,347,575)
Unpaid Claims, End of Fiscal Year	$ 137,029	$ 474,413

Adequacy of Protection

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

13) INTEREST EXPENSE

Interest expense for the years ended June 30, 2008 and 2007, is as follows:

	2008	2007
Amount Expensed	$ 2,601,252	$ 950,479
Amount Capitalized as a Cost of Construction Projects	373,282	997,428
Interest Paid	$ 2,974,534	$ 1,947,907

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Required Supplementary Information

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1) SCHEDULE OF FUNDING PROGRESS FOR PERS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/06 Miscellaneous	$ 40,321,483	$ 54,228,041	$ 13,906,558	74.4%	$ 10,470,766	132.8%
6/30/05 Miscellaneous	$ 36,029,595	$ 50,249,943	$ 14,220,348	71.7%	$ 10,005,158	142.1%
6/30/04 Miscellaneous	$ 31,591,156	$ 45,156,690	$ 13,565,534	70.0%	$ 9,764,596	138.9%

2) SCHEDULE OF FUNDING PROGRESS FOR DPHP

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll [(B-A)/C]
6/30/07 Miscellaneous	$ 0	$ 11,408,000	$ 11,408,000	0%	$ 10,951,000	104.2%
6/30/06 Miscellaneous	*	*	*	*	*	*
6/30/05 Miscellaneous	*	*	*	*	*	*

*GASB 45 was implemented in fiscal year 2008. The information for the two preceding years is unavailable.

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Statistical

STATISTICAL SCHEDULES

This part of understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

CONTENTS PAGE

FINANCIAL TRENDS 52

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

REVENUE CAPACITY 58

These schedules contain information to help the reader assess the factors affecting the District's ability to generate its water, reclaimed, and sewer sales as well as property and sales taxes.

DEBT 65

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

DEMOGRAPHIC AND ECONOMIC INFORMATION 69

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place and to help make comparisons over time and with other governments.

OPERATING INFORMATION 71

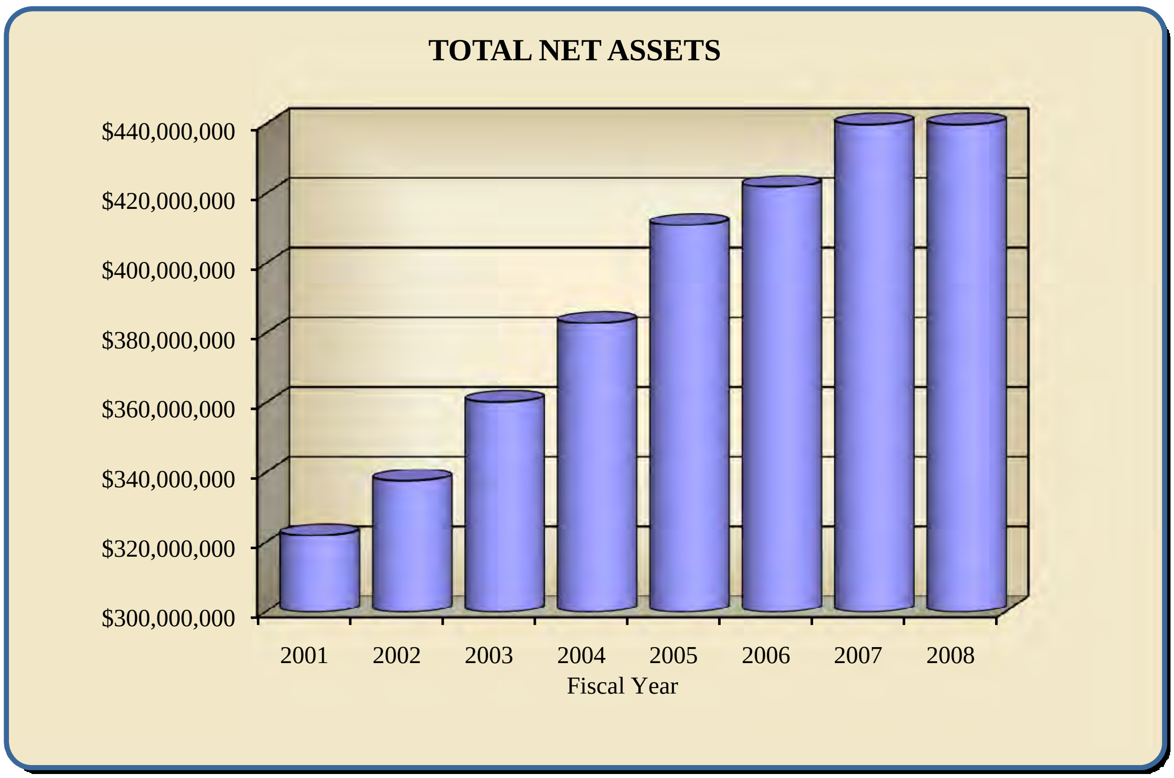
These schedules contain information about the District's operation and resources to help the reader understand how the District's financial information relates to the services the District provides and the activities it performs.

SOURCES

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports of the relevant year. The District implemented GASB Statement 34 in 2001; schedules presenting government-wide information include information beginning in that year.

NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS

Fiscal Year		Invested in Capital Assets Net of Related Debt	Restricted	Unrestricted	Total Net Assets
2008		$ 372,527,786	$ 2,314,400	$ 81,985,231	$ 456,827,417
2007		374,667,591	2,071,307	70,282,627	447,021,525
2006		361,590,845	2,408,473	58,066,009	422,065,327
2005		325,676,089	16,188,364	69,224,020	411,088,473
2004		291,863,666	23,853,441	67,244,139	382,961,246
2003		269,579,907	40,945,837	49,828,535	360,354,279
2002		245,290,752	46,866,439	45,580,508	337,737,699
2001	(1)	237,230,807	42,923,480	41,854,311	322,008,598

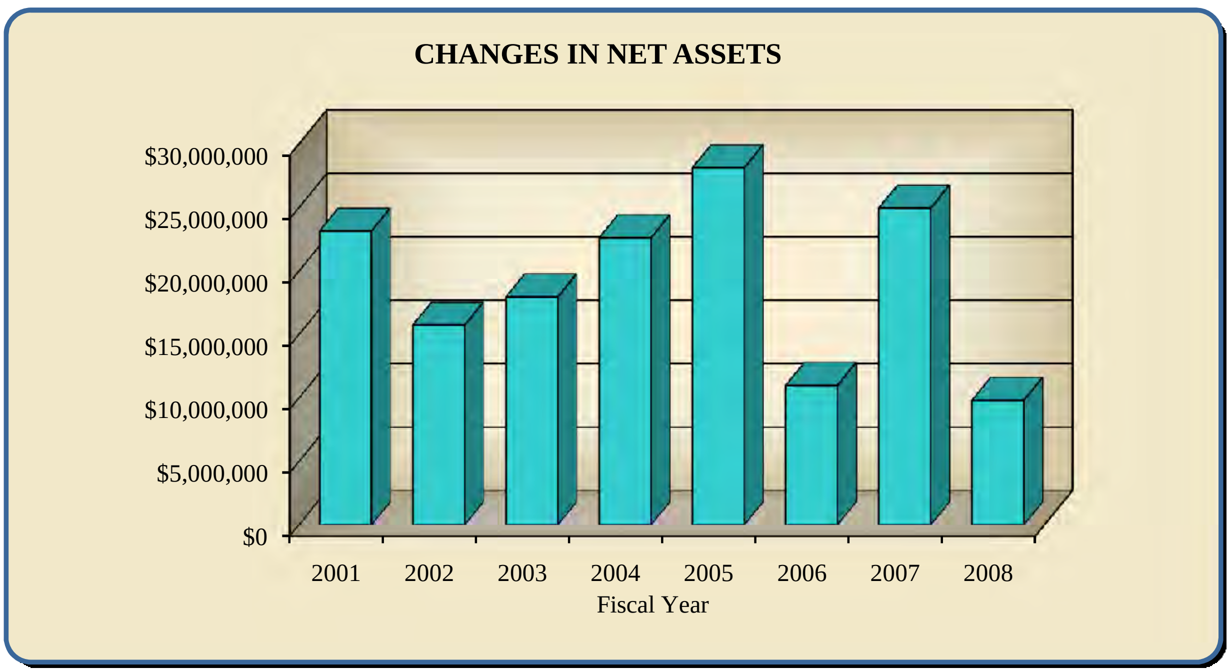


(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last eight fiscal years are presented.

Source: *Otay Water District*

CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS

Fiscal Year		Operating Revenues	Operating Expenses	Operating Income	Total Non-Operating Revenues/ (Expenses)	Income (Loss) Before Capital Contributions	Capital Contributions	Change in Net Assets
2008		$55,714,845	$71,474,372	$ (15,759,527)	$ 10,623,457	$ (5,136,070)	$ 14,941,962	$ 9,805,892
2007		53,250,481	64,651,050	(11,400,569)	9,793,692	(1,606,877)	26,563,075	24,956,198
2006		47,861,088	59,528,094	(11,667,006)	7,242,280	(4,424,726)	15,401,580	10,976,854
2005		43,335,915	56,449,475	(13,113,560)	6,271,482	(6,842,078)	34,969,305	28,127,227
2004		41,539,293	51,516,096	(9,976,803)	3,484,492	(6,492,311)	29,099,278	22,606,967
2003		36,961,980	46,143,486	(9,181,506)	4,517,049	(4,664,457)	22,616,580	17,952,123
2002		37,312,385	43,509,038	(6,196,653)	6,193,303	(3,350)	15,732,451	15,729,101
2001	(1)	22,598,438	40,203,049	(17,604,611)	10,526,110	(7,078,501)	30,209,604	23,131,103

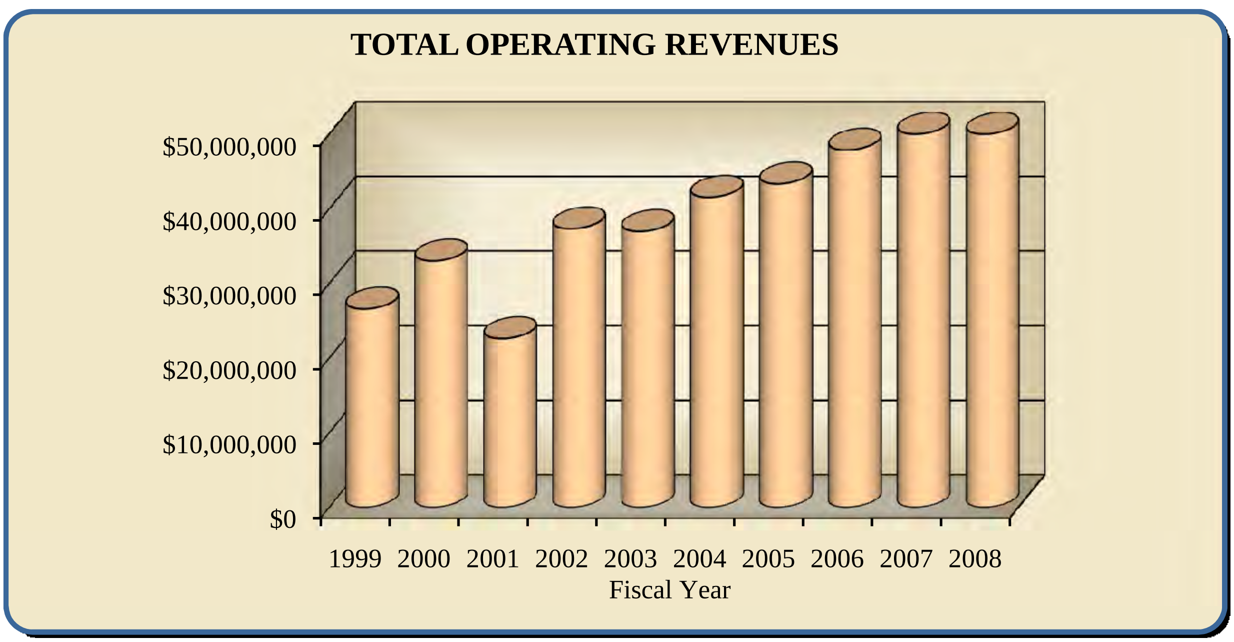


(1) As recommended by GASB 44, this schedule provides data retroactive to the year GASB 34 was implemented. The District implemented GASB 34 in Fiscal Year 2002 and presented comparative data for Fiscal Year 2001. Accordingly, the last eight fiscal years are presented.

