TO:

BOARD OF DIRECTORS

FROM:

MICHAEL S. LEBRUN

GENERAL MANAGER

DATE:

MAY 18, 2012

AGENDA ITEM E-1 MAY 23, 2012

AUTHORIZATION OF THE NIPOMO COMMUNITY SERVICES DISTRICT REVENUE CERTIFICATES OF PARTICIPATION (SOUTHLAND WASTEWATER PROJECT) SERIES 2012

ITEM

It is recommended that the Board of Directors:

Adopt the following resolution:

Resolution of the Board of Directors of the District Authorizing the Sale, Execution and Delivery of Not To Exceed \$10,000,000 Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 and Approving Sale Documents, a Trust Agreement, an Installment Sale Agreement, an Agency Agreement, a Continuing Disclosure Agreement, and Preliminary Official Statement in Connection Therewith and Authorizing the Taking of Certain Actions in Connection Therewith.

then

 Convene to the Nipomo Community Services District Public Facilities Corporation (PFC) and have the PFC approve documents in connection with the execution and delivery of not to exceed \$10,000,000 in Revenue Certificates of Participation (Southland Wastewater Project) Series 2012.

BACKGROUND

The operation of the District's Southland WWTF is regulated by the Regional Water Control Board (RWQCB). In 2006, the District received a Notice of Violation (NOV) from the RWQCB regarding the Waste Discharge Requirements Order No. 97-75 that was in effect at the time for the Southland Wastewater Treatment Facility (WWTF). Permit limitations for biological oxygen demand and total suspended solids had been exceeded and were noted in the NOV. The District was required to respond to the NOV with actions for improving the quality of plant effluent in order to meet discharge limitations.

In response to the NOV the District retained AECOM (formerly Boyle Engineering) to prepare a Master Plan to address the NOV. The Southland WWTF Master Plan (WWTF Master Plan), as amended, provides for a three phase improvement project to ensure that the upgraded WWTF will operate efficiently and effectively in compliance with applicable State Discharge Permit. The WWTF Master Plan recommends the use of Biolac® technology as part of the WWTF upgrade project.

The Phase 1 project will replace the current 0.9 million gallon per day (MGD) pond plant with a new treatment plant that will include an influent lift station, influent screening system, grit removal system, Biolac® aeration basin to treat wastewater, a clarifier, gravity belt thickener, two concrete lined sludge drying beds, controls & blower building, and a non-potable plant water system and potentially the provision of additional facilities at the WWTF for wastewater

Item E-1 MAY 23, 2012

disposal. Phase I improvements will increase the level of treatment at the Southland Wastewater Treatment Facility while maintaining the existing discharge capacity of 0.9 million gallons per day. Additionally the Phase I project will facilitate the additional phases of construction required for future flows and loadings at the WWTF.

On December 14, 2011, the Board adopted a resolution making CEQA project findings, adopting a statement of overriding considerations, adopting a project mitigation monitoring plan, approving the Southland WWTF Phase 1 Improvement Project.

A new State Discharge Permit was approved by the RWQCB on February 2, 2012 for the WWTP. The newly adopted Permit is based on the WWTF Master Plan and the Parkson Biolac® system.

Design of the Phase I project is complete. Notice inviting construction bids for Phase I has been provided and bid proposals were received on May 3, 2012.

The net proceeds of the Certificates, along with funds of the Enterprise in the amount of \$2.6 million from the Town Sewer Replacement Fund and \$0.5 million from the Town Sewer Capital Improvement Fund, will complete Phase I of the proposed Project, estimated at approximately \$12 million.

It is now proposed to finance a portion of the Project by executing and delivering the not to exceed \$10,000,000 Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates"). The District and PFC will enter into an Installment Sale Agreement whereby the District will agree to purchase the portion of the Wastewater system funded by the Certificates from Net Revenues of the Town Division wastewater system (the "Enterprise"). The Installment Payments will be structured to correspond to the debt service on the Certificates. The Certificates will be issued on parity with the two existing District loans totaling \$692,000 from the State Water Resources Control Board (the "SWRCB Loans"). The SWRCB Loans are payable from Net Revenues on a parity with the proposed Installment Payments to be made under the Installment Sale Agreement. The term of the debt is proposed to be 30 years and will structured to assure that the annual payments, together with the remaining SWRCB Loans will be level. Total annual debt payments are expected to be approximately \$600,000 per year. SWRCB loan payments total \$77,048 through 2020.

A standard bond debt service reserve fund will also be funded from Certificate proceeds. A reserve fund serves to enhance to the bond rating, cover the last debt payment and satisfy investor concerns. The District will also create rate stabilization fund from existing funds of the Enterprise to manage the need for future rate increases.

