

NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS: See “RATINGS” herein.

In the opinion of Special Counsel, assuming compliance with certain tax covenants, the portion of each installment payment made by the City pursuant to the Town Purchase Agreement and denominated as and comprising interest pursuant to the Town Purchase Agreement and received by owners of the Refunding Obligations (the “Interest Portion”) will be excludable from gross income for federal income tax purposes, will not be an item of tax preference for purposes of the alternative minimum tax for individuals and corporations (but will be taken into account in determining adjusted current earnings for purposes of computing such tax imposed on certain corporations) and will be exempt from income taxation under the laws of the State of Arizona so long as the Interest Portion is excludable from gross income for federal income tax purposes. See “TAX MATTERS” herein for a description of certain federal tax consequences of ownership of the Refunding Obligations. See also “ORIGINAL ISSUE DISCOUNT” and “AMORTIZABLE PREMIUM” herein.

\$16,650,000*

**TOWN OF ORO VALLEY, ARIZONA
SENIOR LIEN WATER PROJECT REVENUE
REFUNDING OBLIGATIONS, SERIES 2012**

**DRAFT III
4/10/12**

Dated: Date of Initial Authentication and Delivery

Due: July 1, as shown on the inside front cover page

The Senior Lien Water Project Revenue Refunding Obligations, Series 2012 (the “Refunding Obligations”) of the Town of Oro Valley, Arizona (the “Town”) will be executed and delivered pursuant to an Indenture, to be dated as of May 1, 2012* between Wells Fargo Bank, N.A., as trustee (the “Trustee”) and the Town, for the purpose of providing funds to prepay an installment purchase obligations of the Town which secures certain senior lien water project revenue bonds of the Town of Oro Valley Municipal Property Corporation as described under “PLAN OF REFUNDING” herein and pay the costs and expenses related to the issuance of the Refunding Obligations. Interest on the Refunding Obligations will be payable on January 1 and July 1 of each year, commencing on January 1, 2013*. The Refunding Obligations will be registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), for purposes of the book-entry only system described herein. Ownership interests in the Refunding Obligations may be purchased in amounts of \$5,000 of principal due on a single maturity date or integral multiples thereof and will mature on the dates and in the principal amounts and will bear interest designated as interest from their date at the rates set forth on the inside front cover page. Payments of principal of and interest with respect to the Refunding Obligations will be paid by the Trustee to DTC for subsequent disbursements to DTC participants who will remit such payments to the beneficial owners of the Refunding Obligations. See APPENDIX H – “BOOK-ENTRY-ONLY SYSTEM.”

SEE MATURITY SCHEDULE ON INSIDE FRONT COVER PAGE

The Refunding Obligations will be subject to optional redemption prior to their stated maturity dates as described under “THE REFUNDING OBLIGATIONS – Redemption Provisions” herein*.

Payments securing the Refunding Obligations will be special, limited obligations of the Town, payable as to both principal and interest solely from purchase payments required to be paid by the Town to the Trustee pursuant to the Town Purchase Agreement, to be dated as of May 1, 2012* (the “Town Purchase Agreement”), between the Town and the Trustee. The obligation of the Town to make the purchase payments (and obligations incurred and which may be hereafter incurred on a parity therewith as described herein) will be payable from a senior lien pledge of designated revenues derived by the Town from the operation of the water system of the Town (the “Water System”) after provision has been made for the payment from such revenues of the reasonable and necessary expenses of the operation and maintenance of the Water System. See “SECURITY AND SOURCES OF PAYMENT FOR THE REFUNDING OBLIGATIONS” herein.

The Refunding Obligations will not be general obligations of the Town, the State of Arizona (the “State”) or any political subdivision thereof, and neither constitute an indebtedness of the Town when computing its limit imposed by constitutional or statutory provisions or a charge against the general credit or taxing power of the Town nor a liability of the Town for payment of the Refunding Obligations other than from the sources described herein. See “SECURITY FOR AND SOURCES OF PAYMENT FOR THE REFUNDING OBLIGATIONS.”

The Refunding Obligations are offered when, as and if executed and delivered by the Trustee and received by the underwriter identified below (the “Underwriter”), subject to the legal opinion of Greenberg Traurig, LLP, Special Counsel, as to validity and tax exemption. In addition, certain legal matters will be passed upon for the Underwriter by Squire Sanders (US) LLP. It is expected that the Refunding Obligations will be available for delivery through the facilities of DTC on or about May 30, 2012*.

This cover page contains certain information with respect to the Refunding Obligations for convenience of reference only. It is not a summary of material information with respect to the Refunding Obligations. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Refunding Obligations.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change without any notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

* Subject to change.

\$16,650,000*
TOWN OF ORO VALLEY, ARIZONA
SENIOR LIEN WATER PROJECT REVENUE
REFUNDING OBLIGATIONS, SERIES 2012

MATURITY SCHEDULE*
Base CUSIP®⁽¹⁾ No. 687021

Maturity Date (July 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP® ⁽¹⁾ No.
2013	\$ 240,000	%	%	
2014	1,310,000			
2015	1,355,000			
2016	1,420,000			
2017	1,470,000			
2018	1,535,000			
2019	1,595,000			
2020	1,655,000			
2021	1,720,000			
2022	1,790,000			
2023	595,000			
2024	355,000			
2025	375,000			
2026	390,000			
2027	410,000			
2028	435,000			

* Subject to change.

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TOWN OF ORO VALLEY, ARIZONA

TOWN COUNCIL

Dr. Satish I. Hiremath, Mayor
Lou Waters, Vice-Mayor
William Garner, Councilmember
Barry Gillaspie, Councilmember
Joseph Hornat, Councilmember
Mary Snider, Councilmember
Steve Solomon, Councilmember

TOWN ADMINISTRATIVE OFFICERS

Greg Caton, Interim Town Manager
Stacey Lemos, Finance Director
Julie Bower, Town Clerk
Tobin Rosen, Esq., Town Attorney
Philip Saletta, P.E., Water Utility Director
Shirley Seng, Water Utility Administrator

PROFESSIONAL SERVICES

Special Counsel Greenberg Traurig, LLP
Underwriter’s Counsel..... Squire Sanders (US) LLP
Depository Trustee / Trustee Wells Fargo Bank, N.A.

REGARDING THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Town of Oro Valley, Arizona (the “Town”) or Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a division of Stifel Nicolaus (the “Underwriter”) to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. 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 Refunding Obligations by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Official Statement, which includes the cover page, inside front cover page and appendices hereto, has been obtained from the Town and other sources that are considered to be accurate and reliable and customarily relied upon in the preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Town or the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. All information, estimates and assumptions contained herein have been based on past experience and on the latest information available and are believed to be accurate and reliable, but no representations are made that such information, estimates and assumptions are correct, will continue, will be realized or will be repeated in the future. To the extent that any statements made in this Official Statement involve matters of forecasts, projections, opinions, assumptions, or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty, and no representation is made that any of these statements have been or will be realized. All forecasts, projections, assumptions, opinions or estimates are “forward looking statements” that must be read with an abundance of caution and that may not be realized or may not occur in the future. Information other than that obtained from official records of the Town has been identified by source and has not been independently confirmed or verified by the Town or the Underwriter and its accuracy cannot be guaranteed. The information and forward looking statements herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Town or any of the other parties or matters described herein since the date hereof.

The Refunding Obligations will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange in reliance upon certain exemptions. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed upon the merits of the Refunding Obligations the accuracy or adequacy of this Official Statement or approved the Refunding Obligations for sale.

The Town has undertaken to provide continuing disclosure as described in this Official Statement under the caption “CONTINUING DISCLOSURE” and in APPENDIX G – “FORM OF CONTINUING DISCLOSURE UNDERTAKING,” all pursuant to Rule 15c2-12 of the Securities and Exchange Commission.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OF EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE REFUNDING OBLIGATIONS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANYTIME. THE UNDERWRITER MAY OFFER AND SELL THE REFUNDING OBLIGATIONS TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE FRONT COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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OFFICIAL STATEMENT

\$16,650,000*

TOWN OF ORO VALLEY, ARIZONA SENIOR LIEN WATER PROJECT REVENUE REFUNDING OBLIGATIONS, SERIES 2012

INTRODUCTORY STATEMENT

This Official Statement, which includes the cover page, inside front cover page and appendices hereto, has been prepared in connection with the original execution and delivery of \$16,650,000* principal amount of the Senior Lien Water Project Revenue Refunding Obligations, Series 2012 (the “Refunding Obligations”), identified on the inside front cover page of this Official Statement pursuant to an Indenture, to be dated as of May 1, 2012* (the “Indenture” between the Town of Oro Valley, Arizona (the “Town”) and Wells Fargo Bank, N.A., as trustee (the “Trustee”)). Certain information concerning the authorization, purpose, terms, sources of payment and security for the Refunding Obligations is contained in this Official Statement. In particular, certain information about the Town is included in APPENDICES A, B and C, and the most recent audited financial statements for the Town are included in APPENDIX D.

All financial and other information presented in this Official Statement has been provided by the Town from its records, except for information expressly attributed to other sources. The presentation of financial and other information, including tables of receipts from taxes and other sources, is intended to show recent historical information and, except as expressly stated otherwise, is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. No representation is made that past experience, as is shown by the financial and other information, will necessarily continue or be repeated in the future.

For definitions of certain capitalized terms used in this Official Statement, for certain provisions of the Town Purchase Agreement, to be dated as of May 1, 2012* (the “Town Purchase Agreement”), between the Town and the Trustee, in its capacity as seller and for certain provisions of the Indenture. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS.”

References to provisions of federal or State of Arizona (the “State” or “Arizona”) law, whether codified or uncodified, are references to those current provisions. Those provisions may be amended, repealed or supplemented.

THE REFUNDING OBLIGATIONS

Authorization and Purpose

The Refunding Obligations will be executed and delivered for the purpose of providing funds to prepay amounts due from the Town pursuant to the Town Purchase Agreement, dated as of December 1, 2003 (the “First Purchase Agreement”) which secures revenue bonds (the “Bonds Being Refunded”) of the Town of Oro Valley Municipal Property Corporation (the “MPC”) as described under “PLAN OF REFUNDING” herein and pay the costs and expenses related to the issuance of the Refunding Obligations. The payments to be made by the Town pursuant to the Town Purchase Agreement will be required to be sufficient to make the payment on the Refunding Obligations. The Town will pledge the net revenues of the water system of the Town (the “Water System”; is also referred to herein as the “Project”) to secure amounts due under the Town Purchase Agreement. See “SECURITY FOR AND SOURCES OF PAYMENT OF THE REFUNDING BONDS.”

* *Subject to change.*

General Terms

The Refunding Obligations will be undivided proportionate interests in the right to receive certain installments of the "Purchase Price" pursuant to the Town Purchase Agreement, which installments and certain other rights and interests under the Town Purchase Agreement have been assigned to the Trustee pursuant to the Indenture, will be dated the date of initial authentication and delivery and initially will be registered only in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") under the book-entry-only system described in APPENDIX H (the "Book-Entry-Only System"). Refunding Obligation holders will be entitled to receive, subject to the terms of the Town Purchase Agreement, on the maturity dates, the principal amounts representing portions of the installments of the Town Purchase Price denominated as principal coming due on the maturity date and to receive semiannually principal, the proportionate share of the installments of the Town Purchase Price denominated as interest coming due during the six month period (or portion thereof) immediately preceding each of such dates. Beneficial ownership interests in the Refunding Obligations may be purchased through direct and indirect participants of DTC in amounts of \$5,000 of principal due on a single maturity date or integral multiples thereof. See APPENDIX H- "BOOK-ENTRY-ONLY SYSTEM." The Refunding Obligations will mature on the dates and in the amounts and bear interest from their dated date at the rates as described above all as set forth on the inside front cover page of this Official Statement. Interest on the Refunding Obligations will accrue originally from the dated date of the initial execution and delivery and will be payable on January 1, 2013*, and on each July 1 and January 1 thereafter (each an "interest payment date") until maturity or prior redemption.

See "TAX MATTERS," "ORIGINAL ISSUE DISCOUNT" and "AMORTIZABLE PREMIUM" for a discussion of the treatment of the interest on the Refunding Obligations for federal income tax purposes.

The "Record Date" for the Refunding Obligations shall be the close of business of the Trustee on the fifteenth day of the month preceding an interest payment date.

Redemption Provisions*

Optional Redemption. The Refunding Obligations maturing on or after July 1, 20__, may be redeemed prior to maturity, in whole or in part, on any date, in any order of maturity and by lot within any maturity, by the Town, on or after July 1, 20__, at a redemption price equal to the principal amount thereof plus accrued interest on such principal to the date fixed for redemption, but without premium. For the purposes of any redemption of less than all of the Refunding Obligations of a single maturity, the particular Refunding Obligations or portions of the Refunding Obligations to be redeemed shall be selected through the procedures of DTC.

Notice of Redemption. Redemption notices will be sent only to DTC by electronic media, not more than 60 nor less than 30 days prior to the date set for redemption. See APPENDIX H- "BOOK-ENTRY ONLY SYSTEM." Such notice will state that if, on the specified redemption date, moneys or Defeasance Obligations for redemption of all the Refunding Obligations to be redeemed together with interest to the date of redemption, is held by the Trustee, then, from and after said date of redemption, interest with respect to the Refunding Obligations will cease to accrue and become payable and that if such moneys are not so held, the redemption will not occur.

* *Subject to change.*

PLAN OF REFUNDING

The net proceeds of the sale of the Refunding Obligations remaining after payment of certain costs of issuance, together with any amounts to be contributed by the Town for such purpose, will be placed in an irrevocable trust account (the "Trust Account") with the Trustee, in its separate capacity as escrow trustee (the "Escrow Trustee"), pursuant to an Escrow Trust Agreement, to be dated as of May 1, 2012* (the "Escrow Trust Agreement"), to be applied to the payment of the Bonds Being Refunded as identified below. Such funds will be used to acquire direct obligations of the United States of America which are noncallable (the "Government Obligations"), the maturing principal of and interest income with respect to which are calculated to be sufficient, along with certain cash held pursuant to the Escrow Trust Agreement to pay debt service on the Bonds Being Refunded until their maturity or redemption on the dates specified below, and to pay or redeem the Bonds Being Refunded on such dates (such transaction hereinafter referred to as the "Refunding"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

Schedule of Bonds Being Refunded*

Issue Series	Maturity Date (July 1)	Coupon	Principal Amount Outstanding	Bonds Being Refunded	Redemption Date (July 1)	Redemption Premium (as a Percentage of Principal)	CUSIP® ⁽¹⁾ No. 687021
Town of Oro Valley	2014	4.00%	\$1,010,000	\$1,010,000	2013	0.0%	BE4
Municipal Property	2015	5.00	1,055,000	1,055,000	2013	0.0	BF1
Corporation	2016	5.00	1,110,000	1,110,000	2013	0.0	BG9
Senior Lien Water	2017	5.00	1,160,000	1,160,000	2013	0.0	BH7
Project Revenue Bonds,	2018	5.00	1,225,000	1,225,000	2013	0.0	BJ3
Series 2003	2019	5.00	1,285,000	1,285,000	2013	0.0	BK0
	2020	5.00	1,345,000	1,345,000	2013	0.0	BL8
	2023	5.00	4,445,000	4,445,000	2013	0.0	EM6
	2028	5.00	<u>7,550,000</u>	<u>7,550,000</u>	2013	0.0	EN4
			<u>\$20,185,000</u>	<u>\$20,185,000</u>			

* *Subject to change.*

⁽¹⁾ *See footnote ⁽¹⁾ to the inside front cover page.*

Upon delivery of the Refunding Obligations and the deposit of proceeds into the Trust Account, the Bonds Being Refunded will no longer be outstanding under the Indenture and will not be secured by Net Revenues.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On or before the execution and delivery date of the Refunding Obligations, Grant Thornton LLP, a firm of independent public accountants, will deliver its verification report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by Stifel, Nicolaus & Company, Incorporated, dba Stone & Youngberg, a Division of Stifel Nicolaus (the "Underwriter") relating to the Refunding Obligations and the Bonds Being Refunded. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations to pay, when due,

the principal of and interest on the Bonds Being Refunded and (b) the mathematical computations supporting the conclusion of Greenberg Traurig, LLP, Phoenix, Arizona (“Special Counsel”) that the Refunding Obligations are not “arbitrage bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations promulgated thereunder. See “TAX MATTERS” herein.

SECURITY FOR AND SOURCES OF PAYMENT OF THE REFUNDING OBLIGATIONS

Generally

Payments securing the Refunding Obligations pursuant to the Town Purchase Agreement will be secured by a senior lien pledge of “Net Revenues” which consist generally of the income, monies and receipts derived by the Town from the ownership, use and operation of the Water System, less all Operating Expenses. “Operating Expenses” generally includes all expenses reasonably incurred in connection with the operation of the Water System. For a complete description of the definitions of Net Revenues and Operating Revenues, see APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS – Certain Definitions.” Payments to be made pursuant to the Town Purchase Agreement will be on a parity with the remaining payments to be made pursuant to the First Purchase Agreement for the bonds payable therefrom (the “Bonds”), loan agreements with the Water Infrastructure Finance Authority of Arizona (“WIFA”) incurred in 2007 and 2009 (the “2007 Loan” and “2009 Loan,” respectively) and with certain additional parity lien obligations that may be incurred in the future (“Parity Obligations” and, with the Bonds, the 2007 Loan, the 2009 Loan and the Refunding Obligations, “Senior Obligations”). See APPENDIX B – “TOWN OF ORO VALLEY, ARIZONA – FINANCIAL DATA – STATEMENTS OF BONDED INDEBTEDNESS -- Total Water Revenue Obligations Outstanding and to be Outstanding” and “THE REFUNDING OBLIGATIONS – Additional Senior Lien Obligations.”

The Net Revenues will be pledged by the Town to the payment of the principal of and interest on the Refunding Obligations, and the Refunding Obligations will be secured by a prior and paramount lien on and pledge of the Net Revenues. The Senior Obligations will be equally and ratably secured by said pledge and lien without priority one over the other. See APPENDIX A – “TOWN OF ORO VALLEY, ARIZONA – THE WATER SYSTEM” and APPENDIX E – “SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS” containing information concerning the financial status of the Water System and the Indenture for certain covenants pertaining to the security of the Refunding Obligations.