Source: *Otay Water District*

OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Water Sales		Wastewater Revenue	Connection and Other Fees	Total	Percent Change
2008	$ 50,808,825		$ 2,386,285	$ 2,519,735	$ 55,714,845	4.6%
2007	48,605,606		2,604,431	2,040,444	53,250,481	11.3%
2006	43,755,610		2,331,094	1,774,384	47,861,088	10.4%
2005	39,348,056		2,018,596	1,969,263	43,335,915	4.3%
2004	39,044,712		1,774,366	720,215	41,539,293	12.4%
2003	34,621,890		1,648,227	691,863	36,961,980	-0.9%
2002	34,980,289		2,031,855	300,241	37,312,385	65.1%
2001	20,645,462	(1)	1,578,581	374,395	22,598,437	-31.5%
2000	30,928,092		1,742,537	333,389	33,004,018	24.2%
1999	24,732,564		1,544,975	293,908	26,571,447	13.6%

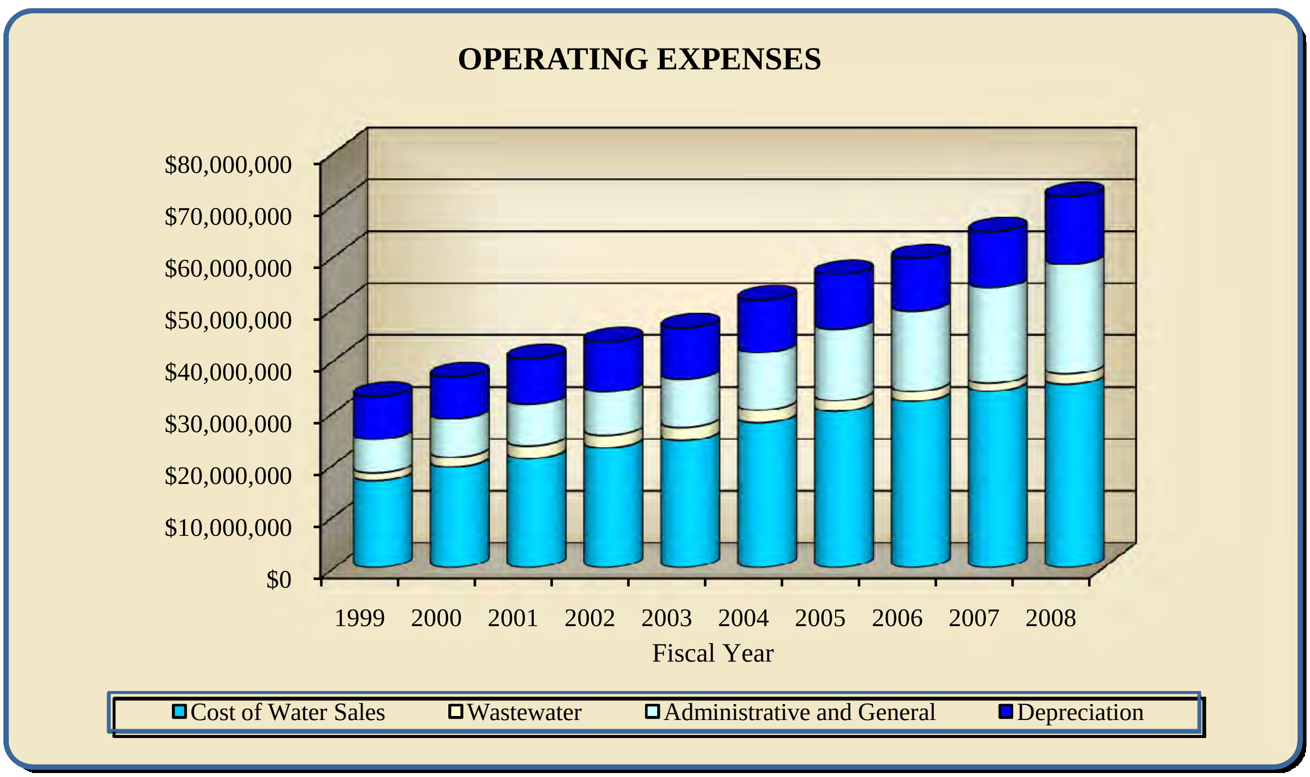


(1) During the year ended June 30, 2001, the District's Board authorized three separate potable water rebates totaling $9,700,089. The rebates were accounted for as a reduction of Water Sales.

Source: *Otay Water District*

OPERATING EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

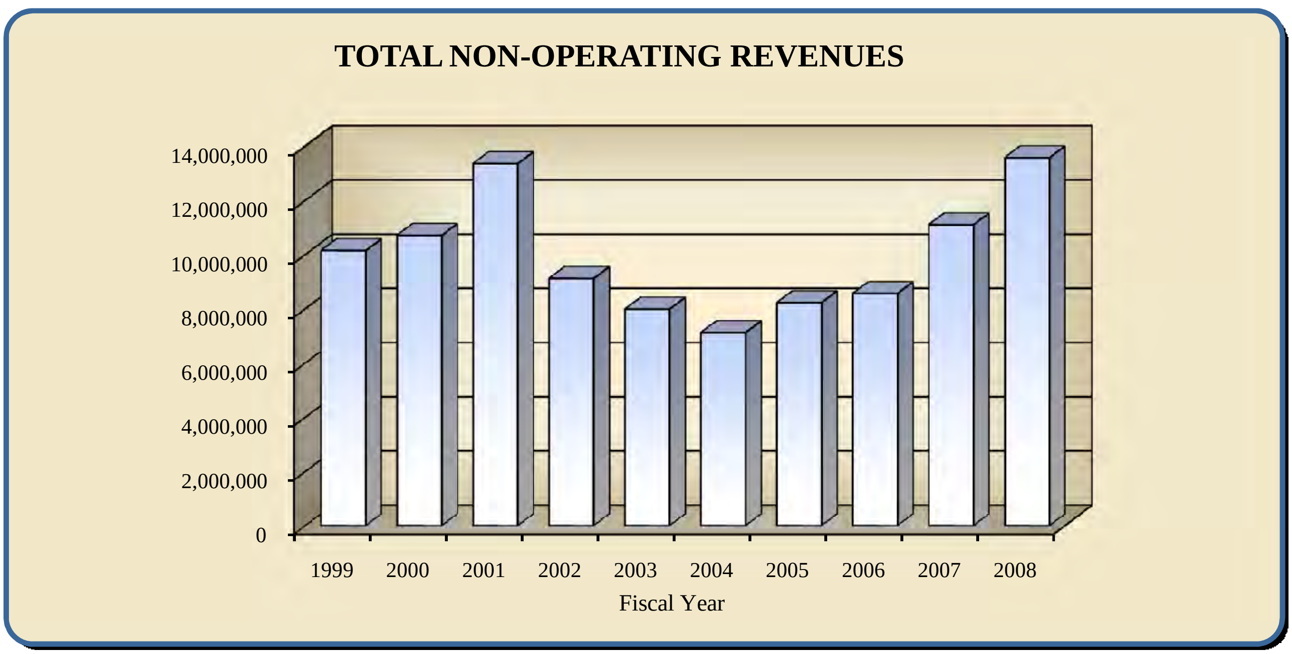
Year	Water Sales	Wastewater	Administrative and General	Depreciation	Total	Percent Change
2008	$ 35,296,002	$ 2,009,876	$ 21,127,922	$ 13,040,572	$ 71,474,372	10.6%
2007	33,994,841	1,508,672	18,418,441	10,729,096	64,651,050	8.6%
2006	32,043,395	1,899,957	15,477,287	10,107,455	59,528,094	5.5%
2005	30,127,087	2,050,643	13,747,611	10,524,134	56,449,475	9.6%
2004	27,899,376	2,446,603	11,081,599	10,088,518	51,516,096	11.6%
2003	24,477,487	2,548,881	9,310,381	9,806,737	46,143,486	6.1%
2002	23,070,355	2,404,720	8,388,045	9,645,918	43,509,038	8.2%
2001	20,998,534	2,447,034	8,014,245	8,743,236	40,203,049	9.5%
2000	19,416,956	1,833,775	7,444,505	8,023,280	36,718,516	11.5%
1999	16,730,248	1,519,670	6,466,836	8,225,750	32,942,504	14.0%



Source: *Otay Water District*

NON-OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS

Fiscal Year	Investment Income	Taxes and Assessments	Availability Charges	Miscellaneous		Total	Percent Change
2008	$ 4,538,791	$ 4,591,023	$ 744,722	$ 3,692,206		$ 13,566,742	22.3%
2007	4,416,342	4,151,956	715,664	1,811,619		11,095,581	29.7%
2006	3,188,645	2,779,635	609,099	1,978,632		8,556,011	4.1%
2005	2,052,292	2,326,526	556,590	3,285,128	(1)	8,220,536	15.5%
2004	1,097,449	3,071,685	1,132,278	1,816,967		7,118,379	-10.8%
2003	2,578,231	2,600,411	1,069,750	1,731,384		7,979,776	-12.4%
2002	4,466,383	2,381,170	1,052,222	1,207,920		9,107,695	-31.8%
2001	7,606,185	3,054,917	1,116,084	1,568,874		13,346,060	24.7%
2000	5,088,516	3,164,910	949,612	1,499,818		10,702,856	5.6%
1999	5,142,904	2,523,746	1,084,910	1,387,088		10,138,648	-15.7%

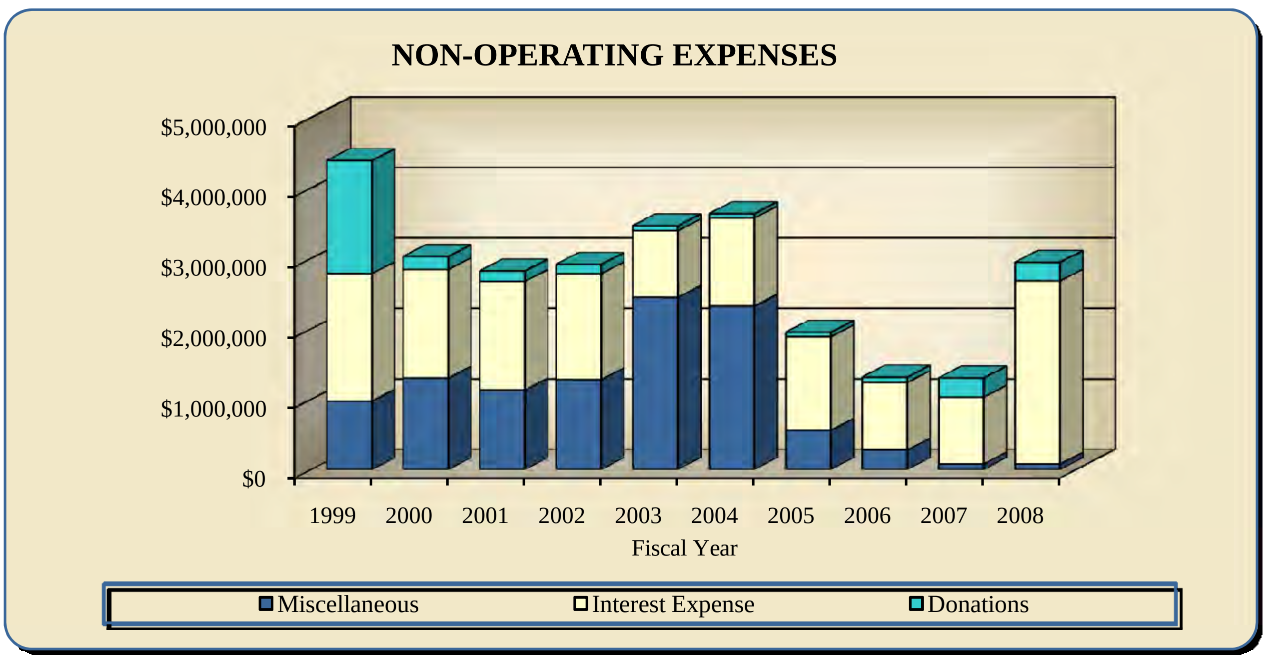


(1) The District sold capital assets during Fiscal Year 2005 which resulted in a gain of $2,196,655.