Standard and Poor's Corporation has given the Town Sewer Enterprise a "AA" rating. This is a strong rating and is the first rating for the Town Sewer Enterprise. Certificates are proposed to be sold in early June with a bond closing in late June. The interest rate on the debt is expected to be under 4.00%.

District and PFC Board action today will authorize the Staff to complete the financing by authorizing the sale, execution, and delivery of the Certificates.

District Staff, Special Counsel and Financial Advisor have been working on this financing program since last year and it is proposed to sell the Certificates by competitive bid the week of June 11th to whichever underwriting firm offers the District the lowest interest cost. The bid will

be held over the internet using the Parity Bond bidding platform. All active bond underwriting firms in California and nationally will have an opportunity to bid and will have access to the Notice of Sale and Official Statement. Given the strong AA bond rating and essential nature of wastewater Certificates, we expect strong interest from a number of underwriting firms and three to five bids The alternative to a competitive sale is to offer the Certificates to a single underwriter under a negotiated sale process. For essential service type bonds or obligations with strong ratings, competitive sales have historically produced superior results.

It is appropriate at this meeting to consider for adoption the resolutions authorizing the execution and delivery of the Certificates. Resolutions for the District and PFC are attached which would authorize the execution and delivery of not to exceed \$10,000,000 of revenue Certificates by the District. The Certificates will be sold on a competitive basis at a true interest cost of not to exceed 4.95%. The resolutions also approve the various documents in connection with the execution and delivery of the Certificates. Fulbright & Jaworski L.L.P., has acted as special counsel and disclosure counsel, C.M. de Crinis & Co., as financial advisor, and The Bank of New York Mellon Trust Company, N.A., as trustee.

General Summary of Security: Certificates are secured by revenues received by the PFC from the District, namely the Installment Payments under the Installment Sale Agreement. Each owner of the Certificates will have a proportionate share of an undivided interest in the installment payments. The installment payments have an interest and principal component and will be payable semiannually. Under the Installment Sale Agreement, the District pledges its Net Revenues to the payment of the Installment Payments. Net Revenues are gross revenues minus operating and maintenance costs. The District covenants to maintain its rates and charges at a specified level to have sufficient Net Revenue to make Installment Payments. There is also a reserve fund securing the Certificates.

<u>Trust Agreement:</u> The Trust Agreement is one of the key legal documents that lays out the legal structure and terms of the financing. It specifies payment dates, maturity dates of the Certificates; revenues and accounts specifically pledged to the repayment of the Certificates; flow of funds; default and remedy provisions; defeasance provisions in the event the Certificates are prepaid; and covenants of the PFC and the District. The Trust Agreement is drafted by Special Counsel and executed by the PFC, the District and Trustee.

<u>Installment Sale Agreement:</u> The Installment Sale Agreement is the other key legal document that contains the pledge of Net Revenues by the District to make installment payments. It specifies payment dates; revenues and accounts specifically pledged to the repayment of the Certificates; parity obligation tests; rate covenants and further covenants of the PFC and the District. It is drafted by Special Counsel and executed by the PFC and the District.

Official Statement: The Official Statement describes the security and discloses potential risks to prospective investors. It will generally describe the sources of payment for the Certificates, the nature of the improvement project, the financial condition of the District's water enterprise, the economic and demographic characteristics of the District, and inherent known risk factors associated with the security. It's important that this document not contain any material misstatements or omissions. The Preliminary Official Statement (often referred to as the "POS") is distributed by the underwriter to prospective investors prior to the bond sale so that they can make informed purchase decisions. The POS should be as close to final as possible with the actual terms of the pricing (interest rates and principal amounts) left necessarily blank. The Final Official Statement will be prepared shortly after the bond sale and must be available in time for bond closing. The POS and FOS are drafted by Special Counsel, acting as disclosure counsel and is executed by the District.

<u>Agency Agreement:</u> This agreement provides that the PFC appoints the District as its agent to construct the portion of the Project financed by the Certificate proceeds. This document is drafted by Special Counsel and executed by the District, the PFC and the Trustee.

<u>Continuing Disclosure Agreement:</u> This agreement outlines the updated information related to the security that the District will agree to provide to the bond markets. Securities and Exchange Commission Rule 15c2-12 requires that certain disclosure be undertaken by the District. Disclosure is required annually, and on an exceptional basis for any major "material" event. This document is drafted by Special Counsel, acting as disclosure counsel, and executed by the District and the Trustee.