THE REFUNDING OBLIGATIONS WILL BE SPECIAL, LIMITED OBLIGATIONS OF THE TOWN AND WILL NOT BE GENERAL OBLIGATIONS OF THE TOWN, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, AND NEITHER CONSTITUTE AN INDEBTEDNESS OF THE TOWN WHEN COMPUTING ITS LIMIT IMPOSED BY CONSTITUTIONAL OR STATUTORY PROVISIONS OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE TOWN NOR A LIABILITY OF THE TOWN FOR PAYMENT OF THE REFUNDING OBLIGATIONS OTHER THAN FROM THE SOURCES DESCRIBED HEREIN.

Neither the proceeds of the sale of the Refunding Obligations nor the improvements to be refinanced herewith are pledged to, nor do they secure, payment of the Refunding Obligations. Remedies available to the Trustee upon a failure of the Town to make Purchase Payments when due will be generally limited to specific performance against the Town to payment from Net Revenues. For a description of events of default and remedies under the Town Purchase Agreement, see APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS – The Town Purchase Agreement -- Events of Default” and “--Remedies on Default by Town.” The Town may, but will not be required to, pay amounts due under the Town Purchase Agreement from any other money legally available for such purposes.

Rate Covenant/Coverage

Pursuant to the Town Purchase Agreement, the Town will covenant to continuously own, control, operate and maintain the Water System in an efficient and economical manner and on a revenue producing basis and will at all times, establish, fix, maintain and collect rates, fees and other charges for all water and services furnished by the Water System fully sufficient at all times:

- 1) To provide for 100% of the Operating Expenses;
- 2) To produce Net Revenues in each Fiscal Year which will equal at least 120% of the interest and Principal Requirement for the then current Fiscal Year on all Senior Obligations then outstanding;
- 3) To produce Net Revenues sufficient to remedy any deficiencies in the Debt Service Reserve Fund established under the Indenture; and
- 4) To produce Net Revenues in each Fiscal Year which will remedy all deficiencies in payments into any of the funds and accounts with respect to Senior Obligations from prior Fiscal Years.

Additional Obligations

In order to issue Parity Obligations, the Town will be required to file a statement by an Independent Certified Public Accountant or a report of a Consultant to the effect that Net Revenues for the most recently completed Fiscal Year for which audited financial statements for the Town are available were equal to at least 120% of “Parity Test Debt Service” for all outstanding Senior Obligations, taking into account the obligations proposed to be issued. The Town Purchase Agreement will permit certain adjustments to Net Revenues in the statement of the Independent Certified Public Accountant or report of the Consultant. The Town Purchase Agreement will also permit the issuance of Additional Obligations for refunding purposes without compliance with the foregoing financial tests if certain other conditions are met. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS – The Town Purchase Agreement -- Parity Obligations for Refunding Purposes” and “-- Additional Parity Obligations Generally.”

Subordinate Lien Obligations

The Town Purchase Agreement will not prohibit the issuance or incurrence of obligations payable from Net Revenues on a basis subordinate to the Refunding Obligations.

Contingent Reserve Fund

No deposit will need be made to the Debt Service Reserve Fund so long as the Contingent Reserve Required Coverage is greater than 130%. The Town will agree to pay for deposit to the Debt Service Reserve Fund on each month following the Fiscal Year in which the Contingent Reserve Required Coverage is 130% or less an amount equal to 1/36th of the amount required to fund and maintain the Debt Service Reserve Fund in an amount equal to the Contingent Reserve Requirement until such time as the amount on deposit in the Debt Service Reserve Fund equals the Contingent Reserve Requirement. No deposit will need be made to the Debt Service Reserve Fund if the amount of money contained therein is at least equal to the Contingent Reserve Requirement, which may be satisfied by cash, a Qualified Reserve Fund Instrument, certain obligations of the United States and other entities as permitted by the Indenture or a combination of these three.

SOURCES AND USES OF FUNDS

Sources of Funds

Principal Amount of the Refunding Obligations	\$16,650,000.00*
Net Original Issue Premium/(Discount) (a)	
Town Cash Contribution	_____
 Total Sources of Funds	 =====

Uses of Funds

Deposit to the Trust Account	
Payment of Costs of Issuance (b)	_____
 Total Uses of Funds	 =====

* *Subject to change.*

(a) *Net premium consists of original issue premium on the Refunding Obligations less original issue discount (if any) with respect to the Refunding Obligations.*

(b) *Includes Underwriter's compensation.*

ESTIMATED DEBT SERVICE REQUIREMENTS AND PROJECTED COVERAGE*

The following table sets forth the (i) Net Revenues for budgeted fiscal year 2011/12; (ii) the estimated debt service on outstanding obligations, net of the Bonds Being Refunded; and (iii) the estimated annual debt service on the Refunding Obligations.

TABLE 1

Schedule of Estimated Annual Debt Service Requirements and Projected Coverage (a)* Town of Oro Valley, Arizona

Fiscal Year	Pledged Net Revenues (b)	Combined Outstanding Debt Service (c)	The Obligations		Estimated Combined Debt Service*	Projected Excise Tax Debt Service Coverage
			Principal*	Estimated Interest (d)		
2010/11	\$8,326,040					
2011/12		\$ 2,598,271			\$ 2,598,271	3.20x
2012/13		1,568,671	\$ 240,000	\$ 716,996 (e)	2,525,667	3.30x
2013/14		552,411	1,310,000	655,350	2,517,761	3.31x
2014/15		552,411	1,355,000	616,050	2,523,461	3.30x
2015/16		552,411	1,420,000	575,400	2,547,811	3.27x
2016/17		552,411	1,470,000	518,600	2,541,011	
2017/18		552,511	1,535,000	459,800	2,547,311	
2018/19		552,408	1,595,000	398,400	2,545,808	
2019/20		552,407	1,655,000	334,600	2,542,007	
2020/21		552,407	1,720,000	268,400	2,540,807	
2021/22		552,407	1,790,000	199,600	2,542,007	
2022/23		552,407	595,000	128,000	1,275,407	
2023/24		552,407	355,000	98,250	1,005,657	
2024/25		552,407	375,000	80,500	1,007,907	
2025/26		552,407	390,000	61,750	1,004,157	
2026/27		450,917	410,000	42,250	903,167	
2027/28		232,363	435,000	21,750	689,113	
2028/29		232,263			232,263	
		<u>\$ 12,263,898</u>	<u>\$ 16,650,000</u>			

* Subject to change.

(a) Prepared by the Underwriter.

(b) The amount of Net Revenues used to calculate the coverage requirements for existing debt service is the audited amount for fiscal year 2010/11. See APPENDIX A – “TOWN OF ORO VALLEY, ARIZONA – THE WATER SYSTEM – Town of Oro Valley Water Utility -- Historical and Projected Water System Revenues, Expenses, Debt Service and Coverage.”

(c) Includes remaining payments for the 2007 Loan and the 2009 Loan and the First Purchase Agreement, net of the Bonds Being Refunded.

(d) Interest is estimated at 3.50% for the Refunding Obligations.

(e) The first interest payment on the Refunding Obligations will be due on January 1, 2013*. Thereafter, interest payments will be made semiannually on July 1 and January 1 until the final maturity or prior redemption of the Refunding Obligations.

LITIGATION

No litigation or administrative action or proceeding is pending or overtly threatened against the Town which questions the respective rights of the Town to adopt or comply with the provisions of the documents under which the Refunding Obligations have been authorized or the validity or enforceability thereof or to consummate the transactions described therein or herein; nor is there any litigation or administrative action or proceeding overtly threatened against the Town which, if decided adversely to the Town, would impair the Town's ability to comply with all of the requirements of the documents under which the Refunding Obligations have been authorized or have a material adverse effect upon the financial condition of the Town. Representatives of the Town will deliver certificates to that effect at the time of the initial delivery of the Refunding Obligations.

LEGAL MATTERS

The Refunding Obligations are sold with the understanding that the Town will furnish the Underwriter with the approving opinion of Special Counsel. The proposed form of such opinion is included in this Official Statement as APPENDIX F. Special Counsel is to render such opinion upon the validity and enforceability of the Refunding Obligations under Arizona law and on the exclusion of the hereinafter described Interest Portion from gross income for purposes of calculating federal income taxes and of the exemption of the Interest Portion on the Refunding Obligations from State income taxes under certain circumstances. (See "TAX MATTERS" herein.) Fees of Special Counsel, the Underwriter and Underwriter's counsel are contingent upon the delivery of the Refunding Obligations and Special Counsel and Underwriter's counsel will be paid from proceeds of the sale of the Refunding Obligations.

Special Counsel will opine to the Underwriter upon certain information in the caption paragraph on the cover, in APPENDIX F and under the headings "THE REFUNDING OBLIGATIONS," "PLAN OF REFUNDING," "SECURITY FOR AND SOURCES OF PAYMENT OF THE REFUNDING OBLIGATIONS," "TAX MATTERS," "ORIGINAL ISSUE DISCOUNT," "AMORTIZABLE PREMIUM" and "CONTINUING DISCLOSURE" (except with respect to the status of the Town's compliance with existing undertakings) but otherwise has not participated in the preparation of this Official Statement and will not opine upon its accuracy, completeness or sufficiency. Special Counsel has not examined nor attempted to examine or verify any of the financial or statistical statements or data contained in this Official Statement and will also express no opinion with respect thereto.

Certain legal matters will be passed upon solely for the benefit of the Underwriter by Squire Sanders (US) LLP, counsel to the Underwriter.

The various legal opinions to be delivered concurrently with the delivery of the Refunding Obligations express the professional judgement of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

TAX MATTERS

The Code includes requirements which the Town must continue to meet with respect to the Refunding Obligations after the issuance thereof in order that the portion of each of the Payments made by the Town pursuant to the Town Purchase Agreement and denominated as and comprising interest pursuant to the Town Purchase Agreement and received by the Owners of the Refunding Obligations (the "Interest Portion") not be included in gross income for federal income tax purposes. The failure by the Town to meet these requirements may cause the Interest Portion to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Refunding Obligations. The Town has covenanted in the Town Purchase Agreement to take the actions required by the Code in order to maintain the exclusion from federal gross income of the Interest Portion.

In the opinion of Special Counsel rendered with respect to the Refunding Obligations on the date of issuance of the Refunding Obligations, assuming continuing compliance by the Town with the tax covenants referred to above, under existing statutes, regulations, rulings and court decisions, the Interest Portion will be excludable from gross income for federal income tax purposes. The Interest Portion will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, the Interest Portion will be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations. Special Counsel is further of the opinion upon the date of issuance of the Refunding Obligations that, assuming the Interest Portion will be so excludable from gross revenue for federal income tax purposes, the Interest Portion thereon will be exempt from income taxation under the laws of the State.

Except as described above, Special Counsel will express no opinion regarding the federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Refunding Obligations. Prospective purchasers of the Refunding Obligations should be aware that the ownership of the Refunding Obligations may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Refunding Obligations or, in the case of a financial institution, that portion of an owner's interest expense allocable to interest on a Refunding Obligation; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including the Interest Portion; (iii) the inclusion of the Interest Portion in the earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of the Interest Portion in passive investment income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion in gross income of interest of the Refunding Obligations by recipients of certain Social Security and Railroad Retirement benefits.

Special Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Counsel as of the date thereof. Special Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Special Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

ORIGINAL ISSUE DISCOUNT

The difference between the stated principal amount of the Refunding Obligations maturing on July 1 of 20__ through and including 20__ (collectively, the "Discount Obligations") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Discount Obligations of the same maturity will be sold constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Discount Obligations. Further, such original issue discount should be accrued actuarially on a constant interest rate basis over the term of each Discount Obligation and the basis of each Discount Obligation acquired at such initial offering price by an initial purchaser thereof should be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Obligations, even though there will not be a corresponding cash payment. Owners of the Discount Obligations are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Obligations.

AMORTIZABLE PREMIUM

The Refunding Obligations maturing on July 1 of 20__ through and including 20__ (collectively, the “Noncallable Premium Obligations”) and the Refunding Obligations maturing on July 1 of 20__ through and including 20__ (collectively, the “Callable Premium Obligations” and together with the Noncallable Premium Obligations, the “Premium Obligations”) will be reoffered at prices in excess of the principal amount payable at maturity in the case of the Noncallable Premium Obligations or their earlier call date in the case of the Callable Premium Obligations. The difference between the principal amount payable at maturity of the Noncallable Premium Obligations and the tax basis of a Noncallable Premium Obligation to a purchaser and the difference between the amount payable at the call date of the Callable Premium Obligations that minimizes the yield to a purchaser of a Callable Premium Obligation and the tax basis to the purchaser (in either case, other than a purchaser who holds a Premium Obligation as inventory, stock in trade or for sale to customers in the ordinary course of business) will be “bond premium.” The Refunding Obligation premium should be amortized over the term of a Noncallable Premium Obligation and over the period to the call date of a Callable Premium Obligation that minimizes the yield to the purchaser of the Callable Premium Obligation. A purchaser of a Premium Obligation will be required to decrease his or her adjusted basis in the Premium Obligation by the amount of amortizable bond premium attributable to each taxable year he or she holds the Premium Obligation. The amount of amortizable bond premium attributable to each taxable year will be determined at a constant interest rate compounded actuarially. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Obligation. Purchasers of Premium Obligations should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon the sale, redemption or other disposition of Premium Obligations and with respect to the state and local tax consequences of owning and disposing of Premium Obligations.

RATINGS

Standard & Poor’s Financial Services, LLP (“S&P”) and Fitch Ratings Inc. (“Fitch”) have assigned the ratings of “___” and “___,” respectively, to the Refunding Obligations. An explanation of the significance of a rating assigned by S&P may be obtained from S&P at 55 Water Street, New York, New York 10004. An explanation of the significance of the ratings assigned by Fitch may be obtained from Fitch at One State Street Plaza, New York, New York, 10004. Such ratings may be revised downward or withdrawn entirely by S&P or Fitch, if, in their respective judgment, circumstances so warrant. Any downward revision or withdrawal of such ratings may have an adverse effect on the market price or marketability of the Refunding Obligations. The Town has covenanted in its continuing disclosure certificate that it will file notice of any formal change in any rating relating to the Refunding Obligations. See “CONTINUING DISCLOSURE” and APPENDIX G – “FORM OF CONTINUING DISCLOSURE UNDERTAKING” herein.

UNDERWRITING

The Refunding Obligations will be purchased by the Underwriter at the aggregate purchase price of \$_____, pursuant to an “Obligation Purchase Contract” entered into between the Town and the Underwriter. If the Refunding Obligations are sold to produce the yields shown on the inside front cover page hereof, the compensation of the Underwriter will be \$_____. The Obligation Purchase Contract provides that the Underwriter will purchase all of the Refunding Obligations so offered if any are purchased. The Underwriter may offer and sell the Refunding Obligations to certain dealers (including dealers depositing Refunding Obligations into unit investment trusts) and others at yields lower or prices higher than the public offering yields or prices stated on the inside front cover page hereof. The initial offering yields or prices set forth on the inside front cover page hereof may be changed, from time to time, by the Underwriter.

POLITICAL CONTRIBUTIONS

To the best knowledge of appropriate representatives thereof, the Underwriter and counsel to the Underwriter have not made political contributions to any person who currently holds a seat on the Council of the Town with respect to their election to that seat.

RELATIONSHIP AMONG PARTIES

Special Counsel has and continues to represent the Underwriter with respect to financings other than for the Town and will continue to do so if requested in the future. Special Counsel has also previously acted as special counsel with respect to other obligations underwritten by the Underwriter and will continue to do so if requested in the future. Squire Sanders (US) LLP, as counsel to the Underwriter (“Counsel to the Underwriter”) has represented the Underwriter with respect to the financings other than for the Town and will continue to do so if requested in the future. Counsel to the Underwriter acts as special counsel for various municipal entities for which the Underwriter may provide financial advisor or consulting services or act as underwriter.

CONTINUING DISCLOSURE

The Town, as the “obligated person” with respect to the Refunding Obligations, has covenanted for the benefit of certain owners of the Refunding Obligations to provide certain financial information and operating data relating to the Town by not later than February 1 in each year commencing February 1, 2013 (the “Annual Reports”), and to provide notice of the occurrence of certain listed events (the “Notices”). The Annual Reports, the Notices and any other documentation or information required to be filed by such covenants will be filed by the Town with the MSRB through the MSRB’s EMMA system, all as described in APPENDIX G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”). A failure by the Town to comply with any of such covenants must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Refunding Obligations in the secondary market. A failure by the Town to comply with any of such covenants could adversely affect the Refunding Obligations and specifically their market price and marketability.

Continuing disclosure undertakings previously entered into by the Town called for the Town to file annual reports with respect to the fiscal years ended June 30, 2008 and June 30, 2009 by February 1st of each of the following fiscal years, respectively. The annual report for the fiscal year ended June 30, 2009 was filed by the Town in April 2010. The annual report for fiscal year ended June 30, 2008 was filed by the Town in March 2012. The Town implemented procedures to file its annual reports by February 1st of each year and has filed the subsequent annual reports on time. Other than these two filings, the Town has been and is currently in material compliance with its existing continuing disclosure requirements.

AUDITED FINANCIAL STATEMENTS

The financial statements of the Town as of June 30, 2011, and for its fiscal year then ended, which are included as APPENDIX D of this Official Statement, have been audited by Heinfeld, Meech & Co., P.C., as stated in their opinion which appears in APPENDIX D. The Town neither requested nor obtained the consent of Heinfeld, Meech & Co., P.C. to include their report and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering their opinion on the financial statements.

CERTIFICATION CONCERNING OFFICIAL STATEMENT

The documents delivered in connection with the issuance of the Refunding Obligations will include a certificate to the effect that, to the knowledge of appropriate representatives of the Town after appropriate review, the statements contained in this Official Statement relating to the Town were at the time of the sale, and at the time of delivery of the Refunding Obligations, true, correct and complete in all material respects and were not misleading and did not omit matters which, in light of the circumstances under which they are made, would make such statements not misleading.

CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. All financial and other information in this Official Statement has been derived from official records and other sources and is believed by the Town to be accurate and reliable. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the Town. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

TOWN OF ORO VALLEY, ARIZONA

By: _____
Dr. Satish I. Hiremath, Mayor

**TOWN OF ORO VALLEY, ARIZONA -
THE WATER SYSTEM**

Introduction

The Water System is comprised of two separate public water systems located within and without the town limits of the Town. The larger water system serves customers located in the Town and has 16,310 connections as of February 2012. The second water system (sometimes referred to as the “Countryside System”) serves customers located near the Town in unincorporated Pima County, Arizona and has 2,244 connections as of February 2012.

The Water System is owned by the Town of Oro Valley Municipal Property Corporation (the “Corporation”) and, pursuant to a lease purchase agreement with the Corporation, is operated and maintained as a self-supporting municipally-operated utility of the Town. The Water System is operated in a manner where the costs of providing water to the general public on a continuing basis will be financed by user charges. The Water System is operated, and accounted for, under a separate enterprise fund by the Town. Although a separate audit of the Water System’s records will not be conducted, it is subject to audit procedures in conjunction with the annual audit of the Town’s combined financial statements. The Water System’s authority and responsibility is derived from the Arizona Revised Statutes and ordinances and resolutions of the Town Mayor and Council. The Mayor and Council adopt the Water System’s annual budget (the “Water System Budget”), establish water rates and fee structures and provide overall policy direction.

State law establishes the requirements for presentation and adoption of the Town’s budget, which includes the Water System Budget and requires the submission of a proposed Water System Budget to the Mayor and Council each year. The Mayor and Council are required to hold a public hearing on the proposed budget and to adopt the Town budget.

The Oro Valley Water Utility Commission (the “Commission”) was established by Ordinance to act as an official advisory board to the Town Council on water system matters and policies. The Commission consists of seven members appointed by the Town Council. The constituency of the Commission shall include at least one member from the service area outside the Town limits. Pursuant to the Ordinance establishing the Commission, the primary responsibility of the Commission is to conduct an annual water review process involving an evaluation of the Water System’s revenue requirements and capital improvement program and water rate adjustments to meet those needs. The Commission was actively involved in the evaluation and analysis of reclaimed water improvements including the recommendation to the Town Council to fund such improvements. Following the Commission’s review of the water system, the Commission recommends a schedule of rate and fee adjustments to the Mayor and Council. After public hearings, the Mayor and Council have the final authority to establish water rates, fees and charges.

Administrative Staff

In accordance with the utility code of the Town, the day-to-day management of the Project shall be the responsibility of the Water Utility Director who is appointed by the Town Manager.

Philip C. Saletta, P.E., Water Utility Director. Mr. Saletta has a B.S. degree in Geological Engineering from Colorado School of Mines and an M.B.A. in Finance from the University of Colorado. Mr. Saletta is a Registered Professional Engineer in the State of Arizona and the State of Colorado and has 28 years of experience in the water and utilities industry. Prior to coming to the Town in June of 2005, he worked for Colorado Springs Utilities for 19 years as a Managing Engineer and a Water Resource Engineer. His experience also includes General Manager with the Dolores Water Conservancy District, Hydrologist with The State of Colorado and a Geologist/Geological Engineer with Hunt Oil Company and Martin-Trost Associates.

Shirley Seng, Utility Administrator. Ms. Seng has 16 years experience working with the water utility as its Utility Administrator. Prior to the Town acquiring the Water System in 1996, the utility was owned and operated as a

private water company. Ms. Seng was employed by the private water company for 13 years and held various positions including Controller and General Manager.

Billing and Accounting

Accounting for the Water System is performed by the Finance Department of the Town while billing operations for the Water System are performed by the water utility itself. Meters are read and bills issued monthly. The Water System has a high collection rate of 99.83% due to effective customer service, the implementation of its billing operations and delinquency policies.

Water Sources and Supply

Groundwater. The Water System obtains its municipal potable water supply from groundwater sources pumped from 22 wells and a connection to Tucson Water for delivery its Central Arizona Project water.

In June 2003, the Arizona Department of Water Resources (“ADWR”) renewed the Designation of Assured Water Supply for the Town. According to letters from the ADWR, recoverable groundwater in the aquifers from which the Water System pumps its water will be sufficient and of adequate quality to meet the projected demand of the Water System’s service areas. In 2013, the Water Utility will be renewing its Designation of Assured Water Supply with ADWR.

Surface Water. The Central Arizona Project (“CAP”) is a water delivery system run by the Central Arizona Water Conservation District (“CAWCD”) which conveys approximately 1.5 million acre feet per year of Arizona’s 2.8 million acre feet annual entitlement of Colorado River water to Maricopa, Pinal and Pima, Arizona counties in central Arizona. CAWCD’s boundaries include all three such counties. This water is supplemental to the existing surface water and groundwater now being used by municipalities, industry, agriculture and Indian communities in these counties. The Town has an existing allocation of 10,305 acre-feet of CAP water. CAP water is a valuable source of renewable water supply for the future of the Town.

In 2011 the Town entered into an intergovernmental agreement with the City of Tucson, Arizona (“Tucson”) to deliver its CAP water through the Tucson Water distribution system into the Town’s water distribution system (the “CAP IGA”). This is known as wheeling water. The first phase of CAP water deliveries will be for 1,500 acre-feet per year. In January of 2012, CAP water deliveries began to residents in the Town. The use of CAP water reduces groundwater demands on the Water System and protects and preserves the Water System’s aquifer. The CAP IGA also results in reducing the Water System’s groundwater replenishment and replacement obligations required under State regulations. Preliminary designs to increase deliveries to 3,000 acre-feet per year will begin later in 2012.

Prior to the CAP IGA, the Town used CAP water only to balance groundwater depletions that the Town had obligations to repay. This was done by recharging water at a Groundwater Savings Facility (“GSF”). Currently the Town recharges about 2,500 acre-feet per year through the Kai Farms GSF and 2,500 acre-feet through the CAWCD recharge facilities. This allowed the Town to accumulate long-term groundwater storage credits for future water resource management. The Town will continue to recharge a portion of its CAP water allocation until such time it is needed for direct delivery. The Town will also evaluate cooperative regional projects with other local water providers to deliver CAP water and provide economic benefit through economies of scale.

During the early years of CAP availability, supply will exceed demand. It is anticipated that the CAWCD through the Central Arizona Groundwater Replenishment District (“CAGRDR”) will use excess CAP water for groundwater recharge until 2017 and in non-shortage years after 2017. The Town currently has a contract with the CAGRDR to replenish groundwater depletions on behalf of the Town. This contract benefits the Town because it is a component of the Assured Water Supply (“AWS”). Various long-term factors could impact the availability of the CAP water supply including precipitation in the upper Colorado River basin and operation of the Colorado River system by the United States Bureau of Reclamation. The Town has a high priority Municipal and Industrial subcontract for its CAP water deliveries with a very low risk of shortage. In addition, in 2007, a “Record of Decision” was signed by the United States Secretary of Interior that included guidelines whereby the seven basin states, including Arizona, would agree to equitably share in the available Colorado River water in the event of a shortage.

Reclaimed Water. The development of renewable water resources has been at the forefront of the Town's water resources strategy for several years. After considerable analysis, it was determined that bringing reclaimed water to the Town was the most cost-effective and expedient means of providing a renewable water supply for turf irrigation and decreasing demands for potable water which protects and preserves our aquifer for domestic purposes. In 2003, the Town adopted an ordinance that requires the use of reclaimed water for land that contains two or more acres of turf.

In October 2003, the Town Council adopted rates (including the Groundwater Preservation Fee (the "GPF") that are assessed to customers receiving reclaimed water. The purpose of the reclaimed water rate is to fund the operating and maintenance costs of the reclaimed water system. The GPF is assessed to all customers using reclaimed and/or potable water. Revenue from the GPF is used to repay debt associated with the construction of reclaimed facilities and other renewable water infrastructure.

Reclaimed water deliveries began in October 2005 through an intergovernmental agreement with Tucson. In 2011, deliveries of reclaimed water were 2,256 acre-feet or 735,000,000 gallons, representing 23% of the total water demand in 2011. These customers currently receive reclaimed water to irrigate five golf courses and the athletic fields at an elementary school.

Factors Affecting Water Costs

Energy costs are a significant portion of the operating expenses of municipal water systems. The energy costs of operating the existing well systems vary from well to well and from one water system to another. Power costs are affected by topographic pumping lifts needed to serve the higher elevations of the water system's service area as well as depth of wells from which groundwater is extracted. In an effort to decrease pumping costs, the Water System has implemented an energy efficiency program replacing inefficient, over-sized and under-sized pumps with "premium efficient" motors in all wells and booster pump facilities.

During 2011, the Water System constructed a large reservoir which added 3 million gallons to its distribution system storage capacity. This project provides gravity fed water delivery and improves efficiency by reducing the need to start and stop pumps to pressurize the Water System, helping to decrease power costs. Since 2003, the Water System has reduced its power costs by 15%.

The delivery and wheeling of renewable water through the Tucson Water potable and reclaimed water systems have increased operating costs; however, these costs are partially offset by reduced pumping costs and lower payments to the CAGR.

Regulatory Requirements - Water Supply

The Town is subject to water quality laws and regulations of the United States Environmental Protection Agency and the Arizona Department of Environmental Quality. These laws and regulations are met through monitoring, sampling and testing water quality in the water distribution system. The Water System is in compliance with all federal, state and local regulatory requirements for water quality. The Water Utility annually publishes a Consumer Confidence Report for each of its water service areas in accordance with regulatory requirements.

The Town's right to withdraw groundwater is regulated by the ADWR. Under the Arizona Groundwater Management Act of 1980, the director of ADWR is required to adopt groundwater management and water conservation regulations for the most intensively urbanized areas of the State, known as "active management areas." The Town, located in the Tucson Active Management Area, is subject to groundwater management and water conservation requirements that are modified every 10 years through management plans. ADWR is charged with balancing water supply and water demand in each active management area by the year 2025, a concept known as "safe yield."

In order to subdivide real estate in Arizona's active management areas, the real estate developer or, alternatively, the water utility serving the new subdivision, must be found by ADWR to have demonstrated an "assured water supply." To obtain such a designation, ADWR must find that the property in question has a demonstrated water supply for 100 years. The Town received a renewed Designation of Assured Water Supply ("DAWS") in 2003 that

allows the Water Utility Director of the Town to certify that a plat or subdivision will be served by the Town under its DAWS.

This designation was based (1) on its groundwater rights and its access to groundwater supplies in the aquifer underlying the Town's service area, (2) its membership in the CAGR and (3) its ownership of wastewater effluent.

Project Fees

Customers connecting to the Water System are required to place a deposit as security against future service charges. In addition, customers must pay meter installation fees, potable water system development impact fees and alternative water resource development impact fees prior to installation of any meter. The following are schedules of fees and charges:

SCHEDULE OF FEES AND CHARGES (a)

<u>Service Charge</u>	<u>Amount</u>
New Service Establishment Fee	\$35.00
New Service Establishment Fee (after 5:00 p.m.)	70.00
Service Reconnection Fee	80.00
Service Reconnection Fee (after 5:00 p.m.)	115.00
Meter Re-read Fee	20.00
Insufficient Funds/Returned Check Fee	25.00
Document Reproduction Fee	Cost
Debit/Credit Card Convenience Fee	1.50
Backflow Prevention Install. Permit	65.00
Customer Requested Meter Test	Cost
Customer Security Deposit - Owner	50.00
Customer Security Deposit - Tenant	100.00
Customer Security Deposit - Commercial	2 x monthly use
Destruction of Property	Cost
Hydrant Meter Deposit	1,200.00
Hydrant Meter Relocation	Cost
Delinquent Payment Fee	5.00
Service Area Inclusion Fee:	
per acre	5.00
per lot	2.00

(a) *Service charges became effective December 18, 2010.*

NEW DEVELOPMENT CONSTRUCTION INSPECTION FEES

<u>Length of Water Main (in feet)</u>	<u>Inspection Fee (a)</u>
0 – 500	\$1,350.00
For inspections greater than 500	1,350.00 + 1.30 per foot
Repeat Pressure Test (per test)	72.00
Repeat Bacteria Test (per test)	85.00

(a) *Fees collected prior to acceptance of project.*

NEW DEVELOPMENT HYDRAULIC & DESIGN REVIEW FEES (a)

	<u>New Development</u>	
	<u>Hydraulic Review Fee</u>	<u>Design Review Fee</u>
Base sheet	\$ 155.00	\$ 260.00
Each additional sheet	25.00	15.00
Plan Revision (each)	N/A	15.00

(a) *Fees include two hydraulic and two design reviews. Additional reviews are \$85.00 per view. Fees collected prior to receipt of approved plans.*

Water Development Impact Fees. The Town imposes water development impact fees which are collected at the time water meters are purchased. Revenues from these impact fees are used to pay for growth-related potable and alternative water infrastructure for CAP water and reclaimed water and related debt service. In 2007 and 2008, the Town increased its potable water system development impact fees and its alternative water resources development impact fees. These fees are listed below:

METER INSTALLATION FEES

<u>Meter Size (in inches)</u>	<u>Meter Installation Charge (a) Effective 12/18/10</u>
5/8 x 3/4	\$296.00
3/4 x 3/4	296.00
1 standard	370.00
1.5 standard	1,105.00
1.5 turbine	1,568.00
2 turbine	1,280.00
2 compound	1,795.00
3 turbine	1,575.00
3 compound	2,224.00
4 turbine	2,868.00
4 compound	3,758.00
6 turbine	5,093.00
6 compound	6,452.00
8 turbine	7,635.00

(a) 9.1% sales tax added to meter installation fees.

ALTERNATIVE WATER RESOURCES DEVELOPMENT IMPACT FEE (a)

<u>Meter Size (in inches)</u>	<u>Single Family Residential Fee</u>	<u>Commercial Industrial Fee</u>	<u>Irrigation (non-turf) Meter Fee</u>
5/8	\$ 4,982	\$ 4,982	\$ 4,982
3/4	7,470	7,470	7,470
1	12,450	12,450	12,450
1 1/2	24,910	24,910	24,910
2	39,850	39,850	39,850
3	-	79,710	79,710
4	-	124,550	124,550
6	-	249,100	249,100
8	-	398,560	398,560
Multifamily per unit cost		\$ 2,390	
Turf per acre cost		\$ 55,800	

(a) Fees effective December 2, 2008.

POTABLE WATER SYSTEM DEVELOPMENT IMPACT FEE (a)

<u>Meter Size (in inches)</u>	<u>Single Family Residential Fee</u>	<u>Commercial Industrial Fee</u>	<u>Irrigation (non-turf) Meter Fee</u>
5/8	\$ 2,567	\$ 4,110	\$ 4,360
3/4	3,850	6,170	6,540
1	6,420	10,280	10,900
1 1/2	12,840	20,550	21,800
2	20,540	32,880	34,880
3	-	65,760	69,760
4	-	102,750	109,000
6	-	205,500	218,000
8	-	328,800	348,800
Multifamily per unit cost		\$ 1,230	
Turf per acre cost		\$ 28,800	

(a) Fees effective September 19, 2007.

The meter component of the fee for master metered residential uses is the higher of \$1,230 per unit or the single-family residential fee(s) for the master meter(s). The total for commercial/industrial and master-metered residential uses is the sum of the meter component set forth above and the following supplemental fee based on fire flow for uses requiring more than 1,000 gpm of the fire flow (based on the total area of development and the applicable fire flow requirement as determined by the fire department of the Town):

<u>Fire Flow Requirement</u>	<u>Water Development Fee (per meter)</u>
1,001 - 1,500 gpm	\$3,230
1,501 - 2,000 gpm	14,847
2,001 - 2,500 gpm	26,151

Individually metered residential units only pay the single-family residential fee for each for the respective meter sizes.

The turf usage fee is \$28,800 per acre of turf.

For residential uses, this fee shall be paid when construction permits are issued. For all other uses, this fee shall be paid when a water meter is obtained. If water system enhancements are required in order to have sufficient capacity to provide water to a development which will be served pursuant to a line extension agreement, the line extension agreement may provide either that the developer pay the full fee provided by this section at the time of entering into the line extension agreement or that the developer construct all system enhancements needed to serve the development which is the subject of the line extension agreement.

All water meters remain the property of the Town and the Town is responsible for meter maintenance. The Town estimates that approximately 90% of the water system connections are customers with a 5/8" meter.

Groundwater Preservation Fee. On October 1, 2003, the Town Council adopted the GPF which came into effect on November 1, 2003. The purpose of the GPF is to finance delivery systems for renewable water supplies such as reclaimed water and CAP water.

Water Rates

After reviewing recommendations from the Commission, water rate schedules are adopted by the Mayor and Council. The Town's principal consideration in designing rate schedules is to assure that allocated costs of service are recovered in an equitable manner from the various customer classes.

The first element of the water rate is the base rate or service fee. The base rate is a fixed fee that is designed to recover customer costs associated with billing, collection expenses, meter reading and other fixed costs.

The second element of the monthly water use rate is the commodity charge. This charge is dependent upon the volume of water used per month and is designed to recover costs associated with delivering water.

A typical single-family residential customer in the Water System's service area has historically used an average of 8,000 gallons per month throughout the calendar year. On the basis of this level of use, typical customer would pay \$40.18 per month during the calendar year under current rates.

CHRONOLOGY OF WATER RATE INCREASES

Fiscal Year	Description of Increase	Effective Rate Date	Percent Increase (a)
1996/97	Base rate includes 2,000 gallons Decrease base, increase commodity	5/11/1996	14.10%
1997/98	Base rate includes 2,000 gallons Increase base, increase commodity (RV to equal CH)	7/23/1997	3.70%
1998/99	Base rate includes 1,000 gallons Increase base, increase commodity, remove 1000 gals.	11/17/1998	8.50%
1999/000	Base rate includes 1,000 gallons Increase base, add 2nd conservation tier to commodity	8/21/1999	3.80%
2000/01	Base rate includes 1,000 gallons Increase base, add 3rd conservation tier to commodity	8/19/2000	4.50%
2001/02	Base rate includes 1,000 gallons Increase base, increase commodity, changes usage in tiers	8/18/2001	5.50%
2002/03	Base rate includes 0 gallons Remove 1000 gallons from base rate	7/5/2002	6.50%
2003/04	Establish reclaimed rates = to potable rates Increase base, increase commodity, establish GPF	11/1/2003	8.40%
2004/05	Increase for both potable & reclaimed water use Increase base, increase commodity	7/17/2004	3.00%
2005/06	No rate increase	N/A	0.00%
2006/07	Increase potable & reclaimed, establish construction rate Increase base, increase commodity, increase GPF	6/17/2006	5.80%
2007/08	No increase to base or commodity rates. Reduced usage allowed in tiers & created 4th tier. Increased GPF	8/18/2007	10.10%
2008/09	Increase for both potable & reclaimed, changes to usage allowed in tiers. Increased GPF	12/6/2008	8.20%
2009/10	Increase to base & commodity rates (potable & reclaimed) Increased GPF (no changes to usage in tiers)	12/19/2009	5.80%
2010/11	Increase GPF No increase to base or commodity rates	12/19/2009	4.10%

(a) Represents increase to single family residential customers with a 5/8" meter for 8,000 gallons of water use per month.