Source: *Otay Water District*

NON-OPERATING EXPENSES BY FUNCTION
LAST TEN FISCAL YEARS

Fiscal Year	Donations (1)	Interest Expense	Miscellaneous	Total	Percent Change
2008	$ 80,541	$ 2,601,252	$ 261,492	$ 2,943,285	126.1%
2007	80,000	950,479	271,410	1,301,889	-0.9%
2006	75,000	959,225	279,506	1,313,731	-32.6%
2005	61,411	1,327,844	559,799	1,949,054	-46.4%
2004	59,220	1,252,307	2,322,360	3,633,887	4.9%
2003	68,756	947,099	2,446,872	3,462,727	18.8%
2002	131,225	1,503,063	1,280,104	2,914,392	3.3%
2001	145,500	1,543,336	1,131,114	2,819,950	-6.8%
2000	184,507	1,540,592	1,301,961	3,027,060	-31.0%
1999	1,602,883	1,809,747	974,558	4,387,188	53.9%

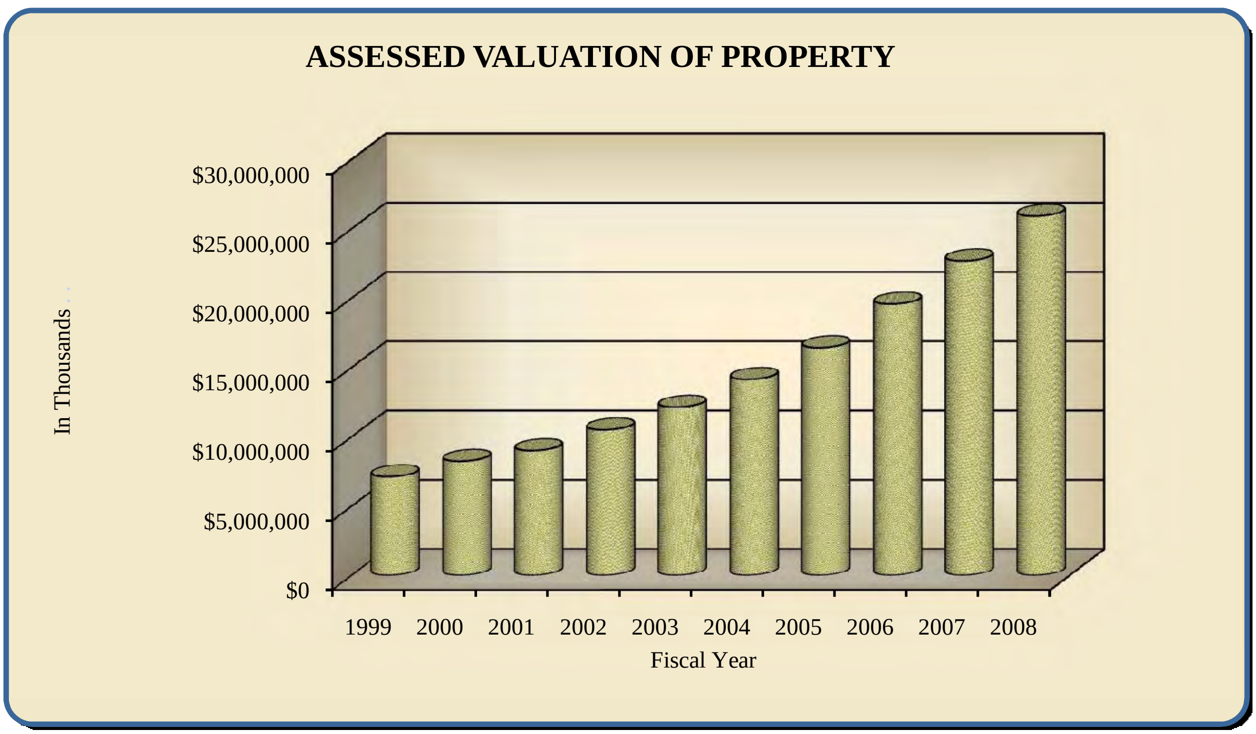


(1) Donations are contributions to the Water Conservation Authority formed in 1999. See Note 10 in the Notes to Financial Statements for more information.

Source: *Otay Water District*

Assessed Valuation of Taxable Property Within The District
Last Ten Fiscal Years

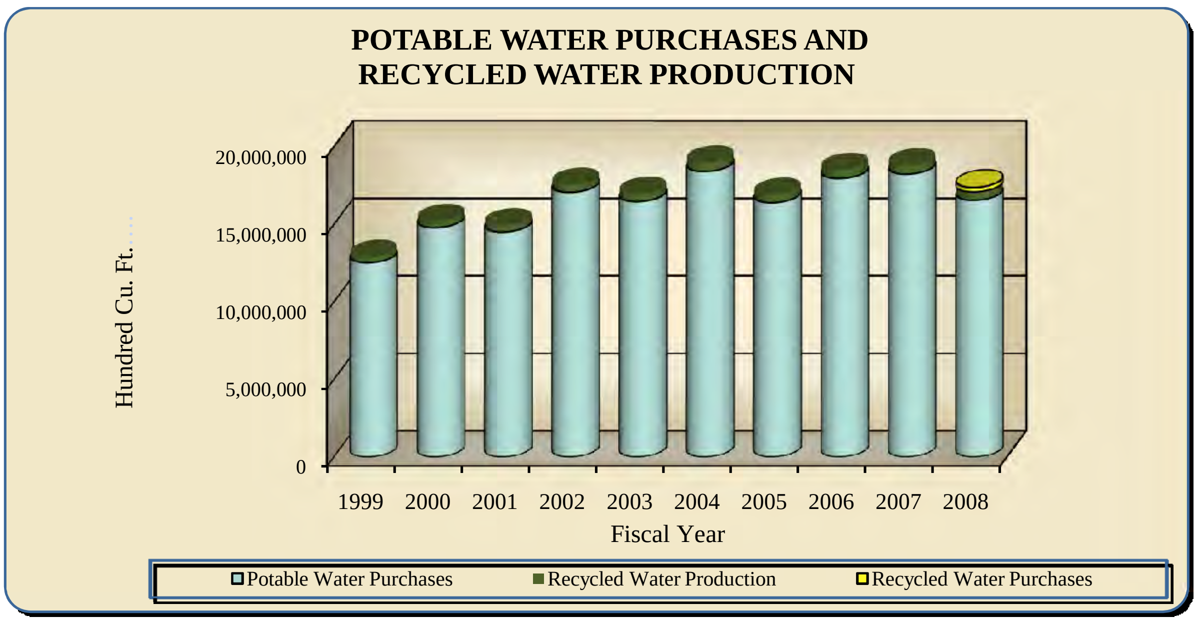
Fiscal Year	Secured	Unsecured	Total	Percent Change
2008	$ 25,333,821,005	$ 568,975,196	$ 25,902,796,201	14.19%
2007	22,166,251,649	518,441,943	22,684,693,592	15.94%
2006	19,204,029,184	361,636,280	19,565,665,464	19.13%
2005	16,121,465,817	301,937,884	16,423,403,701	16.23%
2004	13,833,852,366	296,691,701	14,130,544,067	16.50%
2003	11,786,410,218	343,253,933	12,129,664,151	15.63%
2002	10,239,985,732	249,933,698	10,489,919,430	16.67%
2001	8,767,643,482	223,676,433	8,991,319,915	9.33%
2000	7,809,527,552	414,404,800	8,223,932,352	15.61%
1999	6,953,623,384	159,752,464	7,113,375,848	7.51%



Source: *County of San Diego Auditor and Controller*

WATER PURCHASES, PRODUCTION, AND SALES
LAST TEN FISCAL YEARS

Fiscal Year	Potable Water (1) Per 100 Cubic Feet Purchases	Potable Water (1) Per 100 Cubic Feet Sales	Recycled Water (1) Per 100 Cubic Feet Production	Recycled Water (1) Per 100 Cubic Feet Purchases	Recycled Water (1) Per 100 Cubic Feet Sales
2008	16,572,271	15,575,662	538,227	1,566,148	2,001,137
2007	18,255,735	16,059,464	550,206	284,499 (2)	1,920,287
2006	17,972,146	14,723,988	537,400	-	1,722,057
2005	16,412,711	13,708,001	501,114	-	1,447,020
2004	18,424,007	14,711,176	568,589	-	1,492,453
2003	16,486,502	13,613,885	486,739	-	1,109,691
2002	17,084,537	13,723,241	471,581	-	1,000,007
2001	14,521,902	12,057,399	418,873	-	674,670
2000	14,801,644	12,023,682	408,636	-	564,843
1999	12,537,309	10,335,051	363,029	-	390,603



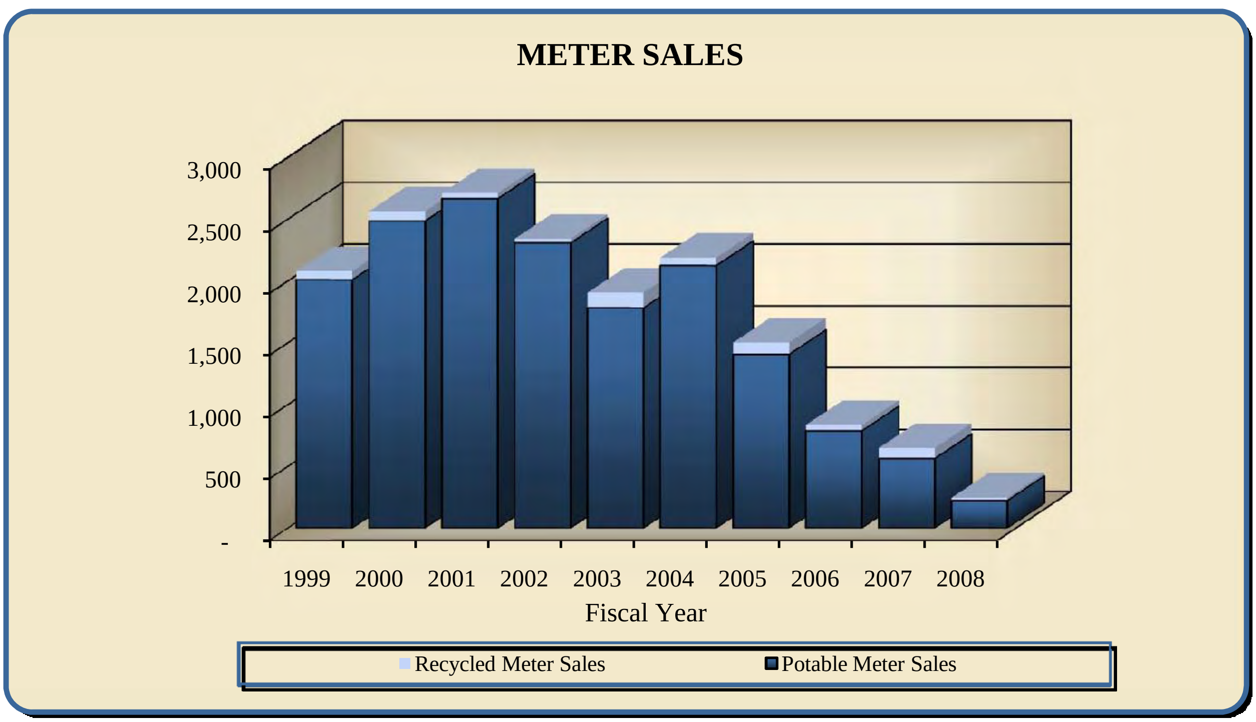
(1) Rates are not presented on this schedule because the District has multiple water rates for various meter sizes and cannot represent rates in a meaningful manner with a weighted average rate. See Water and Sewer rates on page 63 for meter sizes and their corresponding water rates.

(2) The District entered into an agreement with the City of San Diego and began purchasing recycled water from their South Bay Water Reclamation Plant in 2007.

Source: *Otay Water District*

Meter Sales by Type
Last Ten Fiscal Years

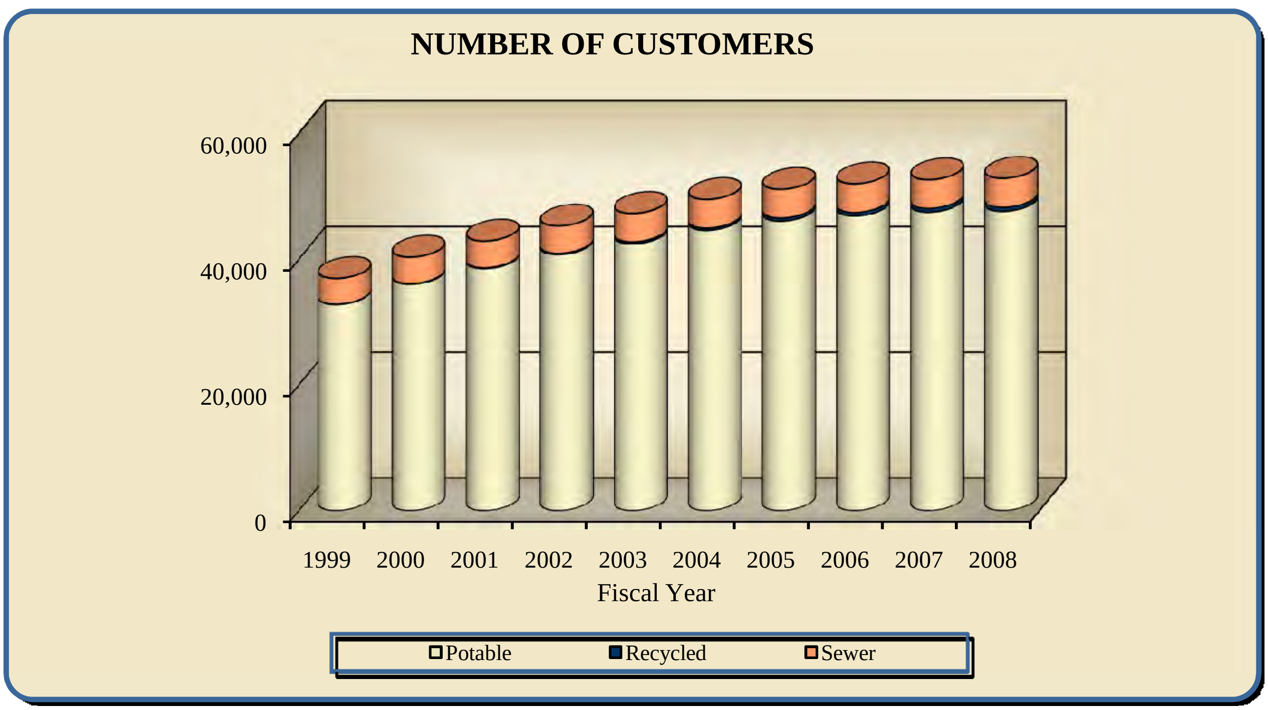
Fiscal Year	Potable	Recycled	Total
2008	224	22	246
2007	563	85	648
2006	788	47	835
2005	1,406	95	1,501
2004	2,125	64	2,189
2003	1,782	123	1,905
2002	2,308	33	2,341
2001	2,667	43	2,710
2000	2,485	78	2,563
1999	2,010	69	2,079



Source: *Otay Water District*

NUMBER OF CUSTOMERS BY SERVICE TYPE
LAST TEN FISCAL YEARS

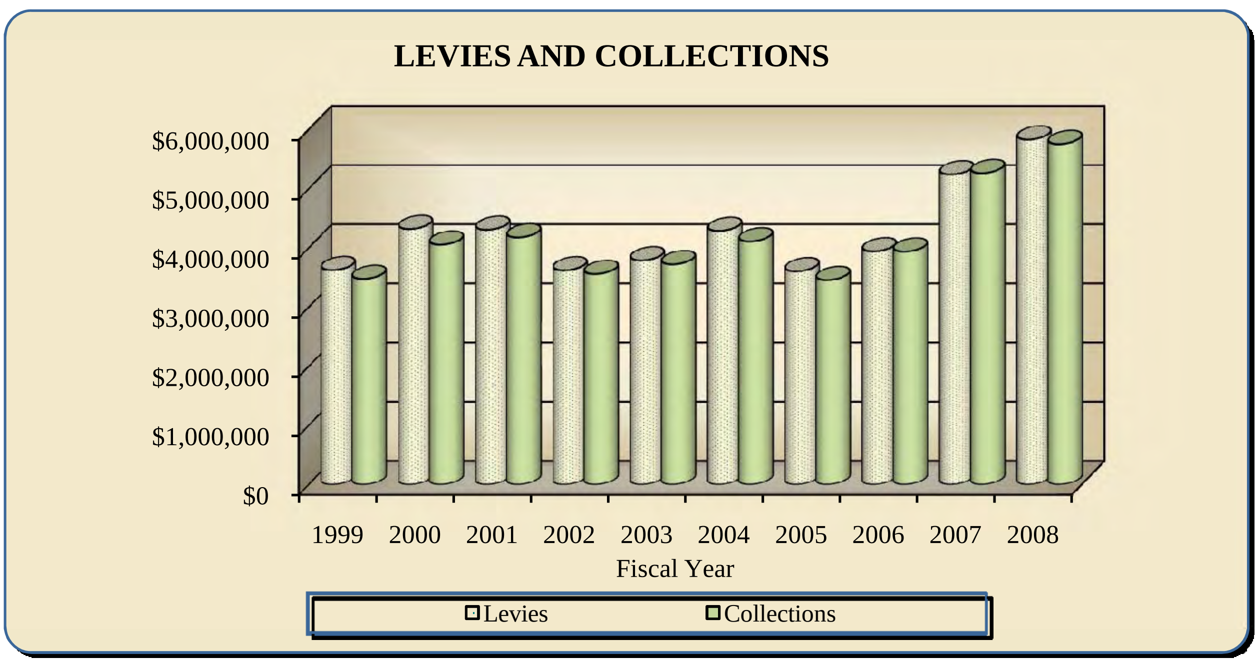
Fiscal Year	Potable	Recycled	Sewer	Total
2008	47,591	626	4,627	52,844
2007	47,461	588	4,567	52,616
2006	46,851	558	4,571	51,980
2005	46,042	483	4,570	51,095
2004	44,583	348	4,548	49,479
2003	42,438	312	4,510	47,260
2002	40,732	189	4,342	45,263
2001	38,502	128	4,240	42,870
2000	36,005	106	4,199	40,310
1999	32,773	59	4,094	36,926



Source: *Otay Water District*

PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

Fiscal Year	LEVIES (1) 1% Property Tax	Special Assessments	Total Levies	Total Collections (1)	Net Receivable	Percent Collected
2008	3,202,880	2,627,518	5,830,398	5,754,836	75,562	99%
2007	2,775,882	2,465,497	5,241,379	5,263,367	(21,988)	100%
2006	1,420,049	2,519,927	3,939,976	3,935,983	3,993	100%
2005	1,173,319	2,430,267	3,603,586	3,455,852	147,734	96%
2004	1,844,604	2,442,356	4,286,961	4,108,581	178,380	96%
2003	1,541,362	2,246,865	3,788,227	3,721,776	66,451	98%
2002	1,314,354	2,305,191	3,619,545	3,558,105	61,440	98%
2001	1,134,675	3,171,206	4,305,882	4,176,331	129,551	97%
2000	997,055	3,321,696	4,318,751	4,053,482	265,269	94%
1999	870,451	2,753,571	3,624,023	3,475,903	148,120	96%



(1) Levies and collections include Current Secured, Current Unsecured, and Supplemental Homeowners Exemptions.

WATER AND SEWER RATES
LAST TEN FISCAL YEARS

Base Rate (Meter Size)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Residential										
3/4"	$ 12.30	$ 11.30	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25	$ 10.25
1"	19.80	18.15	16.50	16.50	16.50	16.50	16.50	16.50	16.50	16.50
1.5"		35.75	32.50	32.50	32.50	32.50	32.50	32.50	32.50	32.50
Non-Residential & Others **(1)**										
3/4"	24.00	22.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
1"	36.95	33.90	30.80	30.80	30.80	30.80	30.80	30.80	30.80	30.80
1.5"	51.95	47.50	43.30	43.30	43.30	43.30	43.30	43.30	43.30	43.30
2"	64.95	59.60	54.20	54.20	54.20	54.20	54.20	54.20	54.20	54.20
3"	104.55	95.90	87.20	87.20	87.20	87.20	87.20	87.20	87.20	87.20
4"	119.70	109.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80	99.80
6"	239.20	219.45	199.50	199.50	199.50	199.50	199.50	199.50	199.50	199.50
10"	456.60	418.90	380.50	380.50	380.50	380.50	380.50	380.50	380.50	380.50
Fire Services										
All Types	25.40	23.30	21.20	21.20	21.20	21.20	21.20	21.20	21.20	21.20
Usage Rate										
Residential:										
Tier 1 (1-5)	1.12	1.08	1.05	1.01	1.01	1.01	1.01	1.01	1.01	1.01
Tier 2 (6-25)	1.85	1.78	1.73	1.67	1.67	1.67	1.67	1.67	1.67	1.67
Tier 3 (26-35)	2.01	1.94	1.88	1.81	1.81	1.81	1.81	1.81	1.81	1.81
Tier 4 (36-50) (2)	2.94	2.83	2.75	2.65	2.13	2.13	2.13	2.13	2.13	2.13
Tier 5 (51+)	-	-	-	-	2.65	2.65	2.65	2.65	2.65	2.65
Master Meter:										
Tier 1 (1-5)	1.85	1.78	1.73	1.67	1.78	1.78	1.78	1.78	1.78	1.78
Tier 2 (6-25)	2.01	1.94	1.88	1.81	-	-	-	-	-	-
Tier 3 (16+)	2.94	2.83	2.75	2.65	-	-	-	-	-	-
Publicly-Owned	2.06	1.99	1.93	1.86	1.86	1.86	1.86	1.86	1.86	1.86
Commercial & Others (3)	1.98	1.91	1.85	1.78	1.78	1.78	1.78	1.78	1.78	1.78
Recycled (Commercial)	1.67	1.65	1.57	1.51	1.51	1.51	1.51	1.51	1.51	1.51
Recycled (Publicly-Owned)	1.75	1.73	1.65	1.59	1.59	1.59	1.59	1.59	1.59	1.59
Sewer Rates	33.26	32.70	30.90	26.90	23.35	20.95	20.95	20.95	20.95	20.95