SCHEDULE OF POTABLE WATER RATES

Meter Size (in inches)	Base includes ZERO gallons	Commodity Tier 1 \$2.20 per 1,000 gals.	Commodity Tier 2 \$2.99 per 1,000 gals.	Commodity Tier 3 \$4.03 per 1,000 gals.	Commodity Tier 4 \$5.38 per 1,000 gals.	GPF *
5/8 x 3/4	\$ 14.19	0 – 7,000	7,001 – 16,000	16,001 – 32,000	Over 32,000	All usage
3/4 x 3/4	21.29	0 – 10,000	10,001 – 24,000	24,001 – 48,000	Over 48,000	All usage
1	35.48	0 – 17,000	17,001 – 40,000	40,001 – 80,000	Over 80,000	All usage
1.5	70.95	0 – 35,000	35,001 – 80,000	80,001 – 160,000	Over 160,000	All usage
2	113.53	0 – 56,000	56,001 – 128,000	128,001 – 256,000	Over 256,000	All usage
3	227.05	0 – 112,000	112,001 – 256,000	256,001 – 512,000	Over 512,000	All usage
4	354.77	0 – 175,000	175,001 – 400,000	400,001 – 800,000	Over 800,000	All usage
6	709.54	0 – 860,000	860,001 – 2,000,000	2,000,001 – 3,500,000	Over 3,500,000	All usage
8	1,135.26	0 – 860,000	860,001 – 2,000,000	2,000,001 – 3,500,000	Over 3,500,000	All usage

Potable construction water rate: **\$6.38** per 1,000 gals. for all usage

Golf course usage to be billed at Tier 1 rates. Tier 2 and Tier 3 will be implemented for any usage in excess of ADWR allotment and will be billed after ADWR annual report is filed.

SCHEDULE OF RECLAIMED WATER RATES

Meter Size (in inches)	Base includes ZERO gallons	Commodity Rate \$2.20 per 1,000 gals.	Groundwater Preservation Fee \$0.50 per 1,000 gals.
5/8 x 3/4	\$ 14.19	All usage	All usage
3/4 x 3/4	21.29	All usage	All usage
1	35.48	All usage	All usage
1.5	70.95	All usage	All usage
2	113.53	All usage	All usage
3	227.05	All usage	All usage
4	354.77	All usage	All usage
6	709.54	All usage	All usage
8	1,135.26	All usage	All usage

Reclaimed construction water rate: \$2.20 per 1,000 gals. for all usage

Water Customers and Connections

NUMBER OF METERS CONNECTED

<u>Fiscal Year</u>	<u>New Meters Connected</u>	<u>Aggregate Total Connections</u>
2001/02	507	15,575
2002/03	470	16,045
2003/04	533	16,578
2004/05	377	16,955
2005/06	508	17,463
2006/07	368	17,831
2007/08	346	18,177
2008/09	196	18,373
2009/10	68	18,441
2010/11	61	18,502
2011/12 (a)	70	18,572
2012/13 (a)	70	18,642
2013/14 (a)	70	18,712

(a) *Projected number of new metered connections.*

NUMBER OF CONNECTIONS BY TYPE FOR FISCAL YEAR 2010/11

<u>User Type</u>	<u>Number of Connections</u>	<u>Percentage of Total</u>	<u>Water Revenues</u>	<u>Percentage of Total</u>
Residential	17,636	95.32 %	\$ 7,951,450	66.15 %
Commercial	322	1.74	911,914	7.59
Irrigation	437	2.36	1,162,574	9.67
Construction	96	0.52	97,052	0.81
Turf - potable	5	0.03	147,424	1.23
Turf - reclaimed	5	0.03	1,670,780	13.90
Wholesale	<u>1</u>	<u>0.01</u>	<u>79,320</u>	<u>0.66</u>
Total	18,502	100.00 %	\$12,020,514	100.00 %

**CONNECTION HISTORY OF THE WATER SYSTEM DEVELOPMENT
OF THE AREA SERVED BY THE WATER SYSTEM**

<u>Fiscal Year</u>	<u>Single Family Connections</u>	<u>Multi-Family Connections</u>	<u>Commercial Connections</u>	<u>Irrigation Connections</u>	<u>Turf Connections</u>	<u>Total Connections</u>	<u>Total EDUs (a)</u>
1995/96	9,654	868	105	220	8	10,855	12,742
1996/97	10,156	987	108	225	8	11,484	13,381
1997/98	10,937	991	120	235	8	12,291	14,318
1998/99	11,849	1,025	130	263	8	13,275	15,511
1999/00	12,756	1,069	163	284	9	14,281	16,957
2000/01	13,505	1,078	177	299	9	15,068	17,609
2001/02	13,982	1,079	188	317	9	15,575	18,535
2002/03	14,398	1,108	198	332	9	16,045	19,200
2003/04	14,866	1,136	219	348	9	16,578	19,972
2004/05	15,209	1,144	232	361	9	16,955	20,490
2005/06	15,668	1,156	244	386	9	17,463	21,295
2006/07	16,001	1,162	258	401	9	17,831	21,850
2007/08	16,308	1,163	286	411	9	18,177	22,368
2008/09	16,347	1,270	318	428	10	18,373	22,972
2009/10	16,411	1,270	319	431	10	18,441	23,067
2010/11	16,463	1,270	322	437	10	18,502	23,158

(a) *Equivalent Dwelling Units (EDUs). Growth is expressed in terms of EDUs. One EDU is represented by a 5/8-inch meter and the flow capacity of that meter size. EDUs increase proportionate to meter sizes. There can be no assurance that these levels of connections or any other level will continue in future years.*

**SCHEDULE OF THE 5 LARGEST WATER SYSTEM CUSTOMERS
FOR FISCAL YEAR 2010/11**

<u>Customer</u>	<u>Annual Water Charges</u>	<u>Annual Gallons Delivered (in 000s)</u>
Hilton El Conquistador Golf Course	\$ 626,725	297,675
Stone Canyon Golf Course	486,302	195,176
The Golf Club at Vistoso	367,502	110,909
Sun City Golf Course	307,414	<u>135,863</u>
Hilton El Conquistador Resort	<u>118,605</u>	39,946
Total	<u>\$1,906,548</u>	<u>779,569</u>

**TOWN OF ORO VALLEY WATER UTILITY
HISTORICAL AND PROJECTED WATER SYSTEM REVENUES, EXPENSES, DEBT SERVICE AND
COVERAGE**

[To be updated]

	Historical					Budgeted (a)	Projected (a)
	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Revenues:							
Water revenues	\$ 11,021,821	\$ 11,686,598	\$ 11,434,787	\$ 12,071,031	\$ 12,038,482	\$ 11,682,799	\$ 11,707,800
Potable water impact fees	1,050,471	1,952,792	1,588,084	293,607	244,376	114,255	114,255
Alternative water impact fees	148,200	512,543	812,740	475,973	400,988	219,200	219,200
Groundwater preservation fees	767,993	1,092,778	1,323,549	1,769,142	2,096,093	2,423,500	2,456,000
Other revenues	663,852	640,445	617,858	525,227	530,186	445,200	475,200
Interest income	1,157,834	864,261	285,658	70,329	38,445	32,307	80,300
Total Revenues	\$ 14,810,171	\$ 16,749,418	\$ 16,062,676	\$ 15,205,308	\$ 15,348,570	\$ 14,917,261	\$ 15,052,755
Expenses:							
Personnel	\$ 2,167,957	\$ 2,324,921	\$ 2,447,642	\$ 2,400,780	\$ 2,418,118	\$ 2,422,709	\$ 2,540,842
Operation and maintenance	2,980,278	4,055,115	4,353,425	3,991,400	3,974,902	4,144,700	5,767,446
CAP capital costs	141,708	216,405	185,490	154,575	154,575	154,575	154,575
CAP Groundwater Replenishment District costs	427,667	500,731	834,035	626,117	474,936	420,000	315,000
Depreciation and amortization	2,401,332	2,601,673	2,662,125	2,965,789	2,883,478	2,966,798	2,883,478
Total Expenditures (with depreciation and amortization)	\$ 8,118,942	\$ 9,698,845	\$ 10,482,717	\$ 10,138,661	\$ 9,906,009	\$ 10,108,782	\$ 11,661,341
Total Expenditures (without depreciation and amortization)	\$ 5,717,610	\$ 7,097,172	\$ 7,820,592	\$ 7,172,871	\$ 7,022,531	\$ 7,141,984	\$ 8,777,863
Net Water System revenues (with depreciation and amortization)	\$ 6,691,230	\$ 7,050,572	\$ 5,579,958	\$ 5,066,647	\$ 5,442,561	\$ 4,808,479	\$ 3,391,414
Net Water System revenues (without depreciation and amortization)	\$ 9,092,562	\$ 9,652,245	\$ 8,242,084	\$ 8,032,437	\$ 8,326,040	\$ 7,775,277	\$ 6,274,892
Water-supported debt service:							
2003 refunding water-related debt service (b)	\$ 648,544	\$ 648,512	\$ 648,674	\$ 647,374	\$ 1,152,546	\$ 1,238,996	\$ 1,243,058
2003 water-related debt service (c) *	2,548,923	2,542,673	2,544,423	2,544,973	2,545,935	2,045,860	1,016,260
2005 water-related debt service (b)	113,090	152,817	151,946	152,672	151,744	152,099	151,245
2007 refunding water-related debt service (b)	147,001	735,007	1,136,077	1,516,494	791,099	791,203	791,111
2007 WIFA loan debt service	-	238,459	366,124	373,496	373,496	423,543	423,543
2009 WIFA loan debt service	-	-	-	198,795	232,367	232,367	232,367
The Refunding Obligations*	-	-	-	-	-	495,238	958,000
Total water-supported debt service*	\$ 3,457,558	\$ 4,317,466	\$ 4,847,244	\$ 5,433,804	\$ 5,247,187	\$ 5,379,305	\$ 4,815,584
Net Water System revenues debt service coverage* (d)	2.63x	2.24x	1.70x	1.48x	1.59x	1.45x	1.30x

* Subject to change.

- (a) THESE FIGURES ARE FORWARD-LOOKING STATEMENTS AND MUST BE VIEWED WITH AN ABUNDANCE OF CAUTION.
- (b) Represents debt secured by excise tax revenues of the Town which the Town intends to repay with Net Revenues. See APPENDIX C – “THE TOWN OF ORO VALLEY – FINANCIAL DATA -- Excise Tax Revenue Bonds Outstanding, Town of Oro Valley, Arizona and Town of Oro Valley Municipal Property Corporation.
- (c) Net of the Bonds Being Refunded.
- (d) Coverage based on the Net Revenues (without depreciation and amortization) divided by the total water-supported debt service for each respective fiscal year.

**TOWN OF ORO VALLEY, ARIZONA –
GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION**

The following information regarding the Town is provided for background information only. No representation is made as to the relevance of the data to the repayment of the Refunding Obligations. The Refunding Obligations are payable solely from purchase payments to be paid by the Town under the Town Purchase Agreement which are secured by Net Revenues as described under the heading “SECURITY FOR AND SOURCES OF PAYMENT OF THE REFUNDING OBLIGATIONS.”

General

The Town incorporated in 1974 and is located in northwestern Pima County, Arizona (the “County”). The Town is approximately six miles north of the city limits of Tucson. A rural area 30 years ago, it is now a part of the Tucson Metropolitan area. The Town covers an area of approximately 35 square miles and is located at an elevation of 2,600 feet at the base of the Catalina Mountains. The following table illustrates population statistics for the Town, the County and the State.

POPULATION STATISTICS

	<u>Town of Oro Valley</u>	<u>Pima County</u>	<u>State of Arizona</u>
2011 Estimate (a)	41,153	986,081	6,438,178
2010 Census	41,011	980,263	6,392,017
2000 Census	29,700	843,746	5,130,632
1990 Census	6,670	666,957	3,665,339
1980 Census	1,489	531,443	2,716,546
1970 Census	581	351,667	1,775,399

(a) *Estimate as of July 1, 2011.*

Source: Arizona Department of Commerce, Population Statistics Unit and the U.S. Census Bureau.

Municipal Government and Organization

The Town government operates under the Council-Manager form of government. Policymaking and legislative authority are vested in the Town Council, which consists of a Mayor and six Councilmembers. Councilmembers are elected to four-year staggered terms. The Mayor is directly elected by the qualified voters of the Town and the Vice-Mayor is selected by the Council from among its members. The Town Council is responsible, among other things, for the adoption of local ordinances, budget adoption, the development of citizen advisory committees and the hiring of the Town Manager. The Town Manager is responsible for implementation of the policies of the Town Council. The Town Manager appoints all department heads except the Chief of Police, Town Attorney and Magistrate.

Employment and Employers

The Town's economy is linked closely with that of Tucson. Due to the Town's proximity to Tucson, the majority of the residents of the Town commute to the Tucson metropolitan area for employment. The tables hereafter illustrate several of the major employers within the Town, followed by tables of the major manufacturing employers and non-manufacturing employers of Tucson.

MAJOR EMPLOYERS Town of Oro Valley, Arizona

<u>Employer</u>	<u>Description</u>	<u>Approximate Number of Employees</u>
Ventana Medical Systems Inc.	Healthcare	1,300
Amphitheater Public Schools	Education	675
Hilton El Conquistador Golf & Tennis Resort	Resort	485
Oro Valley Hospital	Healthcare	470
Town of Oro Valley	Government	325
Fry's Food & Drug Store	Retail	260
Wal-Mart Supercenter	Retail	250
Target	Retail	125
Kohls	Retail	100
Sanofi-Aventis	Pharmaceuticals	75

Source: Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011 of the Town.

**MAJOR INDUSTRIAL EMPLOYERS
Tucson Metropolitan Area**

Employer	Service/Sector	Approximate Number of Employees
Raytheon Missile Systems	Missiles and components	10,500
ASARCO Inc.	Copper and metal mining	2,260
International Business Machines Corp. (IBM Corporation)	Software	1,350
General Dynamics Information and Technology	Military and defense components	1,070
Eurofresh, Inc.	Natural resources and mining	1,050
Ventana Medical Systems Inc.	Medical equipment	1,010
Honeywell	Aerospace products	630
Bombardier Aerospace	Aircraft maintenance and service center	630
Northrop Grumman Corp.	Military and defense components	390
Texas Instruments	Semiconductors	350
Kalil Bottling Co.	Bottling	335
Universal Avionics Systems Corp.	Avionics systems	325
Sargent Controls & Aerospace	Military aerospace components	260
Farmers Investment Co.	Mining and agriculture	250
Pepsi-Cola Bottling Co. of Tucson	Bottling	190
Coca-Cola Bottling Co.	Bottling	180

Source: Arizona Daily Star – Star 200, April 2011.

**MAJOR NON-MANUFACTURING EMPLOYERS
Tucson Metropolitan Area**

<u>Employer</u>	<u>Service/Sector</u>	<u>Approximate Number of Employees</u>
The University of Arizona	Education	10,480
State of Arizona	Government	8,870
Davis-Monthan Air Force Base	Military	8,460
Wal-Mart Stores, Inc.	Retail	7,310
Tucson Unified School District	Education	6,710
Pima County	Government	6,400
U.S. Army Intelligence Center & Fort Huachuca	Military	6,225
Carondelet Health Network	Healthcare	4,960
City of Tucson	Government	4,930
Tohono O'odham Nation	Tribal government	4,350
U.S. Border Patrol	Government law enforcement	3,670
Fry's Food & Drug Stores	Retail grocery	3,100
TMC Healthcare	Healthcare	2,970
Pima Community College	Education	2,340
Southern Arizona VA Health Care System	Healthcare	2,210
Sunnyside Unified School District	Education	2,145
Citi	Call Center	2,000
Amphitheater Unified School District	Education	1,925
Northwest Health System	Healthcare	1,760
U.S. Postal Service	Government mail delivery	1,900
Pascua Yaqui Tribe	Tribal government	800

Source: Arizona Daily Star – Star 200, April 2011.

According to the “2011, FY10 Davis-Monthan AFB Economic Impact Analysis,” released by the Public Affairs Office of the 355th Wing (the “Department”), the Davis-Monthan Air Force Base (the “Base”) had a total economic impact on the surrounding community of over \$1.0 billion in fiscal year 2010. The military and civilian personnel employed both on and off the Base constituted an annual gross payroll of over \$482.7 million. The Department further indicates that approximately 7,100 employees were employed in a military capability by the Base, in addition to approximately 2,470 civilian employees in fiscal year 2010.

The following table illustrates annual unemployment averages for the Town, Tucson, the County, the State and the United States.

UNEMPLOYMENT AVERAGES

<u>Calendar Year</u>	<u>Town of Oro Valley</u>	<u>City of Tucson</u>	<u>Pima County</u>	<u>State of Arizona</u>	<u>United States of America</u>
2012 (a)	6.2%	8.7%	7.9%	8.8%	8.3%
2011	5.9	9.2	8.4	9.3	8.9
2010	6.3	9.9	9.0	10.0	9.6
2009	5.8	9.1	8.7	9.1	9.3
2008	3.9	6.1	5.6	5.9	5.8
2007	2.5	4.0	3.7	3.8	4.6

(a) Data as of January 2012.

Source: Arizona Office of Unemployment and Population Statistics, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.

Construction

The following charts illustrate a building permit summary for residential and non-residential construction and new housing starts for the Town.