Note: *Above rates do not include Infrastructure Access Charge, a pass-through charge from CWA and MWD.*

(1) For services provided through one meter to more than one occupancy, an additional fee of $3.21 will be charged for each unit in a multiple unit residential, commercial or industrial building.
(2) Effective January 2005, Tier 5 has been eliminated and replaced by Tier 4 (36+).
(3) Others include landscaping, agricultural, and temporary meters. Agricultural customers under Interim Agricultural Water Program (IAWP) shall receive a $0.33 discount per hundred cubic feet (HCF)

Source: *Otay Water District*

TEN LARGEST CUSTOMERS
CURRENT YEAR AND NINE YEARS AGO

FISCAL YEAR 2008

Customer Name	Business Type	Annual Revenues		% of Water Sales
1. City of Chula Vista	Publicly Owned	$	1,934,992	3.8%
2. State of California	Publicly Owned		961,095	1.9%
3. County of San Diego	Publicly Owned		772,190	1.5%
4. Eastlake III Community Assoc	Construction (Potable, Temporary)		602,122	1.2%
5. Eastlake Country Club	Irrigation (Reclaimed, Permanent)		399,287	0.8%
6. Steele Canyon	Irrigation (Reclaimed, Permanent)		359,162	0.7%
7. Salt Creek Partners LLC	Irrigation (Reclaimed, Permanent)		349,322	0.7%
8. Eastlake Summit	Mater-Metered (Potable, Permanent)		316,696	0.6%
9. Sweetwater School District	Publicly Owned		294,320	0.6%
10. Otay Project LP	Construction (Potable, Temporary)		271,068	0.5%
Total (10 Largest)		$	6,260,254	12.3%
Other Customers		$	44,548,571	87.7%
Total Water Sales		$	50,808,825	100.0%

FISCAL YEAR 2004 (1)

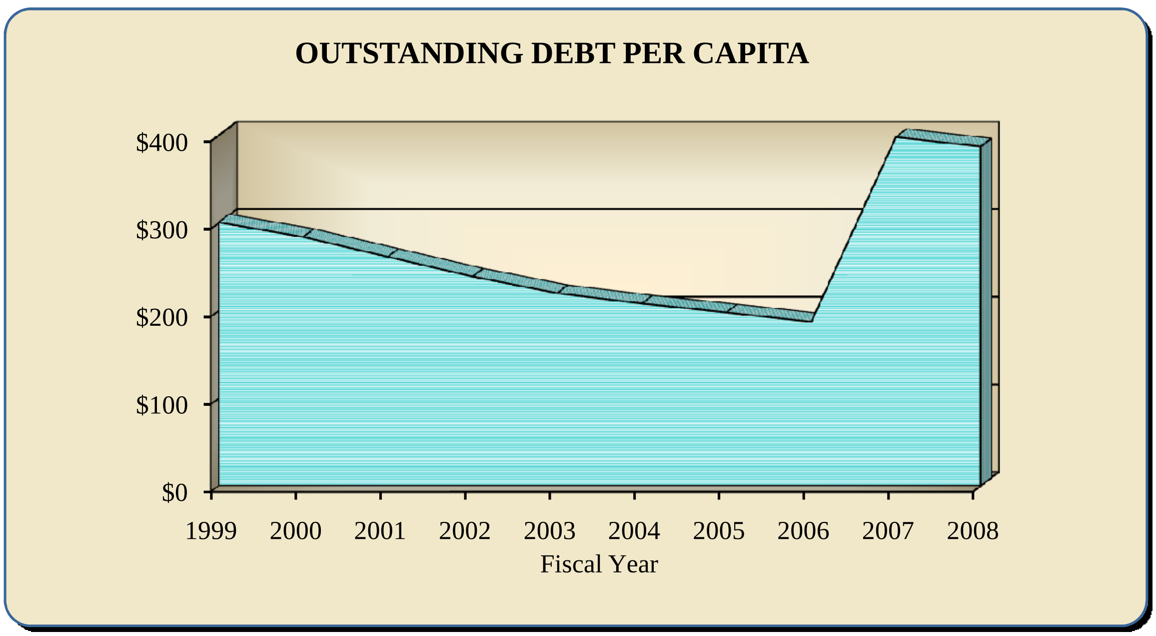
Customer Name	Business Type	Annual Revenues		% of Water Sales
1. City of Chula Vista	Publicly Owned	$	1,127,011	2.9%
2. State of California	Publicly Owned		849,140	2.2%
3. County of San Diego	Publicly Owned		725,507	1.9%
4. Steele Canyon	Irrigation (Potable Permanent)		526,582	1.3%
5. Eastlake III	Business/Irrigation (Reclaimed)		419,942	1.1%
6. Singing Hills	Residential/Irrigation (Potable Permanent)		390,720	1.0%
7. McMillin	Construction (Potable Temporary)		377,591	1.0%
8. Eastlake Country Club	Irrigation (Reclaimed Permanent)		325,036	0.8%
9. California Bank & Trust	Irrigation (Reclaimed Permanent)		243,689	0.6%
10. Sweetwater School District	School/Irrigation (Reclaimed Publicly Owned)		224,054	0.6%
Total (10 Largest)		$	5,209,273	13.3%
Other Customers		$	33,835,439	86.7%
Total Water Sales		$	39,044,712	100.0%

(1) Because the District did not begin tracking its ten largest customers until Fiscal Year 2004, data for nine years ago is not available. Accordingly, the current fiscal year and Fiscal Year 2004 are presented.

Source: *Otay Water District*

RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Population Estimate	GO Bond	COPS	Notes	Capital Leases	Total	Per Capita	As a Share of Personal Income (1)
2008	191,500	$ 8,093,302	$65,061,579	1,031,730	-	$74,186,611	387.40	0.91%
2007	190,000	$ 8,445,029	$65,851,790	1,350,778	-	$75,647,597	398.15	0.93%
2006	189,000	8,776,755	24,909,352	1,659,037	51,589	35,396,733	187.28	0.46%
2005	186,000	9,093,482	25,653,607	1,956,871	100,666	36,804,626	197.87	0.49%
2004	180,000	9,395,209	25,666,312	2,244,633	147,343	37,453,497	208.07	0.54%
2003	176,000	9,681,937	26,298,239	2,522,665	191,742	38,694,583	219.86	0.62%
2002	166,000	9,953,664	26,915,166	2,791,295	-	39,660,125	238.92	0.69%
2001	156,000	10,210,392	27,517,093	3,050,841	-	40,778,326	261.40	0.77%
2000	147,000	10,452,118	28,004,021	3,301,610	-	41,757,749	284.07	0.87%
1999	142,000	10,683,845	28,480,948	3,543,899	-	42,708,692	300.77	0.99%

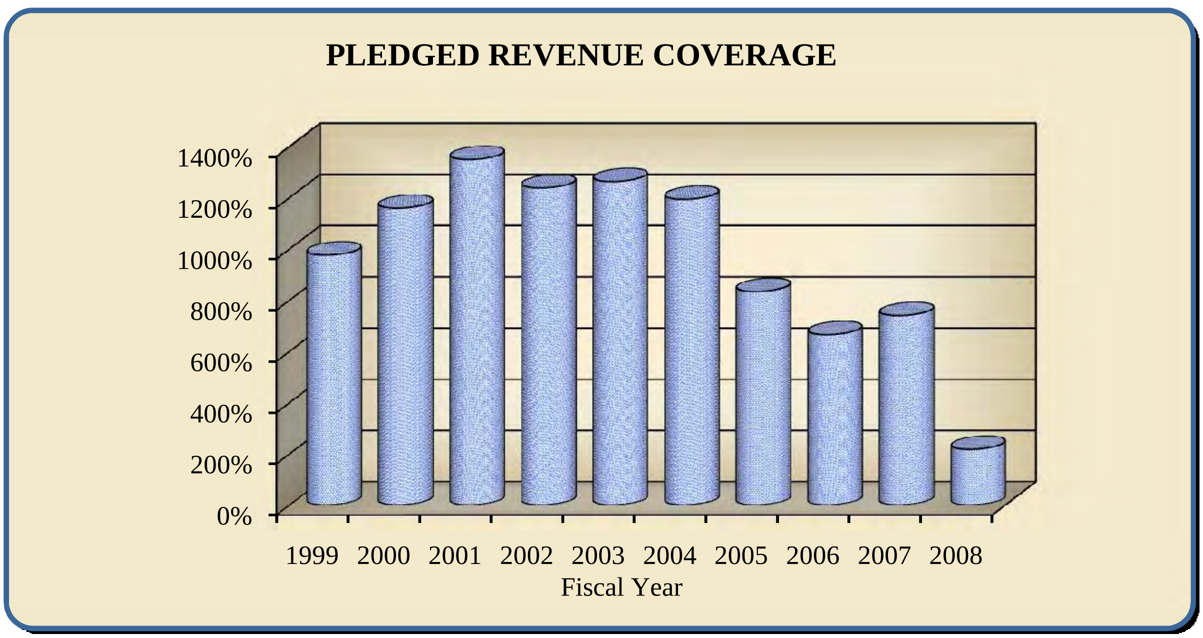


(1) See the Demographics and Economic Statistics schedule on page 70 for personal income data. Because per capita personal income data was not available for 2007 or 2008 the percentages for 2008 and 2007 were calculated using per capita personal income for 2006.

Source: *Otay Water District*

Pledged Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Adjusted Revenue (1)	Adjusted Operating Expense (2)	Net Revenue Available for Debt Service	Debt Service Requirements Principal	Interest	Total	Coverage Factor (3)
2008	$ 63,732,275	$ 56,420,286	7,311,989	$800,000	$2,567,884	3,367,884	217%
2007	69,442,301	52,413,282	17,029,019	790,000	1,513,834	2,303,834	739%
2006	58,572,428	47,520,682	11,051,746	745,000	917,790	1,662,790	665%
2005	56,597,040	43,936,109	12,660,931	650,000	869,715	1,519,715	833%
2004	57,195,289	38,980,975	18,214,314	635,000	891,796	1,526,796	1,193%
2003	53,077,164	33,787,868	19,289,296	620,000	908,416	1,528,416	1,262%
2002	51,604,999	31,904,402	19,700,597	605,000	987,467	1,592,467	1,237%
2001	51,547,298	29,012,779	22,534,519	490,000	1,181,032	1,671,032	1,349%
2000	46,922,341	26,861,461	20,060,880	480,000	1,252,054	1,732,054	1,158%
1999	39,509,478	23,197,084	16,312,394	470,000	1,202,210	1,672,210	975%

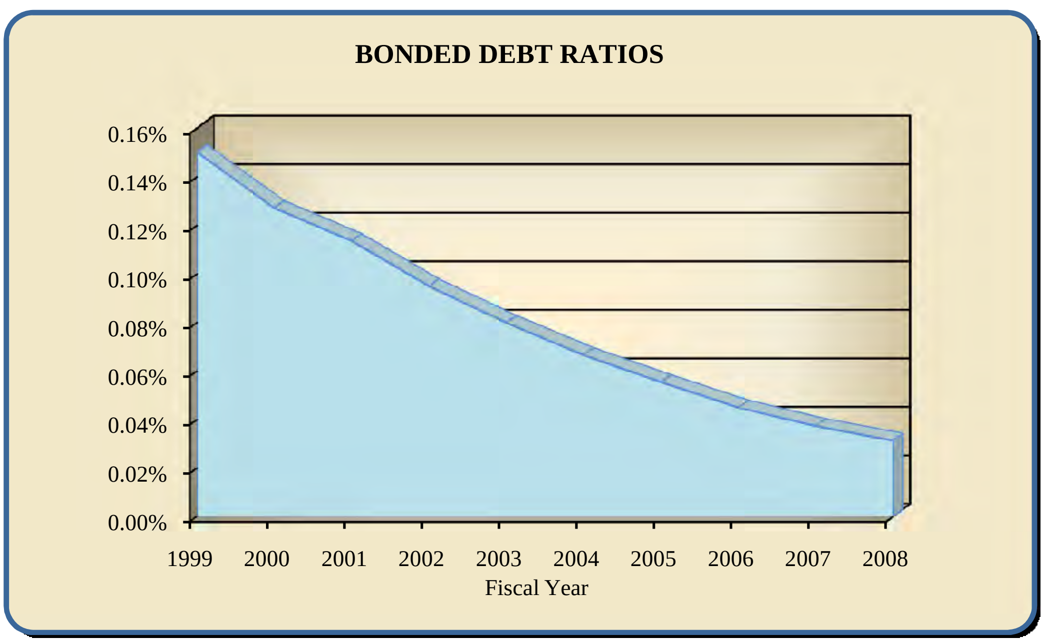


(1) Adjusted revenues exclude sewer revenues and taxes collected for Improvement District 27 and are inclusive of capacity fees.
(2) Adjusted operating expenses exclude sewer expenses and depreciation expense.
(3) The District's bond covenants require a minimum coverage factor of 120%.

***Source** : Otay Water District*

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	Population Estimate	Assessed Valuation	Net Bonded Debt	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
2008	191,500	$ 25,902,796,201	$8,093,302	0.03%	42.26
2007	190,000	$ 22,684,693,592	$8,449,025	0.04%	44.47
2006	189,000	19,565,665,464	8,776,755	0.04%	46.44
2005	186,000	16,423,403,701	9,093,482	0.06%	48.89
2004	180,000	14,130,544,067	9,395,209	0.07%	52.20
2003	176,000	12,129,664,151	9,681,937	0.08%	55.01
2002	166,000	10,489,919,430	9,953,664	0.09%	59.96
2001	156,000	8,991,319,915	10,210,392	0.11%	65.45
2000	147,000	8,223,932,352	10,452,118	0.13%	71.10
1999	142,000	7,113,375,848	10,683,845	0.15%	75.24



Source: *Otay Water District*

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
JUNE 30, 2008

2007-08 Assessed Valuation:	$	25,902,796,201
Redevelopment Incremental Valuation:		257,829,228
Adjusted Assessed Valuation:	$	25,644,966,973

OVERLAPPING TAX AND ASSESSMENT DEBT:		Total Debt 6/30/2008	% Applicable (1)		District's Share of Debt 6/30/08
Metropolitan Water District	$	327,215,000	1.450%	$	4,744,618
Otay Municipal Water District Improvement District No. 27		**8,810,000**	**100.000**		**8,810,000**
Padre Dam Municipal Water District Improvement District No. CB		120,000	0.204		29
Grossmont-Cuyamaca Community College District		206,552,021	17.531		36,210,635
Southwestern Community College District		86,458,580	48.012		41,510,493
Grossmont Union High School District		168,645,422	18.089		30,506,270
Sweetwater Union High School District		356,614,445	55.777		198,908,822
Chula Vista City School District		83,065,000	65.747		54,612,746
San Ysidro School District		89,977,104	48.139		43,314,078
Other School Districts		2,030,768,250	Various		31,958,153
City of San Diego		8,170,000	0.95		77,615
San Diego Open Space Park Facilities District No. 1		7,010,000	0.95		66,595
Grossmont Healthcare District		85,627,076	15.974		13,678,069
City of Chula Vista Community Facilities District		245,035,000	100		245,035,000
Chula Vista City School District Community Facilities Districts		7,125,000	100		7,125,000
Sweetwater Union High School District Community Facilities Districts		204,656,814	2.523-100		190,040,214
City 1915 Act Bonds (Estimate)		67,765,489	37.539-100		55,730,074
California Statewide Communities Development Authority					
San Diego County/ Venture Community Center Assessment District		1,131,727	100		1,131,772
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT				$	963,460,183
Less: San Diego Open Space Park Facilities District No. 1 (self-supporting)					66,595
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT				$	963,393,588

DIRECT AND OVERLAPPING GENERAL FUND DEBT:					
San Diego County General Fund Obligations	$	357,645,000	7.476%	$	26,737,540
San Diego County Pension Obligations		1,053,187,916	7.476		78,736,329
San Diego Superintendent of Schools Certificates of Participation		17,267,500	7.476		1,290,918
Otay Water District Certificates of Participation		**65,335,000**	**100.000**		**65,335,000**
Grossmont and Southwestern Community College District General Fund Obligations		3,775,000	17.531 & 48.012		1,201,309
Grossmont Union High School District Certificates of Participation		1,592,500	18.089		288,067
Sweetwater Union High School District Certificates of Participation		15,030,000	55.777		8,383,283
Chula Vista City School District Certificates of Participation		131,565,000	65.747		86,500,041
San Ysidro School District Certificates of Participation		32,925,000	48.139		15,849,766
Other School District Certificates of Participation		18,840,000	Various		4,960,260
City of Chula Vista Certificates of Participation		135,045,000	74.342		100,395,154
City of Chula Vista Pension Obligations		8,820,000	74.342		6,556,964
City of San Diego General Fund Obligations		463,645,000	0.95		4,404,628
San Miguel Consolidated Fire Protection District Certificates of Participation		8,100,000	57.357		4,645,917
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT				$	405,285,176
Less: **Otay Water District Certificates of Participation (self-supporting)**					**65,335,000**
Sweetwater Union High School District self-supporting Qualified Zone Academy Bonds					348,606
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT				$	339,601,570
GROSS COMBINED TOTAL DEBT (2)				$	1,368,745,359
NET COMBINED TOTAL DEBT				$	1,302,995,158

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the district.

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

Ratios to 2007-08 Assessed Valuation:	
Total Gross Overlapping Tax and Assessment Debt	3.72%
Total Net Overlapping Tax and Assessment Debt	3.72%

Ratios to Adjusted Assessed Valuation:	
Gross Combined Direct Debt ($65,335,000)	**0.25%**
Net Combined Direct Debt	**0.00%**
Gross Combined Total Debt	5.34%
Net Combined Total Debt	5.08%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/08: $0

***Source:** California Municipal Statistics, Inc. and Otay Water District*

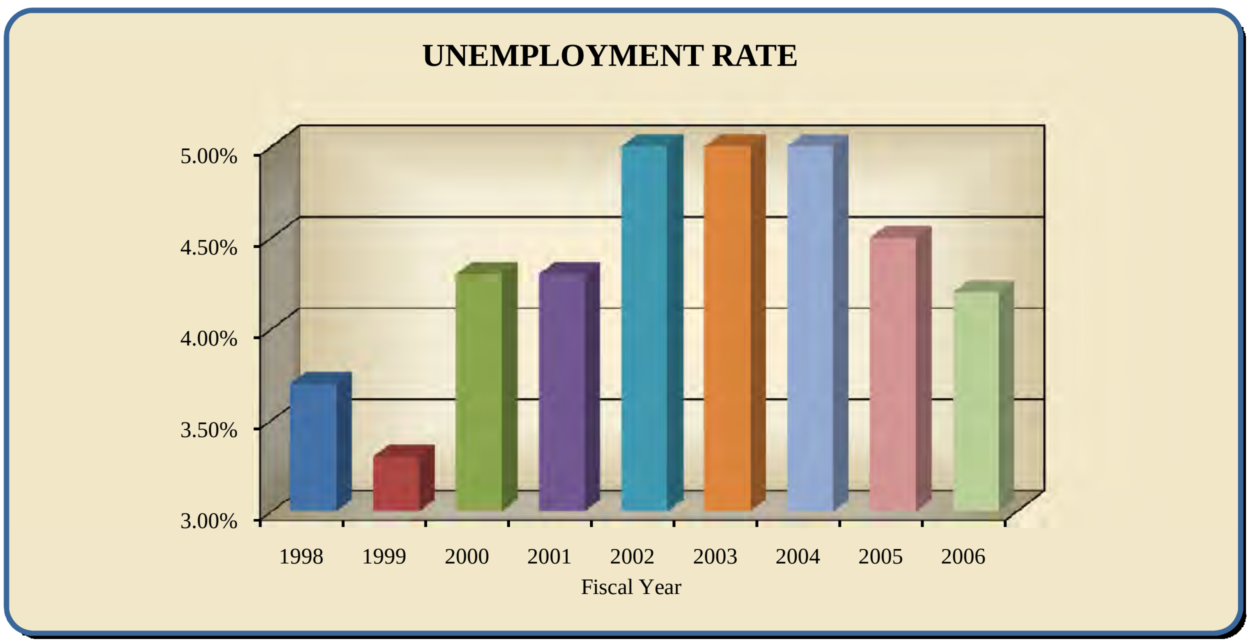
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2008			1999		
Employer	**Employees**	**Rank**	**% of Total County Employment**	**Employees**	**Rank**	**% of Total County Employment**
United States Navy	42,000	1	2.84%	-	-	-
Federal Government	39,100	2	2.65%	43,300	1	3.31%
State of California	37,100	3	2.51%	32,600	2	2.49%
University of California, San Diego	24,790	4	1.68%	18,829	3	1.44%
San Diego Unified School District	21,073	5	1.43%	12,292	5	0.94%
City of San Diego	20,700	6	1.40%	11,100	6	0.85%
County of San Diego	18,900	7	1.28%	17,700	4	1.35%
Sharp Healthcare	13,872	8	0.94%	7,931	8	0.61%
Scripps Health	10,313	9	0.70%	5,898	10	0.45%
Kaiser Permanente	7,386	10	0.50%	-	-	-
United States Postal Service	-	-	-	7,018	9	0.54%
Qualcomm, Inc.	-	-	-	10,500	7	0.80%
Total	235,234		16.36%	167,168		12.76%

Source: *San Diego County Water Authority, County of San Diego, and San Diego Business Journal*

DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Year		Population	Personal Income (in 000'S)	Per Capita Personal Income	Unemployment Rate
2006	(1)	2,948,362	$ 126,193,721	$ 42,801	4.20%
2005		2,941,658	118,792,540	40,383	4.50%
2004		2,938,822	113,003,044	38,452	5.10%
2003		2,932,802	104,630,453	35,676	5.70%
2002		2,908,091	100,655,726	34,612	5.30%
2001		2,870,023	97,009,480	33,801	4.30%
2000		2,825,752	92,654,006	32,789	4.30%
1999		2,789,593	84,346,910	30,236	3.30%