**VALUE OF BUILDING PERMITS
Town of Oro Valley, Arizona
(\$000s omitted)**

<u>Calendar Year</u>	<u>Residential</u>	<u>Commercial and Industrial</u>	<u>Other</u>	<u>Total</u>
2011 (a)	\$ 18,913	\$ 17,621	\$ 1,711	\$ 38,245
2010	27,847	11,673	9,454	48,974
2009	25,740	12,458	2,137	40,335
2008	75,390	40,851	N/C	116,241
2007	87,800	70,829	13,940	172,569
2006	89,356	23,787	126	113,269

N/C = Some communities do not collect dollar valuations.

(a) Data through September 2011.

Source: Realty Studies, W.P. Carey School of Business, Arizona State University Polytechnic campus. Note that the data is obtained from county and municipal divisions which issue such permits. Construction is valued on the basis of estimated cost, not on market price or value of construction at the time the permit is issued. The issuance of a building permit does not necessarily mean that construction will commence immediately or at all.

NEW HOUSING PERMITS
Town of Oro Valley, Arizona

<u>Calendar Year</u>	<u>Total New Single-Family Housing Permits</u>
2011 (a)	36
2010	56
2009	66
2008	227
2007	346
2006	354

(a) *Data as through September 2011.*

Source: Realty Studies, W.P. Carey School of Business, Arizona State University Polytechnic campus. Note that data is obtained from county and municipal divisions which issue such permits. The issuance of a building permit does not necessarily mean that construction will commence immediately or at all.

Education

The University of Arizona (the “University”) was established in 1885 and is the oldest institution of higher education in the State. The University is also one of the largest employers in Tucson. The University has 18 colleges offering over 130 bachelor degree programs, 143 masters programs, 115 doctoral programs and three professional programs. The University had approximately 39,240 students enrolled for the fall 2011 semester. This enrollment includes students in continuing education programs, interns and residents, post-doctoral programs and on-campus non-credit students.

Also located within the Tucson metropolitan area are several campuses of the Pima County Community College District. Pima County Community College District offers two-year academic, vocational and technical programs. The fall 2011 semester enrollment was approximately 18,410 full-time students.

Tourism

The Metropolitan Convention and Visitors Bureau estimated that approximately 4 million visitors contribute approximately \$3 billion dollars to the area. The Tucson metropolitan area also attracts a significant number of vacationers and conventioners. Some recreational and sightseeing attractions within driving distance of Tucson include the Arizona-Sonora Desert Museum, Kitt Peak National Observatory, Mission San Xavier del Bac, Mount Lemmon, Organ Pipe Cactus National Monument, Saguaro National Park and Sabino Canyon. The following table illustrates the approximate number of visitors to the Organ Pipe Cactus National Monument and Saguaro National Park in the years indicated.

NUMBER OF VISITORS

Calendar Year	Organ Pipe Cactus National Monument	Saguaro National Park
2012	70,778 (a)	610,738 (b)
2011	1,299,370	2,973,705
2010	1,069,282	3,000,277
2009	1,316,431	2,826,470
2008	1,507,705	2,739,181
2007	1,609,809	2,847,311

(a) Data as of January 2012.

(b) Data as of February 2012.

Source: The National Park Service Public Use Statistics Office, United States Department of the Interior.

Below is a partial list of the larger hotels and motels in the Tucson metropolitan area, based upon number of units.

HOTELS AND MOTELS Tucson Metropolitan Area

Hotel/Motel Name	Number of Units
JW Marriott Starr Pass Resort & Spa	575
The Westin La Paloma Resort & Spa	487
Hilton El Conquistador Golf & Tennis Resort	428
Loews Ventana Canyon Resort	398
Holiday Inn Airport	301
Radisson Suites Tucson	299
Doubletree Hotel Tucson at Reid Park	287
Hotel Tucson City Center Conference Suite Resort	267
Marriott University Park Hotel	250
Ritz-Carlton Dove Mountain	250
Westward Look Resort	244
Hilton Tucson East	232
Viscount Suites Hotel	216
Sheraton Tucson Hotel & Suites	216
Embassy Suites Hotel – Tucson International Airport	204
Omni	128

Source: The Book of Lists 2011, Inside Tucson Business.

Transportation

Industry, business and residents benefit from the transportation network available to the metropolitan Tucson area. Rail, air and highway facilities are developed throughout the area.

The Tucson metropolitan area is traversed by Interstates 10 and 19, as well as United States Highways 86, 89 and 93. Interstate 10 connects Tucson with Phoenix, Arizona, to the north and Los Angeles, California, to the west. Interstate 19 provides access to Nogales, Arizona, and Mexico to the south and United States Highway 86B connects with the direct route to the Gulf of California vacation areas. The Southern Pacific Railroad, as well as interstate motor freight services supplied by many carriers, facilitate the transportation of area products and supplies. Inter-city transportation service is provided by Greyhound-Trailways.

Tucson International Airport (the "TIA") provides local, regional and transcontinental air service through a number of major airlines. The TIA employs nearly 17,000 people with a payroll of \$800 million and an estimated 10,000 people work in the airport area. TIA estimates the combined impact of the TIA and aviation-related activities on local payrolls and expenditures is approximately \$1 billion.

AIRLINES SERVING TUCSON INTERNATIONAL AIRPORT

Alaska Airlines	Delta/Northwest Airlines	Sun Country Airlines
American Airlines	Frontier Airlines	United Airlines
Continental Airlines	Southwest Airlines	U.S. Airways / Lufthansa

Source: Tucson Airport Authority.

NUMBER OF PASSENGERS ARRIVING AND DEPARTING TUCSON INTERNATIONAL AIRPORT

<u>Calendar Year</u>	<u>Arrivals</u>	<u>Departures</u>	<u>Total</u>
2011	1,826,213	1,831,986	3,658,199
2010	1,869,837	1,870,838	3,740,675
2009	1,816,675	1,820,783	3,637,458
2008	2,109,175	2,116,694	4,225,869
2007	2,206,897	2,223,008	4,429,905

Source: Tucson Airport Authority.

**TOWN OF ORO VALLEY, ARIZONA –
FINANCIAL DATA**

THE REFUNDING OBLIGATIONS WILL BE PAYABLE ONLY FROM AND SECURED BY THE AMOUNTS DESCRIBED UNDER THE HEADING “SECURITY FOR AND SOURCES OF PAYMENT OF THE REFUNDING OBLIGATIONS.” THE REFUNDING OBLIGATIONS WILL NOT BE A GENERAL OBLIGATION OF THE TOWN.

**Current Year Statistics (Fiscal Year 2011/12)
Town of Oro Valley, Arizona**

General Obligation Bonds Outstanding	None
Excise Tax Revenue Obligations Outstanding	\$ 34,250,000
Water Revenue Obligations Outstanding and to be Outstanding	26,027,140* (a)
Improvement District Bonds Outstanding	2,920,000
Primary Assessed Valuation	618,973,953 (b)
Secondary Assessed Valuation	629,340,548 (b)
Estimated Net Full Cash Value	5,428,492,256 (c)

The Town’s preliminary fiscal year 2012/13 secondary assessed valuation is estimated at \$592,761,968, a decrease of approximately 5.8% from the fiscal year 2011/12 secondary assessed valuation. The Town’s preliminary fiscal year 2012/13 primary assessed valuation is estimated at \$589,160,533, a decrease of approximately 4.8% from the fiscal year 2011/12 primary assessed valuation. The Town’s preliminary fiscal year 2012/13 estimated net full cash value is estimated at \$5,119,446,676, a decrease of approximately 5.7% from the fiscal year 2011/12 estimated net full cash value. Although the final official valuations are not expected to differ materially from the estimated valuations, the valuations are subject to positive or negative adjustments until approved by the Board of Supervisors of the County no later than August 20, 2012.

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- (a) *Includes the Refunding Obligations, net of the Bonds Being Refunded.*
 - (b) *State property taxes are divided into two categories: primary and secondary. Secondary property taxes are those taxes and assessments imposed to pay principal and interest on bonded indebtedness and certain other obligations, those imposed for special districts other than school districts and those imposed to exceed a budget, expenditure or tax limitation pursuant to voter approval. Primary property taxes are all ad valorem taxes other than secondary property taxes. Annual increases in the valuation of certain types of property for primary property tax purposes and the amount of primary property taxes which may be levied in any year are subject to certain limitations. These limitations do not apply with respect to secondary property taxes.*
 - (c) *Estimated net full cash value is the total market value of the property less net exempt property within the Town.*

Source: State and County Abstract of the Assessment Roll, Arizona Department of Revenue, Property Tax Rates and Assessed Values, Arizona Tax Research Association and Assessor of the County.

**General Obligation Bonds Outstanding
Town of Oro Valley, Arizona**

Total General Obligation Bonds Outstanding	<u>None</u>
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**Excise Tax Revenue Bonds Outstanding
Town of Oro Valley, Arizona and Town of Oro Valley Municipal Property Corporation**

Issue Series	Original Amount	Purpose	Final Maturity Date	Balance Outstanding
2003	\$15,750,000	Refunding	7/1/2019	\$ 8,110,000 (a)
2005	6,215,000	Purchase land, construct municipal operations center	7/1/2025	4,845,000 (a)
2007	17,810,000	Refunding	7/1/2026	16,395,000 (a)
2010	2,445,000	Solar projects	7/1/2027	2,320,000
2012	2,580,000	Aquatic facility improvements	7/1/2027	2,580,000
Total Excise Tax Revenue Obligations Outstanding				<u>\$ 34,250,000</u>

(a) *The Town intends to prepay portions of this debt service with Net Revenues. See APPENDIX A – “TOWN OF ORO VALLEY, ARIZONA – THE WATER SYSTEM -- Town of Oro Valley Water Utility, Historical and Projected Water System Revenues, Expenses, Debt Service and Coverage.”*

**Water Revenue Obligations Outstanding and to be Outstanding (a)
Town of Oro Valley, Arizona**

Issue Series	Original / Expected Total Amount	Purpose	Final Maturity Date	Balance Outstanding	Obligations Being Refunded*	Balance Outstanding and to be Outstanding
2003	\$ 31,750,000	Water system improvements	7/1/2028	\$ 22,610,000	(\$20,185,000)	\$ 2,425,000 *
2007 (a)	4,584,652	Water system improvements	7/1/2027	3,802,002		3,802,002
2009 (a)	2,266,500	Water system improvements	7/1/2029	3,150,139		3,150,139
Total Water Revenue Obligations Outstanding						\$ 9,377,140 *
Plus: The Refunding Obligations						<u>16,650,000 *</u>
Net Water Revenue Obligations Outstanding and to be Outstanding						<u>\$ 26,027,140 *</u>

* *Subject to change.*

(a) *Represents funds borrowed under Loan Agreements with the Water Infrastructure Finance Authority of Arizona.*

Improvement District Bonds Outstanding (a)
Town of Oro Valley, Arizona

<u>Issue Series</u>	<u>Original Amount</u>	<u>Purpose</u>	<u>Final Maturity Date</u>	<u>Balance Outstanding</u>
2005	\$3,945,000	Oracle Road improvements	7/1/2021	<u>\$ 2,920,000</u>
Total Improvement District Bonds Outstanding				<u>\$ 2,920,000</u>

(a) Secured by special assessments levied on the Oracle Road Improvement District.

Other Indebtedness
Town of Oro Valley, Arizona

<u>Item</u>	<u>Payment Amount</u>	<u>Final Payment Date</u>
Copy machine	\$ 3,677	June 30, 2012
Toro mower	14,545	August 10, 2012

RETIREMENT SYSTEM

Retirement Benefits

The Town’s employees are covered by the Arizona State Retirement System (“ASRS”), a cost-sharing, multiple employee defined benefit plan. The ASRS has reported increases in its unfunded liabilities. The most recent annual reports for the ASRS may be accessed at: <https://www.azasrs.gov/web/FinancialReports.do>. The board for the ASRS has adopted contribution rates for fiscal year 2012 and 2013. For fiscal year 2011/11, the Town’s annual contribution was 9.85% of payroll amounts. The Town’s annual contribution for fiscal year 2011/12 is 10.10% of payroll amounts. The Town’s annual contribution for fiscal year 2012/12 is expected to be 10.48% of payroll amounts. The Town is current on its contributions to the ASRS. The increase in the ASRS’s unfunded liabilities is expected to result in increased contributions by the Town and its employees, however the specific effects cannot be determined at this time. See Note 14 in APPENDIX D – “TOWN OR ORO VALLEY, ARIZONA – AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011” for further discussion of the Town’s retirement plan.

Additionally, recently enacted State legislation also made changes to how the ASRS operates, which includes, effective July 1, 2011, requiring employers to pay an alternative contribution rate for retired ASRS employees that return to work, changing the age at which an employee can retire without penalty based upon years of service, limiting permanent increases in retirement benefits and establishing a Defined Contribution and Retirement Study Committee (as defined in the legislation) that will review the feasibility and cost to changing the current defined benefit plan to a defined contribution plan.

The contribution split to ASRS effective July 1, 2011 (explained above) was challenged by the Arizona Education Association, the American Federation of State, County and Municipal Employees, and the American Federation of Teachers. These groups filed a lawsuit on July 14, 2011 on behalf of seven plaintiffs alleging that the shift in contribution levels cannot be applied to employees who are already participating in the ASRS under a theory that it violates the Arizona Constitution and contract law. On February 1, 2012, the Maricopa County Superior Court ruled that the law changing the contribution split that current members of the ASRS make to their pension fund is unconstitutional. It is unknown at this time if the ASRS will appeal the decision. Currently the State legislature is

considering House Bill 2264, which would return the ASRS to the previous funding system of a 50-50 split between the State and the members of ASRS. It is unknown at this time whether House Bill 2264 or similar law will become law.

The Town also contributes to the Public Safety Personnel Retirement System (the "PSPRS"), an agent multiple-employer, public employee retirement system that acts as a common investment and administrative agent to provide retirement and death and disability benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State or a political subdivision, such as Town, thereof. The PSPRS has reported increases in its unfunded liabilities. The most recent annual reports for the PSPRS may be accessed at: http://www.psprs.com/sys_psprs/AnnualReports/cato_annual_rpts_psprs.htm. The effect of the increase in the PSPRS's unfunded liabilities on the Town, or on the Town's and its employees' future annual contributions to the PSPRS, cannot be determined at this time. For the fiscal year ended June 30, 2011, the Town's contribution was 15.63% of payroll amounts, with the health insurance premium portion of the contribution rate set at 0.65%.

The Town also contributes to the Correctional Officers Retirement Plan (the "CORP"), a multiple-employer defined benefit pension plan that covers certain full-time state, county and municipal detention officers. The CORP is governed by a five-member board (the "Fund Manager") according to the Arizona Revised Statutes, Title 38, Chapter 5, Article 5. Benefits are established by State statute and generally provide retirement, death, disability, survivor and health insurance premium benefits. The Corrections Officer Retirement Plan ("CORP") has also reported increases in its unfunded liabilities. The CORP has reported increases in its unfunded liabilities. The most recent annual reports for the CORP may be accessed at: http://www.psprs.com/sys_corp/AnnualReports/cato_annual_rpts_corp.htm. The effect of the increase in the CORP's unfunded liabilities on the Town, or on the Town's and its employees' future annual contributions to the CORP, cannot be determined at this time. For the fiscal year ended June 30, 2011, the Town's contribution was 7.96% of payroll amounts, with the health insurance premium portion of the contribution rate set at 0.37%.

Other Post-Employment Retirement Benefits

Beginning with the fiscal year that commenced on July 1, 2008, the Town was required to implement Government Accounting Standards Board Statement Number 45, Accounting by Employers for Post-Employment Benefits Other than Pensions ("GASB 45"), which requires reporting the actuarially accrued cost of post-employment benefits, other than pension benefits ("OPEB"), such as health and life insurance for current and future retirees. GASB 45 requires that such benefits be recognized as current costs over the working lifetime of employees, and to the extent such costs are not pre-funded, GASB 45 will require the reporting of such costs as a financial statement liability.

The Town does not offer OPEBs. The Town employees, their spouses and survivors may, however, be eligible for certain retiree health care benefits under health care programs provided by the State. Employees on long-term disability and their spouses may also qualify for retiree health care benefits through the State. It is expected that substantially all the Town employees that reach normal or early retirement age while working for the Town will become eligible for such benefits. Currently, such retirees may obtain the health care benefits offered by the State by paying the applicable health care insurance premium; such plan is available to all participants, whether retired or not, in the State's health care program. It is not the responsibility of the Town to fund such costs.

TOWN OF ORO VALLEY, ARIZONA

**AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

The following audited annual financial statements are for the fiscal year ended June 30, 2011. These are the most recent financial statements available to the Town. These financial statements are not current and may not represent the current financial condition of the Town.

Such audited financial statements are the most recent available for the Town, are not current and, therefore, must be considered with an abundance of caution. The Town has not requested the consent of Heinfeld, Meech & Co., P.C. to include its report herein, and Heinfeld, Meech & Co., P.C. has performed no procedures subsequent to rendering its report on the financial statements.

SUMMARY OF CERTAIN PROVISIONS OF LEGAL DOCUMENTS

The following information summarizes or paraphrases certain provisions of the Town Purchase Agreement and the Indenture. Such summaries or paraphrasing are not full statements of the terms of such documents and, accordingly, is qualified by reference to the full text thereof.

CERTAIN DEFINITIONS

The following are definitions in summary form of certain terms used in the Town Purchase Agreement and the Indenture in addition to those provided elsewhere herein:

“Annual Debt Service Requirement” means for any Bond Year an amount of money to be paid in such Bond Year with respect to the Principal Requirement and interest requirement for the Bonds, the 2007 Loan, the 2009 Loan and the Refunding Obligations during such Bond Year. For purposes of determining Annual Debt Service for any Bond Year, the interest requirement on the Refunding Obligations shall be determined based on interest on all Bonds Outstanding to their stated maturity dates unless the Town shall have given irrevocable instructions to redeem some or all Outstanding Bonds pursuant to the Indenture, in which case the interest requirement on the Refunding Obligations shall be determined based on interest on all Outstanding Bonds to their stated maturity or, with respect to Refunding Obligations for which such irrevocable redemption instructions have been given, prior to redemption dates.

“Asset Purchase Agreement[s]” means the Agreements between the MPC and Cañada Hills Water Co. for purchase of the Cañada Hills Water Company by the MPC and between the MPC and Rancho Vistoso Water Company for purchase of the Rancho Vistoso Water Company by the MPC.

“Obligation Fund” means the fund of that name created pursuant to the Indenture and held by the Trustee.

“Bond Year” means generally a twelve month period beginning July 2 of the calendar year and ending on the next succeeding July 1.

“Obligationholder” means the registered owner of any Refunding Obligation.

“Consultant” means a firm of utility consultants experienced in the financing and operation of water systems and having a nationally recognized reputation for such work.

“Contingent Reserve Required Coverage” means the amount of the Net Revenues for then-current Fiscal Year divided by the Current Annual Debt Service, the foregoing quotient being then multiplied by 100.

“Contingent Reserve Requirement” means, at the time of the deposits to the Debt Service Reserve Fund then required, the least of an amount equal to (a) 10% of the net proceeds of the Refunding Obligations at the time of original issuance thereof, (b) the greatest Annual Debt Service for the current or any succeeding Bond Year, or (c) the sum of 125% of the mathematical average of the Annual Debt Service due in each subsequent Bond Year.

“Current Annual Debt Service” means, at the time of computation, the Annual Debt Service for the then-current Bond Year.

“Debt Service Reserve Fund” means the fund of that name credited pursuant to the Indenture and held by the Trustee.

“*Defeasance Obligations*” shall mean money and certain obligations delineated in the Indenture:

1. U.S. Treasury Certificates, notes and bonds (including State and Local Government Series “SLGs”).
2. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.
3. Only the interest component of Resolution Funding Corp. (REFCORP) strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form.
4. Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-funded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

“*Event of Default*” means one of the events defined as such in the Town Purchase Agreement or the Indenture, as the case may be.

“*Fiscal Year*” means the 12-month period used by the Town for its general accounting purposes as the same may be changed from time to time, said fiscal year currently extending from July 1 to June 30.

“*Independent Certified Public Accountant*” means a firm of certified public accountants which is not in the regular employ of the Town on a salary basis.

“*Interest Account*” means the account of the Obligation Fund by that name created under the Indenture.

“*Moody’s*” shall mean Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for the type of credit in question, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Town by written notice to the Trustee.

“*Net Revenues*” means income, monies and receipts derived by the Town from the ownership, use and operation of the Project, or any part thereof, including without limitation, interest received on, and profits realized from the sale of investments made with monies of the Project less all Operating Expenses; further, the term Net Revenues shall not include: (i) nonrecurring revenues, such as grants and gifts; (ii) interest received on any investments placed irrevocably in trust to pay, or provide for the payment of, Senior Obligations; and (iii) amounts received which the Town is now or at the time of receipt contractually required to pay out as reimbursement for construction or installation of water lines or other water facilities included, or to be included in the Project.

“*Operating Expenses*” means any annual premium and fees of any issuer of a Qualified Surety Obligation, fees payable to the Trustee and paying agent or registrar for the Obligations and the reasonable and necessary costs of operation, maintenance, and repair of the Project, but shall exclude depreciation.

“*Parity Test Debt Service*” means an amount of money equal to the highest aggregate Principal Requirement and interest requirement of all outstanding Senior Obligations to fall due and payable in the current or any future Bond Year. For purposes of determining Parity Test Debt Service for any Bond Year, the interest requirement on the Senior Obligations shall be determined based on interest on all outstanding Senior Obligations to their stated maturity dates unless the Town shall have given irrevocable instructions to redeem some or all outstanding Senior Obligations pursuant to the indenture for the Bonds, the agreements for the 2007 Loan and the 2009 Loan, the Indenture or Parity Obligation Documents, in which case the interest requirement on the Senior Obligations shall be determined based on interest on all outstanding Senior Obligations to their stated maturity or, with respect to Senior Obligations for which such irrevocable redemption instructions have been given, prior redemption dates. The interest requirement on Parity Obligations bearing interest at a variable rate will be computed

at the lesser of (i) the maximum rate which such Parity Obligations are permitted to bear or (ii) the rate of interest established by the 20 year bond index published by The Bond Buyer.

“*Principal Account*” means the account of the Obligation Fund by that name created under the Indenture.

“*Principal Requirement*” means (i) with respect to the Bonds, the 2007 Loan, the 2009 Loan and the Refunding Obligations, as of any date of calculation, the principal amount of the Bonds, the 2007 Loan, the 2009 Loan and the Refunding Obligations maturing or subject to mandatory sinking fund redemption pursuant to the Indenture during the then current Bond Year, and (ii) with respect to Parity Obligations, as of any date of calculation, the amount required to be paid by the Town during the then current Bond Year with respect to principal of Parity Obligations. In computing the Principal Requirement for Parity Obligations, an amount of Parity Obligations required to be redeemed pursuant to mandatory redemption in each year shall be deemed to fall due in that year and (except in case of default in observing a mandatory redemption requirement) shall be deducted from the amount of Parity Obligations maturing on the scheduled maturity date. In the case of Parity Obligations supported by a Qualified Surety Obligation, the Principal Requirements for such Parity Obligations shall be determined in accordance with the principal retirement scheduled specified in the documents authorizing the issuance of such Parity Obligations, rather than any amortization schedule set forth in such Qualified Surety Obligation unless payments under such Parity Obligations shall be in default at the time of the determination, in which case the Principal Requirements for such Parity Obligations shall be determined in accordance with the amortization schedule set forth in such Qualified Surety Obligation.

“*Project*” means (i) all or part of the Cañada Hills Water System as described in the Asset Purchase Agreement, (ii) the Rancho Vistoso Water System as described in the Asset Purchase Agreement, (iii) the water facilities which tie the water system formally owned by the Metropolitan Water Company and acquired by the Town in 1992 to the rest of the Projects, (iv) two replacement wells, additional reservoir capacity and additional water mains financed in 2001 and (v) such other buildings, equipment and other real and personal properties suitable for use by and for leasing to the Town or its agencies or instrumentalities, including but not limited to domestic water systems, as may hereafter be subject to the Annually Appropriated Subordinate Lease-Purchase Agreement as amended or supplemented.

“*Purchase Price*” means the sum of the payments required by the Town Purchase Agreement to be paid by the Town to the Trustee.

“*Qualified Reserve Fund Instrument*” means a Qualified Surety Obligation which meets the requirements set forth below: [???

(i) A surety bond or insurance policy issued to the entity serving as the Trustee (the “Fiduciary”), as agent of the Obligationholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Refunding Obligations (a “municipal bond insurer”) may be deposited in the Debt Service Reserve Fund to meet the amount which should have then been on deposit in the Debt Service Reserve Fund if the claims paying ability of the issuer thereof shall be rated “AAA” or “Aaa” by S&P or Moody’s, respectively.

(ii) A surety bond or insurance policy issued to the Fiduciary, as agent of the Obligationholders, by an entity other than a municipal bond insurer may be deposited in the Debt Service Reserve Fund to meet the amount which should have then been on deposit in the Debt Service Reserve Fund if the form and substance of such instrument and the issuer thereof shall be approved by the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is then in good standing and the applicable provider thereof is not in default thereunder.

(iii) An unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the Obligationholders, by a bank may be deposited in the Debt Service Reserve Fund to meet the amount which should have then been on deposit in the Debt Service Reserve Fund if the issuer thereof is rated at least “AA” by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest

with respect to the Bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Town and the Fiduciary, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.

If such notice indicates that the expiration date shall not be extended, the Town shall deposit in the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund together with any other qualifying Qualified Reserve Fund Instruments, to equal the amount which should have then been on deposit in the Debt Service Reserve Fund, such deposit to be paid in equal installments on at least a semiannual basis over the remaining term of the letter of credit, unless the Qualified Reserve Fund Instrument is replaced by a Qualified Reserve Fund Instrument meeting the requirements in any of (i) – (iii) above. The letter of credit shall permit a draw in full not less than 14 days prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Fiduciary is authorized and directed to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Debt Service Reserve Fund is fully funded in its required amount.

The deposit of any Qualified Reserve Fund Instrument pursuant to this paragraph 3 shall be subject to receipt of an opinion of counsel acceptable to the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is in good standing and the applicable provider thereof is not in default thereunder and in form and substance satisfactory to the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is in good standing and the applicable provider thereof is not in default thereunder as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is in good standing and the applicable provider thereof is not in default thereunder. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is in good standing and the applicable provider thereof is not in default thereunder and in form and substance satisfactory to the providers of any Qualified Reserve Fund Instruments then in effect if the applicable Qualified Reserve Fund Instrument is in good standing and the applicable provider thereof is not in default thereunder to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the Refunding Obligations (or any other account party under the letter of credit).

The obligation to reimburse the issuer of a Qualified Reserve Fund Instrument for any fees, expenses, claims or draws upon such Qualified Reserve Fund Instrument shall be subordinate to the payment of debt service on the Refunding Obligations. The right of the issuer of a Qualified Service Reserve Fund Instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Debt Service Reserve Fund, and subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Debt Service Reserve Fund. The Qualified Reserve Fund Instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Qualified Reserve Fund Instrument to reimbursement will be further subordinated to cash replenishment of the Debt Service Reserve Fund to an amount equal to the difference between the full original amount available under the Qualified Reserve Fund Instrument and the amount then available for further draws or claims. If (A) the issuer of a Qualified Reserve Fund Instrument becomes insolvent or (B) the issuer of a Qualified Reserve Fund Instrument defaults in its payment obligations thereunder or (C) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (D) the rating of the issuer of the letter of credit falls below a S&P "AA," the obligation to reimburse the issuer of the Qualified Reserve Fund Instrument shall be subordinate to the cash replenishment of the Debt Service Reserve Fund.

(iv) If (A) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (B) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (C) the rating of the issuer of the letter of credit falls below

a S&P “AA”, the Town shall either (1) deposit into the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund to equal the amount which should have then been on deposit in the Debt Service Reserve Fund, such amount to be paid over the ensuing five years in equal installments deposited at least semiannually or (2) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of (i) – (iii) above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below “A” or (b) the rating of the issuer of the letter of credit falls below “A” or (c) the issuer of the Qualified Reserve Fund Instrument defaults in its payment obligations or (d) the issuer of the Qualified Reserve Fund Instrument becomes insolvent, the Town shall either (i) deposit into the Debt Service Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Debt Service Reserve Fund to equal the amount which should have then been on deposit in the Debt Service Reserve Fund, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements above, as applicable, within six months of such occurrence.

(v) Where applicable, the amount available for draws or claims under the Qualified Reserve Fund Instrument may be reduced by the amount of cash or permitted investments deposited in the Debt Service Reserve Fund pursuant to clause (d) of the preceding subparagraph iv.

(vi) If the Town chooses the above described alternatives to a cash-funded Debt Service Reserve Fund, any amounts owed by the Town to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to the Town Purchase Agreement for any purpose, e.g., rate covenant or Parity Obligations test.

(vii) The Fiduciary shall ascertain the necessity for a claim or draw upon the Qualified Reserve Fund Instrument and provide notice to the issuer of the Qualified Reserve Fund Instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Qualified Reserve Fund Instrument) prior to each interest payment date.

(viii) Cash on deposit in the Debt Service Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Qualified Reserve Fund Instrument. If and to the extent that more than one Qualified Reserve Fund Instrument is deposited in the Debt Service Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

(ix) A Qualified Reserve Fund Instrument may not be provided to replace existing cash or permitted investments unless the Town is provided an opinion of acceptable bond counsel.

“*Qualified Surety Issuer*” means the issuer of a Qualified Surety Obligation which, if a letter of credit or line of credit, by a bank rated at least “AA” by S&P or “Aa” by Moody’s and, if an insurance policy or surety bond by an insurance company rated in the highest rating category by S&P and Moody’s and by A.M. Best & Co. (if so rated). [???

“*Qualified Surety Obligation*” means a letter of credit or line of credit, insurance policy or surety bond issued by a Qualified Surety Issuer and provided such Qualified Surety Obligation will not adversely affect the then-current rating of the Refunding Obligations if then rated by Moody’s or S&P. [???

“*S&P*” shall mean Standard & Poor’s Financial Services, LLC, limited liability company organized and existing under the laws of the State of New York, its successors and assigns, and, if such company shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for the type of credit in question, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Town by written notice to the Trustee.

“*Senior Lien Obligations Fund*” means the fund of that name created pursuant to the Town Purchase Agreement and held by the Town.

* * *

THE TOWN PURCHASE AGREEMENT

Section 2.1. Agreement to Cause Execution and Delivery of Obligations; Application of Proceeds. In order to provide funds to refinance a portion of the payments due pursuant to the First Purchase Agreement, the Refunding Obligations will be executed and delivered pursuant to the Indenture.

* * *

Section 3.3. Amounts of Purchase Price Payable. The Town shall pay, solely from Net Revenues, as the Purchase Price, the aggregate of the amounts for which provision is made in this Section as the Purchase Price:

(a) On or before the tenth (10th) day of each month, until principal of and interest with respect to the Refunding Obligations shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Town shall pay a sum equal to one-sixth ($\frac{1}{6}$) of the interest with respect to the Refunding Obligations falling due on the next succeeding payment date.

(b) On or before the tenth (10th) day of each month, until principal of and interest with respect to the Refunding Obligations have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Town shall pay a sum equal to one twelfth ($\frac{1}{12}$) the principal due or subject to mandatory redemption for the then current Bond Year.

(c) On the tenth (10th) day of each month commencing with the February 10 following the Fiscal Year in which the Contingent Reserve Required Coverage is 130% or less or, after the Contingent Reserve Requirement is fully funded as required from the payments arising from the foregoing clause, a determination of the Trustee that the amount on deposit in the Debt Service Reserve Fund is less than the Contingent Reserve Requirement, the Town shall pay to the Trustee for deposit to the Debt Service Reserve Fund in the former case an amount equal to one thirty-sixth ($\frac{1}{36}$) of the amount which, when added to the balance in the Debt Service Reserve Fund, will be equal to the Contingent Reserve Requirement and in the latter case an amount equal to one-twelfth ($\frac{1}{12}$) of the amount which, when added to the balance in the Debt Service Reserve Fund, will be equal to the amount then required to be on deposit therein.

(d) If at any payment date following delivery of the Refunding Obligations the balance available in the Obligation Fund and the Debt Service Reserve Fund is insufficient to make required payments of principal and interest due on such date, the Town shall pay any such deficiency in sufficient time to prevent default in the payment of principal of or interest with respect to the Refunding Obligations falling due on such payment date; provided however, that any amount at any time held by the Trustee in the Interest Account shall be credited against the aforesaid respective obligations next thereafter required to be met by the Town, but only to the extent such amount is in excess of the amount required for payment of past due interest whether or not such Refunding Obligations shall have been presented for payment.

(e) The Town shall pay to the Trustee its fees and expenses in accordance with the provisions of the Indenture.

* * *

Section 3.5. Limitation on Source of Town Payments. Except to the extent the Town determines to make payments from moneys of the Town other than Net Revenues which are, at the time any payment is required under the Town Purchase Agreement, legally available to make such payment, all amounts to be paid by the Town under any section of this Town Purchase Agreement shall be payable solely from Net Revenues as provided in Article IV of the Town Purchase Agreement. Under no circumstances shall amounts paid under this Town Purchase Agreement from such other moneys constitute a pledge of such other moneys and amounts payable by the Town thereunder shall never constitute a general obligation of the Town or a pledge of ad valorem taxes by the Town.

Section 3.6. Obligations of Town Unconditional. The obligations of the Town to make the payments required in Section 3.3 and to perform and observe the other agreements on its part contained in the Town Purchase Agreement shall be absolute and unconditional, regardless of the continued existence of the Improvements in physical condition satisfactory to the Town.

* * *

Section 4.2. Rate Covenant. The Town shall continuously own, control, operate and maintain the Project in an efficient and economical manner and on a revenue producing basis and shall at all times establish, fix, maintain and collect rates, fees and other charges for all water and services furnished by the Project fully sufficient at all times:

- (a) To provide for 100% of the Operating Expenses;
- (b) To produce Net Revenues in each Fiscal Year which will equal at least 120% of the interest and Principal Requirement for the then current Bond Year on all Senior Obligations then outstanding; and
- (c) To produce Net Revenues sufficient to remedy any deficiency in the Debt Service Reserve Fund established under the Indenture; and
- (d) To produce Net Revenues in each Fiscal Year which will remedy all deficiencies in payments into any of the funds and accounts described in the Town Purchase Agreement required from prior Fiscal Years for the payment of the Purchase Price as well as the payment of principal of and interest on the Bonds, the 2007 Loan, the 2009 Loan and Parity Obligations.

The Town shall cause an amount of Net Revenues to be included in the annual budget and appropriation for every Fiscal Year commencing with the Fiscal Year immediately following the issuance of the Refunding Obligations sufficient to meet all requirements of the Town Purchase Agreement.

* * *

Section 4.4 Flow of Funds – Senior Lien Obligations Fund. The Town shall deposit all of Net Revenues in the Senior Lien Obligations Fund from time to time as received. Money in the Senior Lien Obligations Fund shall be applied as follows:

- (a) Net Revenues in the amount of the Purchase Price shall be paid from the Senior Lien Obligations Fund to the Trustee when due and amounts corresponding to debt service on Parity Obligations shall be paid when due, such amounts in the Senior Lien Obligations Fund being pledged to the payment thereof.
- (b) There shall next be paid monthly into the Debt Service Reserve Fund and every separate bond reserve fund or account established for Parity Obligations all remaining Net Revenues whenever and to the extent necessary pursuant to the terms of the Town Purchase Agreement with respect to the Refunding Obligations and to the terms of any similar agreement with respect to the Bonds, the 2007 Loan, the 2009 Loan and any Parity Obligations to accumulate and maintain in each such fund or account a sum equal to 100% of the Contingent Reserve Requirement with respect to all Refunding Obligations and of the similar requirement with respect to the Bonds, the 2007 Loan, the 2009 Loan and any Parity Obligation, respectively, secured thereby and to reimburse any Qualified Surety Obligation for amounts paid out under any insurance policy or surety bond securing any of the Senior Obligations. Any amounts required to be paid by Section 3.3(c) shall be paid to the Debt Service Reserve Fund.

No further payments of the Purchase Price need be made whenever the amount on deposit in the Obligation Fund, if added to the amount then in the Debt Service Reserve Fund, is sufficient to retire all Refunding Obligations then outstanding and to pay all unpaid interest accrued and to accrue prior to such retirement.