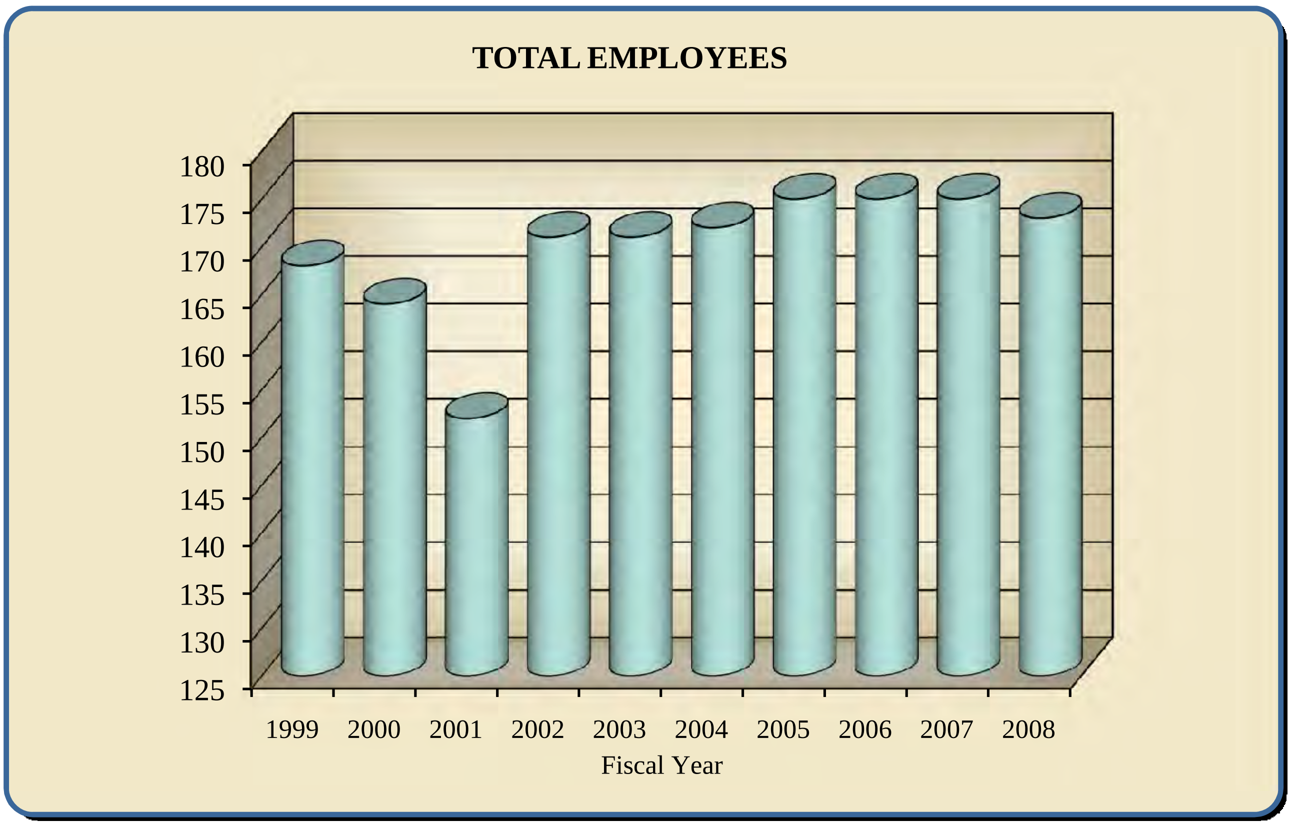


(1) Information for Fiscal Year 2008 and Fiscal Year 2007 was not available at the time of this report.

Source: *County of San Diego*

NUMBER OF EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Department		2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
General Manager		6	6	6	6	4	4	3	6	8	8
Finance		36	35	34	34	33	32	32	33	33	32
Operations/Maintenance		71	71	72	71	70	70	71	73	74	71
Engineering		27	31	15	13	33	31	24	27	32	31
Administrative Services		20	19	19	20	21	24	16	19	14	14
IT and Strategic Planning		13	13	12	11	10	10	6	6	7	6
Development Services	(1)	-	-	17	17	-	-	-	-	-	-
Total		173	175	175	172	171	171	152	164	168	162

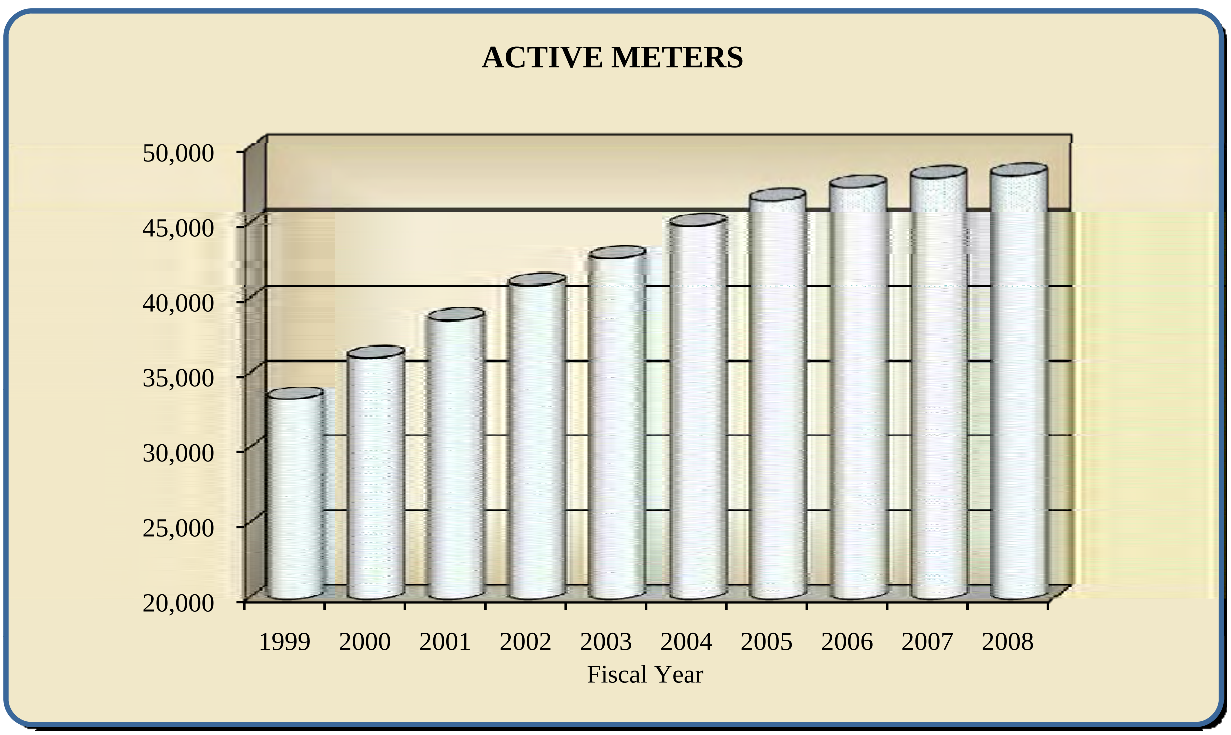


(1) Development Services was broken out from the Engineering and Planning Department in FY 2005 and then re-combined in FY 2007.

***Source** : Otay Water District*

ACTIVE METERS BY SIZE
LAST TEN FISCAL YEARS

Meter Size	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
3/4"	43,551	43,544	43,070	42,420	41,069	39,138	37,178	35,014	32,672	30,456
1"	1,747	1,618	1,514	1,364	1,220	1,132	1,110	1,079	1,041	1,010
1-1/2"	1,275	1,242	1,199	1,147	1,037	918	889	837	806	766
2"	1,283	1,262	1,242	1,199	1,168	1,140	1,124	1,084	1,059	992
3"	76	76	69	67	66	61	57	50	43	40
4"	258	275	277	289	329	308	526	496	431	55
6"	19	24	27	27	27	27	40	35	34	14
Others	10	7	11	12	15	26	35	35	25	12
Total	48,219	48,048	47,409	46,525	44,931	42,750	40,959	38,630	36,111	33,345
% Change	0.4%	1.3%	1.9%	3.5%	5.1%	4.4%	6.0%	7.0%	8.3%	7.5%
Increase	171	639	884	1,594	2,181	1,791	2,329	2,519	2,766	2,325

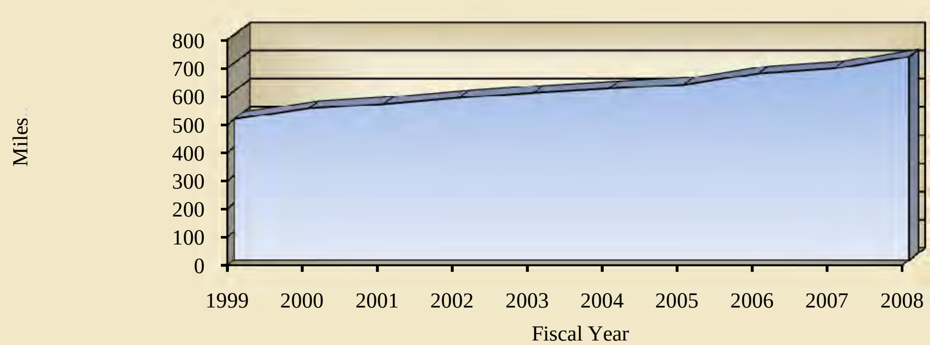


Source *: Otay Water District*

OPERATING AND CAPITAL INDICATORS
LAST TEN FISCAL YEARS

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Water System										
Service Area (Square Miles)	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5	125.5
Miles of Potable Water Main	722	680	663	623	609	594	576	554	539	501
Number of Operational Storage Reservoirs in Service	36	37	37	36	37	37	38	37	37	37
Water Storage Capacity (in Acre-Feet)	605.5	601.7	601.7	582.4	585.4	582.3	587.5	538.4	538.4	538.4
Total Water Connections (No. of Meters in Service)	48,376	47,615	47,409	46,525	44,931	42,750	40,959	38,630	36,111	33,345
Number of Pump Stations	24	24	22	21	21	21	21	20	20	20
Number of Potable Water Valves	19,131	18,721	18,042	17,696	16,204	15,830	15,073	14,296	13,519	12,340
Sewer System										
Miles of Sewer Lines	88.0	86.2	86.2	85.9	85.4	84.8	83.5	82.9	82.1	81.3
Number of Treatment Plants	1	1	1	1	1	1	1	1	1	1
Treatment Plant Capacity (Million Gallons per Day)	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Flows for Fiscal Year 2008 (in Million Gallons)	503	514	528	506	479	463	455	452	442	413
Recycled System										
Miles of Recycled Water Mains	93.0	83.0	77.6	76.4	70.7	60.6	49.2	40.3	37.7	29.3
Number of Pumping Facilities	3	3	2	2	2	2	1	1	1	1
Number of Acre-Feet Storage	135.0	134.1	97.3	97.3	97.3	97.3	86.9	86.9	86.9	86.9
Number of Recycled Water Valves	1,314	1,245	1,189	1,155	1,097	948	730	588	542	437

MILES OF POTABLE WATER MAINS



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Otay Water District

2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004
www.otaywater.gov

APPENDIX D
ECONOMIC PROFILE FOR COUNTY OF SAN DIEGO AND CITY OF CHULA VISTA

Introduction

Discrete demographic and economic data are not available for ID 27. However, ID 27 lies totally within the City of Chula Vista and as such, the information provided herein for the City of Chula Vista and the San Diego region will serve as a useful representation of the area.

The County of San Diego is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence which contributes approximately $10 billion into the retail and service businesses of the area.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center contains 361,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms. The Convention Center can accommodate events for 30,000-40,000 people.

Chula Vista is located 8 miles south of the City of San Diego and 7 miles north of the Mexico border, in an area generally known as "South Bay." Chula Vista's city limits cover approximately 50 square miles. With a January 2009 estimated population of 233,100, Chula Vista is the second largest city in the County.

Population

The City of Chula Vista and County of San Diego have experienced rapid growth and development in the past decade. The County has become the nineteenth most populous metropolitan area in the United States. The City of San Diego is the sixth most populous city in the United States. Total population for the County is expected to be over 3.63 million by the year 2015.

The following table shows the January 1 State of California Department of Finance estimates of total population in the City of Chula Vista, the County of San Diego and the State of California for each year since 2000, and the increase from the previous year.

TABLE NO. D-1
CITY OF CHULA VISTA, COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA
POPULATION

	CITY OF CHULA VISTA		COUNTY OF SAN DIEGO		STATE OF CALIFORNIA	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2000	173,543		2,813,833		33,873,086	
2001	181,619	4.7%	2,864,539	1.8%	34,430,970	1.6%
2002	191,236	5.3%	2,920,806	2.0%	35,063,959	1.8%
2003	200,757	5.0%	2,970,899	1.7%	35,652,700	1.7%
2004	208,802	4.0%	3,007,285	1.2%	36,199,342	1.5%
2005	217,143	4.0%	3,034,388	0.9%	36,676,931	1.3%
2006	223,490	2.9%	3,058,413	0.8%	37,086,191	1.1%
2007	227,242	1.7%	3,088,891	1.0%	37,472,074	1.0%
2008	230,397	1.4%	3,131,552	1.4%	37,883,992	1.1%
2009	233,108	1.2%	3,173,407	1.3%	38,292,687	1.1%
% Increase Between						
2000 - 2009		34.3%		12.8%		13.0%

Source: State of California, Department of Finance, "*E-4 Population Estimates for Cities, Counties and the State, 2001-2009, with 2000 Benchmark.*"

Per Capita Income

Per capita income information for Chula Vista, San Diego County, the State of California and the United States are summarized in the following table.

TABLE NO. D-2
PER CAPITA INCOME
CHULA VISTA, SAN DIEGO COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
2003 – 2007

Year	Chula Vista	San Diego County	State of California	United States
2003	$35,180	$35,810	$33,469	$31,466
2004	36,190	38,536	35,313	33,072
2005	36,360	40,383	37,183	34,685
2006	37,020	42,801	39,358	36,629
2007	37,360	44,832	41,571	38,615

Source: County of San Diego, Comprehensive Annual Financial Report for the Year Ended June 30, 2008 and State of California Department of Finance; State of California Employment Development Department.

The City of Chula Vista is located in the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (MSA). Six major job categories constitute 78.9% of the work force. They are government (18.0%), professional and business services (16.3%), service producing (13.9%), leisure and hospitality (12.6%), educational and health services (10.7%), and manufacturing (7.4%). The June 2009 unemployment rate in the San Diego-Carlsbad-San Marcos MSA was 10.1%. The State of California June 2009 unemployment rate (unadjusted) was 11.6%.

TABLE NO. D-3
SAN DIEGO-CARLSBAD-SAN MARCOS MSA
WAGE AND SALARY WORKERS BY INDUSTRY [1]
(in thousands)

Industry	2005	2006	2007	2008	2009
Government	219.1	221.2	225.7	230.1	228.7
Other Services	49.4	49.4	49.2	49.9	48.0
Leisure and Hospitality	152.2	159.4	165.7	168.1	159.8
Educational and Health Services	122.8	125.0	128.8	134.9	136.0
Professional and Business Services	212.1	215.3	217.7	216.9	206.2
Financial Activities	83.2	84.5	81.6	76.5	74.6
Information	37.5	37.2	37.4	38.8	38.0
Transportation, Warehousing and Utilities	28.2	28.7	28.7	29.2	28.3
Service Producing					
Retail Trade	144.8	146.0	146.4	141.6	134.3
Wholesale Trade	43.7	45.3	45.7	44.7	41.5
Manufacturing					
Nondurable Goods	25.7	26.0	25.2	24.9	22.1
Durable Goods	79.1	78.7	76.6	78.1	72.7
Goods Producing					
Construction	92.7	95.1	90.9	77.9	66.7
Mining and Logging	0.4	0.5	0.4	0.3	0.3
Total Nonfarm	1,290.9	1,312.3	1,320.0	1,311.9	1,257.2
Farm	11.3	11.3	11.1	11.2	11.3
Total (all industries)	1,302.2	1,323.6	1,331.1	1,323.1	1,268.5

[1] Annually, as of June 2009.

State of California Employment Development Department, Labor Market Information Division, "*Industry Employment & Labor Force - by month, March 2008 Benchmark.*"

Major Employers

The major employers operating within the City of Chula Vista as of June 30, 2008 are shown in Table No. D-4. Since that time, several employers have reduced their work forces, but specific information on reductions as of June 30, 2009 is not currently available.

TABLE NO. D-4
CITY OF CHULA VISTA
MAJOR EMPLOYERS

Employer	Number of Employees	Percent of Total Employment
Sweetwater Union High School District	4,598	9.17%
Chula Vista Elementary School District	2,669	5.32%
Southwestern Community College	2,100	4.19%
Rohr Inc./Goodrich Aerospace	1,903	3.79%
City of Chula Vista	1,481	2.95%
Sharp Chula Vista Medical Center	1,410	2.81%
Scripps Mercy Hospital Chula Vista	1,032	2.06%
Wal-Mart	950	1.89%
United Parcel Service	656	1.31%
CostCo Wholesale Corp.	623	1.24%

Source: State Employment Development Department, City of Chula Vista Finance Department, Sweetwater Union High School District Human Resources Department, Chula Vista Elementary School District Human Resources Department and Southwestern Community College Human Resources Department.

"Total Employment" as used above represents the total employment of all employers located within the City of Chula Vista city limits.

Transportation

Excellent surface, sea and air transportation facilities service San Diego County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown San Diego at the edge of the San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is the third most active commercial airport in California, served by 18 major airlines. In addition to San Diego International Airport, there are two naval air stations and seven general aviation airports located in the county.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego with stops at Del Mar and Oceanside in the north county. San Diego's harbor is one of the world's largest natural harbors. The harbor, a busy commercial port, has also become an extremely popular destination for cruise ships. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

Research and Development

Research and development activity plays an important role in the area's economy. The County is a leading health sciences and biomedical center. Approximately 35,000 persons are engaged in life sciences-related activities in the metropolitan area, with over 28,000 employed directly in health services. In addition to the University of California San Diego, other established research institutions include the Salk Institute for Biological Studies, the Scripps Clinic and Research Foundation, and the Scripps Institution of Oceanography.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract visitor and convention business each year. The development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego community concourse have contributed to the growth in tourism. The visitor and convention business is expected to continue to increase steadily.

APPENDIX E
FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Otay Water District (the "District") in connection with the issuance of $____________ Otay Water District Improvement District No. 27 2009 General Obligation Refunding Bonds (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the District on October 7, 2009 (the "Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

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

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

"Dissemination Agent" shall mean initially Union Bank, N.A., or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

"Holders" shall mean registered owners of the Bonds.

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

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

"Repository" shall mean the Municipal Securities Rulemaking Board, which can be found at http://emma.msrb.org/, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

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

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or if a Dissemination Agent other than the District has been appointed shall cause the Dissemination Agent to, not later the March 31 following the end of the District's fiscal year (presently ending June 30), commencing with the report for the 2008-09 Fiscal Year, provide to the

Participating Underwriter and the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than 30 days (nor more than 60 days) prior to said date any successor Dissemination Agent appointed by the District shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than 15 Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the Repository to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the District shall send a notice to the Repository in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent (if other than the District) shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided and listing the Repository to which it was provided.

SECTION 4. Form and Content and Form of Annual Reports.

(a) The Annual Report for the 2008-09 Fiscal Year shall consist of a copy of the Official Statement and the District's audited General Purpose Financial Statements for the 2008-09 Fiscal Year. Thereafter, the District's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(A) A five-year summary of assessed valuations in Improvement District No. 27 in a format similar to the summary contained in Table 1 in the final Official Statement, covering the then current fiscal year and the four fiscal years next preceding and setting forth for each such fiscal year Local Secured, Utility and Unsecured valuations, together with Homeowner Exemption and total Assessed Valuation.

(B) A five-year summary of property tax levies and collections of Improvement District No. 27 in a format similar to the summary contained in Table 3 in the final Official Statement, covering the five fiscal years next preceding the filing of the Annual Report and setting forth for each such fiscal year the Secured, State Secured Unitary, Unsecured, Delinquent Tax, Total Tax Collections and Percent of Total Taxes delinquent.

(C) A list of the ten largest local secured property taxpayers within Improvement District No. 27 for the then current fiscal year in a format similar to the list contained in Table 4 in the final Official Statement, setting forth the name of each property owner, its assessed valuation and the percentage which such assessed valuation constitutes of the total local secured assessed valuation for such fiscal year.

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

(b) The Annual Report shall be filed in an electronic format accompanied by identifying information prescribed by the Municipal Securities Rulemaking Board.

SECTION 5. Reporting of Significant Events.

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

1. principal and interest payment delinquencies.

2. non-payment related defaults.

3. modifications to rights of Bondholders.

4. optional, contingent or unscheduled bond calls.

5. defeasances.

6. rating changes.

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds.

8. unscheduled draws on the debt service reserves reflecting financial difficulties.

9. unscheduled draws on credit enhancement reflecting financial difficulties.

10. substitution of the credit or liquidity providers or their failure to perform.

11. release, substitution or sale of property securing repayment of the Bonds.

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

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly file a notice of such occurrence with the Repository or provide notice of such reportable event to the Dissemination Agent (if other than the District) in format suitable for filing with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution. The Dissemination Agent (if other than the District) shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent (if other than the District) may conclusively rely on the District's determination of materiality pursuant to Section 5(b).

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

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon 15 days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties.

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

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

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

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

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the Repository. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

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

Dated: ________ __, 2009

OTAY WATER DISTRICT

By: ______________________________
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORY OF FAILURE TO FILE ANNUAL REPORT

Name of District: OTAY WATER DISTRICT

Name of Bond Issue: Improvement District No. 27 2009 General Obligation Refunding Bonds

Date of Issuance: _______ __, 2009

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Dated:_______________________

OTAY WATER DISTRICT

By ______[form only; no signature required]_________

APPENDIX F

DTC AND THE BOOK-ENTRY-ONLY SYSTEM

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

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its

Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on these Internet sites is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

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

6. Redemption notices shall be sent to DTC. If less than all of the Securities 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.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or 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, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or 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.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

ASSURED GUARANTY®
ENDURING FINANCIAL STRENGTH

Financial Guaranty Insurance Policy

Issuer: **Policy No.:**

Obligations: **Premium:**

Effective Date:

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 31 West 52nd Street, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department – Public Finance Surveillance, with a copy to the General Counsel at the same address and at generalcounsel@assuredguaranty.com or at the following Facsimile Number: (212) 445-8705, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the next Business Day. "**Term**" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

SPECIMEN

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "**Fiscal Agent**") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation: its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

(SEAL)

By:______________________________
Authorized Officer

Signature attested to by:

____
Counsel