* * *

Section 4.9 Prior Lien Obligations; Parity Obligations. The Town shall not incur any obligations payable from Net Revenues ranking prior to the obligations of the Town under this Town Purchase Agreement.

The Town shall not incur any obligations payable from Net Revenues in the future on a parity with its obligations under this Town Purchase Agreement (“Parity Obligations”) except for (a) additional Parity Obligations entered into or issued for the purpose of refunding Senior Obligations if, upon the incurring of such Parity Obligations, the conditions specified in Section 4.10 of the Town Purchase Agreement are met, or (b) additional Parity Obligations entered into or issued for purposes other than refunding Senior Obligations if, upon the incurring of such Parity Obligations, the conditions specified in Section 4.11 of the Town Purchase Agreement are met.

Section 4.10 Parity Obligations for Refunding Purposes. Any or all Senior Obligations may be refunded at maturity, upon redemption in accordance with their terms or with the consent of the holders thereof, and the refunding Parity Obligations so entered into or issued shall constitute Parity Obligations; provided, however, that:

(a) The Town Clerk shall have received the certificate of an Independent Certified Public Accountant (i) setting forth the aggregate amount of interest and Principal Requirement becoming due and payable from the date of such determination to maturity or earlier redemption (A) with respect to Senior Obligations of all series outstanding immediately prior to the date of authentication and delivery of such refunding Senior Obligations and (B) with respect to Senior Obligations of all series to be outstanding immediately thereafter and (ii) demonstrating that the amount set forth pursuant to (B) above is not greater than 105% of the amount set forth pursuant to (A) above or

(b) All outstanding Senior Obligations are being refunded under arrangements which immediately result in making provision for the payment of the refunded Senior Obligations.

Section 4.11 Additional Parity Obligations Generally. Additional Parity Obligations may also be issued for other than refunding purposes as described above in Sections 4.9 and 4.10 if, prior to the issuance thereof, there shall have been procured and filed with the Town Clerk and the Trustee a statement by an Independent Certified Public Accountant or a report of a Consultant to the effect that Net Revenues of the Project for the most recently completed Fiscal Year for which audited financial statements of the Town are available were equal to at least 120% of Parity Test Debt Service for all outstanding Senior Obligations, including the obligations proposed to be issued.

Any statement of an Independent Certified Public Accountant or Consultant’s report required pursuant to this Section 4.11 may contain the following adjustments to Net Revenues for such most recently completed Fiscal Year:

(a) An adjustment equal to 100% of the increased annual amount attributable to any revision in the schedule of rates and charges imposed not less than three (3) months prior to the date of delivery of such additional Parity Obligations and not fully reflected in the audited Net Revenues actually received during said Fiscal Year. Such adjustment shall be based upon certification by the Consultant as to the amount of Net Revenues which would have been received during said Fiscal Year had the new rates been in effect throughout said Fiscal Year.

(b) An adjustment equal to 100% of additional new Net Revenues estimated to be received in the first Fiscal Year after delivery of said additional Parity Obligations or the assumption of such additional obligations from connections to the Project estimated in writing by the Consultant to be made during and after such 12-month period to the extent that such new Net Revenues are not taken into account under subsection (a) above.

(c) If (i) the additional Parity Obligations are issued for the purpose of paying the cost of acquiring other existing water utilities or (ii) additional obligations payable from Net Revenues are being assumed by the Town in connection with the acquisition of other existing water utilities, said statement or report may also contain an adjustment of said Net Revenues to reflect 100% of the additional estimated Net Revenues which in the written opinion of the Consultant will be derived from the acquired utility during the first complete Fiscal Year after the issuance of such additional Parity Obligations or the assumption of such obligations payable from Net Revenues. The Consultant's report shall be based on the actual operating revenues of the acquired utility for a recent 12-month period adjusted to reflect the Town's ownership and the Town's rate structure in effect with respect to the Project at the time of the issuance of the additional Parity Obligations or the assumption of such obligations payable from Net Revenues.

(d) If the additional Parity Obligations are issued for the purpose of paying the cost of construction of additions, extensions or improvements to the Project and if money to pay interest on said additional Parity Obligations has been provided from proceeds of Parity Obligations or funds on hand in an amount sufficient to pay interest falling due on such Parity Obligations for the period from the date of issuance thereof until the anticipated completion of the construction of such extensions and improvements, said statement may also contain an adjustment of said Net Revenues to reflect 100% of the additional estimated annual Net Revenues which in the written opinion of the Consultant will be derived during the first complete Fiscal Year after the completion of such construction from connections to the proposed additions, extensions or improvements.

* * *

Article V Covenants Regarding the System. The Town shall maintain the Project in good condition, maintain insurance on the Project, sell, lease, encumber or dispose of property comprising a part of the Project only after satisfying certain requirements, keep proper books, records and accounts of the Project, adopt a budget for the Project for each Fiscal Year, and not grant a franchise or permit the operation of any competing water system in the Town.

* * *

Section 7.1. Events of Default. Any one or more of the following events shall constitute a default under the Town Purchase Agreement:

(a) The Town shall fail to make any payment of the Purchase Price sufficient to pay amounts due on the Refunding Obligations when due; or

(b) The Town shall fail to make any other payment of the Purchase Price for a period of thirty (30) days after notice of such failure shall have been given in writing to the Town by the Corporation or by the Trustee; or

(c) The Town shall fail to perform any other covenant in the Town Purchase Agreement for a period of thirty (30) days after written notice specifying such default, provided that if such failure be such that it cannot be remedied within such 30 day period, it shall not be deemed an Event of Default so long as the Town diligently tries to remedy the same; or

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

Section 7.2. Remedies on Default by Town. The obligations of the Town under the Town Purchase Agreement may not be accelerated.

* * *

Section 9.3. Amendments. The Town Purchase Agreement may only be amended with the express written consent of the Trustee and in accordance with the provisions of the Indenture.

* * *

THE INDENTURE

The Indenture grants a security interest in, assigns, transfers, pledges, grants and conveys unto the Trustee and its successors and assigns the following described property:

A. All rights and interests in, under and pursuant to the Town Purchase Agreement, provided that the assignment made by this clause shall not include (i) any assignment of any obligation under the Town Purchase Agreement (and the Trustee shall have no duties with respect thereto) or (ii) any assignment of any right thereunder to inspect books and records, or to give or receive notices, approvals, consents, requests or other communications or approvals, or any right to limitation of liability, indemnification of liability, or payment or reimbursement of fees, costs or expenses,

B. Amounts on deposit from time to time in the funds and accounts created pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein and

C. Any and all other real or personal property of any kind from time to time hereafter by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, as and for additional security under the Indenture for the Refunding Obligations in favor of the Trustee.

* * *

The Refunding Obligations authorized and the payments to be made thereon and into the various funds established under the Indenture are not general obligations of the Town but are limited obligations payable solely from payments under the Town Purchase Agreement.

* * *

Section 5.3. Flow of Funds in the Obligation Fund. So long as any Refunding Obligations are outstanding, in each Bond Year, payments received by the Trustee shall be applied in the following manner and order of priority:

(a) **Interest Account.** The Trustee shall deposit to the Interest Account on or before the tenth (10th) day of each month, an amount equal to the amount of one sixth (1/6th) of the interest to be paid on Outstanding Bonds on the next payment date. Moneys in the Interest Account shall be used to pay interest with respect to the Refunding Obligations as it becomes due.

(b) **Principal Account.** The Trustee shall deposit to the Principal Account on or before the tenth (10th) day of each month, an amount equal to one twelfth (1/12th) of the principal amount at maturity plus an amount equal to any mandatory redemption requirement with respect to Outstanding Bonds which will mature or be subject to mandatory redemption on the last day of the applicable Bond Year as well as the total of any principal amounts coming due which have been called for optional redemption. Moneys in the Principal Account shall be used to retire Refunding Obligations by payment at their scheduled maturity, their mandatory redemption retirement date or optional redemption date directed by the Town.

Section 5.4 Flow of Funds in the Debt Service Reserve Fund.

(a) **Monthly,** commencing on the tenth (10th) day of the month following a payment made from the Debt Service Reserve Fund as hereinafter described, the Trustee shall deposit into the Debt

Service Reserve Fund from amounts paid pursuant to the Town Purchase Agreement the amount required pursuant to the Town Purchase Agreement to restore the Debt Service Reserve Fund to an amount equal to the amount which should have then been on deposit in the Debt Service Reserve Fund.

(b) No deposit need be made into the Debt Service Reserve Fund if the amount of money on deposit therein plus the maximum amount of the Qualified Reserve Fund Instruments contained therein is at least equal to an amount equal to the amount which should have then been on deposit in the Debt Service Reserve Fund.

(c) Except for the hereinafter described withdrawals, amounts in the Debt Service Reserve Fund shall be used and withdrawn solely for the purpose of paying principal and interest with respect to the Refunding Obligations in the event that no other money of the Town is available therefor or for the retirement of all of the Bonds then outstanding or of all or a portion of the Bonds then outstanding.

(d) If on July 2 of any year the amount in the Debt Service Reserve Fund exceeds an amount equal to the amount which should have then been on deposit in the Debt Service Reserve Fund and if the Town is not then in default under the Town Purchase Agreement, the Trustee shall withdraw the amount of any such excess from such fund and shall apply such amount, first and on a pro rata basis, to pay amounts due with respect to any Qualified Reserve Fund Instrument, including by transferring pro rata amounts in the appropriate "Reimbursement Account" of the "Reimbursement Fund" hereafter established to reimburse the providers of any Qualified Reserve Fund Instruments for any payments made by the providers thereof until the corresponding costs with respect thereto are paid, and second, as a deposit to the Obligation Fund.

(e) Amounts in the Debt Service Reserve Fund may be applied to the defeasance of all Outstanding Bonds.

* * *

Section 7.1. Events of Default. Each of the following is declared an "Event of Default" under the Indenture:

(a) If payment of any installment of interest with respect to any Refunding Obligation shall not be made in full when the same becomes due and payable;

(b) If payment of the principal or redemption premium, if any, with respect to any Refunding Obligation shall not be made in full when the same becomes due and payable;

(c) If, under the provisions of any law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of all or any part of the interests pledged hereunder and such custody or control shall continue for more than 60 days;

(d) If the Town shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions on its part to be performed as provided herein or in the Refunding Obligations and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Town by the Trustee, unless within such 30 days the Town shall have commenced and be diligently pursuing in good faith appropriate corrective action to the satisfaction of the Trustee; the Trustee may give such notice in its discretion and shall give such notice at the written request of the Holders of not less than 25% in principal amount of the Bonds then outstanding; or

(e) If any "Event of Default" under the Town Purchase Agreement occurs.

Section 7.2. Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Event of Default and in accordance with Article VII of the Indenture and Article VII of the Town Purchase Agreement, the Trustee may, and upon the written request of the holders of not less than a majority in principal

amount of the Outstanding Bonds, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Obligationholders thereunder and the Refunding Obligations by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to, an action for the recovery of any amounts due thereunder or for damages for the breach of the Indenture, and the Trustee may pursue any other remedy which the law affords, including the remedy of specific performance. The Trustee shall also have those remedies which the Town is provided pursuant to the Town Purchase Agreement, subject to any limitations on such remedies set forth therein.

(b) Regardless of the happening of an Event of Default and subject to Section 7.7 of the Indenture, the Trustee, if requested in writing by the Obligationholders of not less than a majority in principal amount of the Bonds then outstanding shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security thereunder by any acts which may be unlawful or in violation thereof, or (ii) to preserve or protect the interests of the holders, provided that such request is in accordance with law and the provisions thereof and, in the sole judgment of the Trustee, is not unduly prejudicial to the interest of the Obligationholders not making such request.

Section 7.3. No Acceleration. In no event shall the Trustee have the right to accelerate or cause to become immediately due and payable or payable in advance of their scheduled maturity dates, other than an optional redemption pursuant to the Indenture and then only to the extent of the amount to be so redeemed and only pursuant to Article III of the Indenture, amounts due thereunder.

Section 7.4. Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article, shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees, expenses and advances incurred or made by the Trustee with respect thereto, be deposited in the Obligation Fund, and all amounts held by the Trustee thereunder shall be applied as follows:

- First: To the payment to the persons entitled thereto of all installments of interest (including interest on amounts unpaid when due with respect to the Refunding Obligations) then due, and, if the amount available shall not be sufficient to pay in full any installment or installments then due, then to the payment thereof ratably in a manner consistent with the second sentence of Section 5.3(a) of the Indenture, according to the amounts due thereon to the persons entitled thereto, without any discrimination or preference; and
- Second: To the payment to the persons entitled thereto of the unpaid Principal Installments or redemption price of any Refunding Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Refunding Obligations due on any date, then to the payment thereof ratably in a manner consistent with the second sentence of Section 5.3(b) of the Indenture, according to the amounts of Principal Installments or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal with respect to the Refunding Obligations to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Refunding Obligation until such Refunding Obligation shall be presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all principal and interest with respect to the Refunding Obligations which has become due has been paid under the provisions of this Section and all expenses and charges of the Trustee have been paid and the Obligation Fund contains the amounts then required to be credited thereto, any balance remaining shall be paid to the Town.

* * *

Section 7.7. Individual Obligationholder Action Restricted. (a) No holder of any Refunding Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement thereof or for the execution of any trust under the Indenture or for any remedy thereunder except for the right to institute any suit, action or proceeding in equity or at law for the enforcement of the Trustee's duties and powers thereunder upon the occurrence of all of the following events:

- (i) The Obligationholders of at least a majority in principal amount of Outstanding Bonds shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture; and
- (ii) Such Obligationholders shall have offered the Trustee indemnity as provided in Section 8.2(e) of the Indenture; and
- (iii) The Trustee shall have failed or refused to exercise the duties or powers therein granted for a period of 60 days after receipt by it of such request and offer of indemnity; and
- (iv) During such 60 day period no direction inconsistent with such written request has been delivered to the Trustee by the holders of a greater majority in principal amount of Bonds then outstanding.

(b) No one or more Obligationholders shall have any right in any manner whatsoever to affect, disturb or prejudice the security thereof or to enforce any right thereunder except in the manner therein provided and for the equal benefit of the holders of all Outstanding Bonds.

(c) Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of the holder of any Obligationholder (i) to receive payment of the principal, premium, if any, or interest with respect to such Refunding Obligation, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no holder of any Refunding Obligation may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien thereof on the moneys, funds and properties pledged thereunder for the equal and ratable benefit of all Obligationholders.

* * *

Section 7.9. Waiver of Event of Default.

(a) No delay or omission of the Trustee or of any Obligationholders to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by this Article may be exercised from time to time and as often as may be deemed expedient.

(b) The Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under, the provisions thereof of the Indenture, or before the completion of the enforcement of any other remedy thereunder.

(c) In case of any waiver by the Trustee of an Event of Default under the Indenture, the Town, the Trustee and the Obligationholders shall be restored to their former positions and rights thereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or

impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section.

* * *

Section 9.1. Supplements not Requiring Consent of Obligationholders. The Town acting through an appropriate representative and the Trustee may, but without the consent of or notice to any of the Obligationholders, enter into one or more supplements to the Indenture for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission therein or to correct or supplement any provision in the Indenture which may be inconsistent with any other provision therein, or, to make any other provisions with respect to matters or questions arising thereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the holders;

(b) To grant or confer upon the Obligationholders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(c) To secure additional revenues or provide additional security or reserves for payment of the Refunding Obligations;

(d) To comply with the requirements of any state or federal securities laws or the Trust Indenture Act of 1939, as from time to time amended, if required by law or regulation lawfully issued thereunder;

(e) To provide for the appointment of a successor trustee or co-trustee pursuant to the terms of the Indenture;

(f) To permit Refunding Obligations in bearer form if, in the opinion of nationally recognized bond counsel received by the Town and the Trustee, such action will not cause the interest with respect to any Refunding Obligations to become includible in gross income for purposes of federal income taxes;

(g) To preserve the exclusion of the interest on the Refunding Obligations from gross income for purposes of federal or State income taxes and to preserve the power of the Town to continue to issue bonds or incur other obligations (specifically not limited to the Refunding Obligations authorized hereby) the interest with respect to which is likewise exempt from federal and State income taxes; and

(h) To adopt procedures for the disclosure of information to Obligationholders and to others in accordance with any guidelines for such purpose promulgated by the American Bankers Association or some other similar national organization, as such guidelines may be made applicable to the Indenture by agreement of the Trustee and the Town.

Section 9.2. Supplements Requiring Consent of Obligationholders.

(a) Other than supplements to the Indenture referred to in Section 9.1 thereof and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Obligationholders of not less than a majority in principal amount of the Refunding Obligations then outstanding shall have the right, from time to time, anything contained therein to the contrary notwithstanding, to consent to and approve the execution by the Corporation acting through an appropriate representative and the Trustee of such supplement as shall be deemed necessary and desirable by the Corporation and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained therein; provided, however, nothing in this Section or Section 9.1 of the Indenture shall permit or be construed as permitting a supplement to an Indenture which would:

(i) extend the stated maturity of or time for paying interest with respect to any Refunding Obligation or reduce the principal amount, the redemption premium or rate of interest

payable with respect to any Refunding Obligation without the consent of the Obligationholder of such Refunding Obligation;

(ii) prefer or give a priority to any Refunding Obligation over any other Refunding Obligation without the consent of the Obligationholder of each Refunding Obligation then outstanding not receiving such preference or priority;

(iii) reduce the principal amount of Refunding Obligations then outstanding the consent of the Obligationholders of which is required to authorize such supplement without the consent of the Obligationholders of all Refunding Obligations then outstanding;

(iv) increase the principal amount of Refunding Obligations then outstanding, the request of the Obligationholders of which is required by Section 7.1(d) of the Indenture, without the consent of the Obligationholders of all Refunding Obligations then outstanding; or

(v) reduce the redemption price of any Refunding Obligation upon optional redemption or reduce any period of time prior to commencement of any optional redemption period set forth in Section 3.2 without the consent of the Obligationholder of such Refunding Obligation.

(b) If at any time the Town shall request the Trustee to enter into a supplement pursuant to this Section, the Trustee shall, upon being satisfactorily and specifically indemnified by the Town with respect to expenses with respect to such supplement, cause notice of the proposed execution of such supplement to be mailed by first class mail, postage pre-paid, to all registered Obligationholders then outstanding at their addresses as they appear on the registration books for the Refunding Obligations. The Trustee shall not, however, be subject to any liability to any Obligationholder by reason of its failure to mail, or the failure of such Obligationholder to receive, the notice required by this Section, and any such failure shall not affect the validity of such supplement when consented to and approved as provided in this Section. Such notice shall briefly set forth the nature of the proposed supplement and shall state that copies thereof are on file at the office of the Trustee for inspection by all Obligationholders.

* * *

Section 9.4. Amendments to Town Purchase Agreement Not Requiring Consent of Obligationholders. The Town and the Trustee may, without the consent of or notice to any of the Obligationholders consent to and join with the Town in the execution and delivery of any amendment, change or modification of the Town Purchase Agreement as may be required (i) by the provisions thereof; (ii) to cure any ambiguity or formal defect or omission therein or to correct or supplement any provision therein which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising thereunder provided such action shall, in the opinion of the Trustee, not materially adversely affect the interests of the Obligationholders; and (iii) to preserve the exclusion of the interest with respect to the Refunding Obligations from gross income for purposes of federal or State income taxes and to preserve the power of the Town to continue to issue bonds or incur other obligations (specifically not limited to the Refunding Obligations authorized hereby) the interest on which is likewise exempt from federal and State income taxes in connection with any other change therein which in the opinion of the Trustee will not materially adversely affect the interests of the holders or the Trustee.

Section 9.5. Amendments to Town Purchase Agreement Requiring Consent of Obligationholders.
(a) Except for amendments, changes or modification to the Town Purchase Agreement referred to in Section 9.4 above and subject to the terms and provisions and limitations contained in Article IX of the Indenture and not otherwise, the Trustee may consent to and join with the Town in the execution and delivery of any amendment, change or modification to the Town Purchase Agreement only upon the consent of not less than a majority in principal amount of the Obligationholders then outstanding, given as provided in this Section, provided, however, no such amendment, change or modification may affect the obligation of the Town to make payments under the Town Purchase Agreement or reduce the amount of or extend the time for making such payments without the consent of the Obligationholders of all Refunding Obligations then outstanding.

* * *

Section 10.1. Discharge. If payment of all principal of, premium, if any, and interest with respect to all of the Refunding Obligations in accordance with their terms and as provided in the Indenture is made, or is provided for in accordance with this Article, and if all other sums, if any, payable by the Town thereunder shall be paid, then the liens, estates and security interests granted thereby shall cease. Thereupon, upon the request of the Town, and upon receipt by the Trustee of an opinion of counsel addressed to the Town and the Trustee stating that all conditions precedent to the satisfaction and discharge of the lien thereof have been satisfied, the Trustee shall execute and deliver proper instruments acknowledging such satisfaction and discharging the lien thereof and the Trustee shall transfer all property held by it thereunder, other than moneys or obligations held by the Trustee for payment of amounts due or to become due on the Refunding Obligations, to the Town or such other person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection therewith.

The Town may at any time surrender to the Trustee for cancellation any executed and delivered which the Town may have acquired in any manner whatsoever and such Refunding Obligations upon such surrender and cancellation shall be deemed to be paid and retired.

Section 10.2. Providing for Payment of Refunding Obligations. Payment of all or any part of the Refunding Obligations in authorized denominations may be provided for by the deposit with the Trustee or any financial institution meeting the requirements as a successor Trustee under Section 8.6 of the Indenture which may be designated by the Town and acceptable to the Trustee to serve as its agent (the "Depository Trustee") of moneys or Defeasance Obligations which are not redeemable in advance of their maturity dates. The moneys and the maturing principal and interest income on such Defeasance Obligations, if any, shall be sufficient, as evidenced by a certificate of an independent nationally recognized certified public accountant or firm of such accountants acceptable to the Trustee and the Depository Trustee, to pay when due the principal or redemption price and interest with respect to such Refunding Obligations. The moneys and Defeasance Obligations shall be held by the Trustee or the Depository Trustee irrevocably in trust for the Obligationholders of such Refunding Obligations solely for the purpose of paying the principal or redemption price of and interest with respect to such Refunding Obligations as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Trustee and the Depository Trustee as to the dates upon which any such Refunding Obligations are to be redeemed prior to their respective maturities.

If payment of Refunding Obligations is so provided for, the Trustee shall mail a notice so stating to each holder of a Refunding Obligation so provided for.

Refunding Obligations, the payment of which has been provided for in accordance with this Section, shall no longer be deemed outstanding thereunder or secured thereby. The obligation of the Town in respect of such Refunding Obligations shall nevertheless continue but the Obligationholders thereof shall thereafter be entitled to payment only from the moneys or Defeasance Obligations deposited with the Trustee or the Depository Trustee to provide for the payment of such Refunding Obligations.

FORM OF APPROVING LEGAL OPINION

DRAFT

[LETTERHEAD OF GREENBERG TRAUIG, LLP]

Re: Town of Oro Valley, Arizona Senior Lien Water Project Revenue Refunding Obligations, Series 2012

We hereby certify that we have examined a transcript of proceedings relating to the initial execution and delivery of the captioned Obligations (the "Obligations") in the aggregate principal amount of \$16,650,000* in fully registered form, dated the date hereof. The Obligations are being executed and delivered to refinance certain payments due pursuant to an obligation incurred to pay for certain improvements to the water system (the "Project") serving the Town of Oro Valley, Arizona (the "Town").

We have examined the law and such documents and matters as we have deemed necessary to render this opinion. As to questions of fact material to the opinions expressed herein, we have relied upon, and have assumed due compliance with the provisions of, the proceedings, and have relied upon certifications and representations furnished to us without undertaking to verify the same by independent investigation, including, without limitation, the use to be made of the proceeds of the Obligations. Reference is made to certifications of, and opinions of counsel to, parties with respect to the existence and powers of such parties to enter into and perform the instruments referred to, the authorization, execution and delivery of such instruments by such parties and such instruments being binding upon and enforceable against such parties; we express no opinion as to such matters.

The Obligations are being executed and delivered pursuant to the Obligation Indenture, dated as of May 1, 2012* (the "Indenture"), from the Town to _____, in its capacity as trustee (the "Trustee"). Each of the Obligations represents an undivided and proportionate interest in certain obligations of the Town pursuant to the Town Purchase Agreement, dated as of May 1, 2012* (the "Purchase Agreement"), by and between the Trustee, in its separate capacity as seller (the "Seller"), and the Town, as purchaser, pursuant to which the Town has agreed to make certain installment purchase payments to the Trustee. The Obligations are payable solely, as to both principal and interest, from such installment purchase payments made by the Town pursuant to the Purchase Agreement. The Seller has assigned certain of their rights in and benefits from, and of their obligations pursuant to, the Purchase Agreement to the Trustee pursuant to the Indenture.

Based upon the foregoing, we are of the opinion as of this date, which is the date of initial execution and delivery of the Obligations against payment therefor, that:

1. The Indenture, the Purchase Agreement and the Obligations are valid and binding upon and enforceable against the Town. The rights of the owners of the Obligations and the enforceability of those rights under the Obligations and the documents referred to above may be subject to bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights, and the enforcement of those rights may also be subject to the exercise of judicial discretion in accordance with general principles of equity. The enforceability of the indemnification provisions in the Town Purchase Agreement and the Indenture may be affected by applicable securities laws.

* *Subject to change.*

2. The obligation of the Town for the payment of the installment purchase payments required to be paid by the Town pursuant to the provisions of the Purchase Agreement constitutes a special obligation of the Town, payable, unless paid from other sources, solely from and secured solely by a senior lien pledge of net revenues received from the Project. The payment of such installment purchase payments is not secured by an obligation or pledge of any moneys raised by taxation; the Obligations do not represent or constitute a debt or pledge of the general credit of the Town or the State of Arizona and the Purchase Agreement, including the Town's obligation to make the payments required thereunder, does not represent or constitute a debt or pledge of the general credit of the Town.

3. The portion of each installment purchase payment made by the Town pursuant to the Purchase Agreement, denominated as and comprising interest pursuant to the Purchase Agreement and received by the owners of the Obligations (the "Interest Portion"), is excludable from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. (The Interest Portion is also exempt from income taxation under the laws of the State of Arizona so long as the Interest Portion is excluded from gross income for federal income tax purposes.) Pursuant to the Code, however, the Interest Portion will be taken into account in determining adjusted current earnings for purpose of computing alternative minimum tax imposed on certain corporations. (We express no opinion regarding other federal or State tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Obligations.)

In rendering the opinion expressed in the third numbered paragraph hereof, we have assumed continuing compliance with certain tax covenants provided in connection with the original execution and delivery of the Obligations in order that the Interest Portion not be included in gross income for federal tax purposes. The failure of the Town to meet certain requirements of the Code with respect to the matters described in the third numbered paragraph hereof may cause the Interest Portion to be included in gross income for federal income tax purposes retroactive to the date of initial execution and delivery of the Obligations. The Town has covenanted to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of the Interest Portion. (Subject to the same limitations in the penultimate sentence of the first numbered paragraph hereof as they would relate to such covenants, the Town has full legal power and authority to comply with such covenants.)

This opinion represents our legal judgment based upon our review of the law and the facts we deem relevant to render such opinion and is not a guarantee of a result. This opinion is given as of the date hereof, and we assume no obligation to review or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

FORM OF CONTINUING DISCLOSURE UNDERTAKING

DRAFT

This Continuing Disclosure Undertaking, dated [Closing Date] (this “Undertaking”), is executed and delivered by the Town of Oro Valley, Arizona (the “Town”), in connection with the execution and delivery of \$16,650,000* aggregate principal of Town of Oro Valley, Arizona Senior Lien Project Revenue Refunding Obligations, Series 2012 (the “Obligations”). The Obligations are executed and delivered pursuant to an Obligation Indenture, dated as of May 1, 2012 (the “Indenture”), from the Town to Wells Fargo Bank, N.A., as trustee (the “Trustee”). The Town covenants and agrees as follows:

1. Definitions. In addition to the terms described above, the terms set forth below shall have the following meanings in this Undertaking, unless the context clearly otherwise requires.

Annual Financial Information means the financial information and operating data set forth in Exhibit I.

Annual Financial Information Disclosure means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as set forth in Section 4.

Audited Financial Statements means the audited financial statements of the Town prepared pursuant to the standards and as described in Exhibit I.

Commission means the Securities and Exchange Commission.

Dissemination Agent means any agent designated as such in writing by the Town and which has filed with the Town a written acceptance of such designation, and such agent’s successors and assigns.

EMMA means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at <http://emma.msrb.org>.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Final Official Statement means the Final Official Statement relating to the Obligations, dated _____, 2012.

GAAP means generally accepted accounting principles, as applied to governmental units as modified by the laws of the State.

Listed Event means the occurrence of events set forth in Exhibit II.

Listed Events Disclosure means dissemination of disclosure concerning a Listed Event as set forth in Section 5.

MSRB means the Municipal Securities Rulemaking Board.

Participating Underwriter means each broker, dealer or municipal securities dealer acting as an underwriter in the primary offering of the Obligations.

Rule means Rule 15c2-12 adopted by the Commission under the Exchange Act.

* *Subject to change.*

State means the State of Arizona.

Town Purchase Agreement means the Town Purchase Agreement, dated as of May 1, 2012*, by and between the Town and the Trustee, in its separate capacity as Seller.

2. Purpose of this Undertaking. This Undertaking is executed and delivered by the Town for the benefit of certain “beneficial owners” as described in the Rule of the Obligations and in order to assist the Participating Underwriters in complying with the requirements of the Rule. The Town represents that it will be the only “obligated person” as described in the Rule with respect to the Obligations at the time the Obligations are delivered to the Participating Underwriters and that no other person is expected to become so committed at any time after delivery of the Obligations.

3. CUSIP Number/Final Official Statement. The CUSIP numbers of the Obligations are as follows:

CUSIP No.	Maturity Date
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4. Annual Financial Information Disclosure. Subject to Section 8 of this Undertaking, the Town shall disseminate its Annual Financial Information and its Audited Financial Statements, if any (in the form and by the dates set forth in Exhibit I), through EMMA.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Town will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Agreement, the Annual Financial Information for the year in which such amendment is made shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

5. Listed Events Disclosure. Subject to Section 8 of this Undertaking, the Town hereby covenants that it will disseminate in a timely manner, but in not more than ten (10) business days, its Listed Events Disclosure through EMMA. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any of the Obligations or defeasance of any Obligations need not be given under this Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the holders of the Obligations pursuant to the terms of the Obligations. Whether events subject to the standard “material” would be material shall be determined under applicable federal securities laws.

6. Consequences of Failure of the Town to Provide Information. The Town shall give notice in a timely manner through EMMA of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

* *Subject to change.*

In the event of a failure of the Town to comply with any provision of this Undertaking, the beneficial owner of any Obligation may seek mandamus or specific performance by court order, to cause the Town to comply with its obligations under this Undertaking. A default under this Undertaking shall not be deemed an event of default under the Town Purchase Agreement or the Indenture, and the sole remedy available to beneficial owners under this Undertaking in the event of any failure of the Town to comply with this Undertaking shall be an action to compel performance.

7. Amendments; Waiver. Notwithstanding any other provision of this Undertaking, the Town by certified resolution or ordinance authorizing such amendment or waiver, may amend this Undertaking, and any provision of this Undertaking may be waived only if:

(a) The amendment or waiver is 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 the Town, or type of business conducted;

(b) This Undertaking, as amended or affected by such waiver, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not materially impair the interests of the beneficial owners of the Obligations, as determined by parties unaffiliated with the Town (such as the Trustee) or by approving vote of the holders pursuant to the Indenture at the time of the amendment.

The Annual Financial Information containing amended operating data or financial information resulting from such amendment or waiver, if any, shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided. If an amendment or waiver is made specifying GAAP to be followed in preparing financial statements and such changes are material, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles in the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Town to meet its obligations. To the extent reasonably feasible, such comparison also shall be quantitative. If the accounting principles of the Town change or the fiscal year of the Town changes, the Town shall file a notice of such change in the same manner as for its Listed Events Disclosure.

8. Termination of Undertaking. This Undertaking shall be terminated hereunder if the Town shall no longer have liability for any obligation on or relating to repayment of the Obligations under the Indenture. This Undertaking shall also be subject to amounts being appropriated as necessary to pay the costs of expenses to comply herewith in each fiscal year of the Town. The Town shall give notice in a timely manner if it no longer has such liability of, if any, such non-appropriation occurs, by the same means as for its Listed Events Disclosure.

9. Dissemination Agent. The Town may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such agent, with or without appointing a successor Dissemination Agent.

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

11. Beneficiaries. This Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Undertaking shall inure solely to the benefit of the Town, the Dissemination Agent, if any, and the beneficial owners of the Obligations, and shall create no rights in any other person or entity.

12. Recordkeeping. The Town shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

13. Assignment. The Town shall not transfer obligations under the Town Purchase Agreement unless the transferee agrees to assume all obligations of the Town under this Undertaking or to execute an undertaking meeting the requirements of the Rule.

14. Governing Law. This Undertaking shall be governed by the laws of the State. To the extent applicable by provision of law, this Undertaking is subject to cancellation pursuant to Section 38-511, Arizona Revised Statutes, the provisions of which are incorporated herein by the reference.

TOWN OF ORO VALLEY, ARIZONA

By.....
Mayor

ATTEST:

.....
Town Clerk

APPROVED AS TO FORM:

.....
Town Attorney

ACKNOWLEDGED FOR PURPOSES OF
SECTION 2.5 OF THE TOWN PURCHASE
AGREEMENT BY
_____, AS TRUSTEE

By.....
Title:.....

EXHIBIT I

ANNUAL FINANCIAL INFORMATION AND TIMING AND AUDITED
FINANCIAL STATEMENTS

“Annual Financial Information” means financial information and operating data of the type contained in the Final Official Statement under the following caption: “SCHEDULE OF FORECASTED NET REVENUES, WATER REVENUE BONDS DEBT SERVICE REQUIREMENTS AND SENIOR LIEN DEBT SERVICE COVERAGE” (actual results for most recently completed fiscal year only).

All or a portion of the Annual Financial Information and the Audited Financial Statements as set forth below may be included by reference to other documents which have been submitted through EMMA. If the information included by reference is contained in a Final Official Statement, the Final Official Statement must be available from the MSRB. The Town shall clearly identify each such item of information included by reference.

Annual Financial Information exclusive of Audited Financial Statements will be provided through EMMA by February 1 of each year, commencing February 1, 2013, 210 days after the last day of the Town’s fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, to be followed up by Audited Financial Statements when available.

Audited Financial Statements will be prepared according to GAAP, as applied to governmental units as modified by State law. Audited Financial Statements will be provided to EMMA within 30 days after availability to Issuer.

If any change is made to the Annual Financial Information as permitted by Section 4 of the Agreement, the Town will disseminate a notice of such change as required by Section 4, including changes in Fiscal Year or GAAP.

EXHIBIT II

EVENTS FOR WHICH LISTED EVENTS DISCLOSURE IS REQUIRED

1. Principal and interest payment delinquencies
2. Non-payment related defaults, if material
3. Unscheduled draws on debt service reserves reflecting financial difficulties
4. Unscheduled draws on credit enhancements reflecting financial difficulties
5. Substitution of credit or liquidity providers, or their failure to perform
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other notices or determinations, in each case, with respect to the tax status of the security, or other Listed Events affecting the tax status of the security
7. Modifications to the rights of security holders, if material
8. Bond calls, if material, or tender offers
9. Defeasances
10. Release, substitution or sale of property securing repayment of the securities, if material
11. Rating changes
12. Bankruptcy, insolvency, receivership or similar events of the Town, being if any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town
13. The consummation of a merger, consolidation or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Refunding Obligations. The Refunding Obligations will be executed and delivered 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 Refunding Obligation will be executed and delivered for each maturity of the Refunding Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized 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 Securities Clearing Corporation, all of which are registered clearing agents. DTC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants” and together with Direct Participants, “Participants”). DTC has Standard & Poor’s rating of: “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Refunding Obligations 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 Refunding Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Refunding Obligations; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Refunding Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Refunding Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Refunding Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Refunding Obligation documents. For example, Beneficial Owners of Refunding Obligations may wish to ascertain that the nominee holding the Refunding Obligations 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 Trustee and request that copies of notices be provided directly to them.

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

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

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

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

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

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