Notice of Sale and Bid Form: The Certificates will be sold on a competitive basis at a true interest rate of not to exceed 4.95% and with an underwriter's discount of not to exceed 1% and a principal amount of not to exceed \$10,000,000. The sale of the Certificates is scheduled for early June using the Parity Bond bidding platform at which time the General Manager will award the Certificates to the best bidder. The bid form on the Parity system is submitted by potential underwriters electronically on the day of the bond sale, and specifies the actual principal amounts, interest rates and prices at which the Certificates will be purchased. In it, the underwriter commits to purchase the Certificates at closing at the agreed upon prices and amounts subject to certain closing conditions. The best bidder will also be required to provide a good faith deposit of \$100,000.

More specific details of the financing can be found in the drafts of the documents referenced above.

It is appropriate at this meeting to consider for adoption the resolutions of the District and PFC authorizing the execution and delivery of the Certificates.

FISCAL IMPACT

Total annual debt payments for the Certificates are expected to be approximately \$600,000 per year for a term of thirty years payable from the Net Revenues of the Town Division Wastewater Enterprise.

STRATEGIC PLAN

Strategic Plan Goal 2.2 - Upgrade and Maintain Collection and Treatment Works

Strategic Plan Goal 2.4 – Provide for Disposal of Biosolids

Strategic Plan Goal 2.5 - Comply with State and Federal regulations and mandates

RECOMMENDATION

Staff recommends that your Honorable Board adopt Resolution 2012-XXXX approving:

- A TRUST AGREEMENT
- AN INSTALLMENT SALE AGREEMENT
- AN AGENCY AGREEMENT
- A CONTINUING DISCLOSER AGREEMENT
- A PRELIMINARY OFFICIAL STATEMENT

ATTACHMENTS

- TRUST AGREEMENT
- 2. INSTALLMENT AGREEMENT
- 3. AGENCY AGREEMENT
- 4. PRELIMINARY OFFICIAL STATEMENT
- 5. CONTINUING DISCLOSURE AGREEMENT (APPENDIX E TO POS)
- 6. NOTICE OF SALE AND INTENTION TO SELL

t:\board matters\board meelings\board letter\2012\120523 southland bond docs.docx

NIPOMO COMMUNITY SERVICES DISTRICT RESOLUTION NO. 2012-___

RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES DISTRICT AUTHORIZING THE SALE, EXECUTION AND DELIVERY OF NOT TO EXCEED \$10,000,000 REVENUE CERTIFICATES OF PARTICIPATION (SOUTHLAND WASTEWATER PROJECT) SERIES 2012 AND APPROVING SALE DOCUMENTS, A TRUST AGREEMENT, AN INSTALLMENT SALE AGREEMENT, **AGENCY** AGREEMENT, AN CONTINUING DISCLOSURE AGREEMENT, AND PRELIMINARY OFFICIAL STATEMENT IN CONNECTION THEREWITH AND AUTHORIZING THE TAKING OF CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the Nipomo Community Services District (the "District") owns and operates that certain Town Division Wastewater System referred to herein as the "Enterprise"; and

WHEREAS, the District desires to undertake certain capital improvements, including the acquisition and construction wastewater improvements consisting of the Phase 1 upgrade to the District's Southland Wastewater Treatment Facility (the "Project"); and

WHEREAS, it has been proposed that the Nipomo Community Services District Public Facilities Corporation (the "Corporation") assist the District in providing funds to finance a portion of the Project by causing the execution and delivery of the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates"); and

WHEREAS, it has been proposed that the Certificates be sold on a competitive basis in accordance with the terms and provisions of Notice of Sale for the Certificates, the proposed form of which has been presented to the Board of Directors of the District (the "Board"); and

WHEREAS, the documents specified below have been filed with the District and the members of the Board, with the aid of its staff, have reviewed said documents; and

WHEREAS, the District has duly considered the execution and delivery of the Certificates, and wishes at this time to approve the execution and delivery of the Certificates.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

Series 2012 (the "Certificates") are hereby authorized by the District to be executed and delivered in an amount not to exceed \$10,000,000 in the aggregate pursuant to and in accordance with the provisions of the Trust Agreement, as hereinafter defined.

Nipomo Community Services District Resolution No. 2012-

Resolution of the Board of Directors of the Nipomo Community Services District Authorizing the Sale, Execution and Delivery of Not To Exceed \$10,000,000 Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 and Approving Sale Documents, a Trust Agreement, an Installment Sale Agreement, an Agency Agreement, a Continuing Disclosure Agreement, and Preliminary Official Statement in Connection Therewith and Authorizing the Taking of Certain Actions in Connection Therewith.

Section 2. The below enumerated documents are hereby approved, and the President, General Manager, or Finance Director, or the written designee of any such official (a "Responsible Officer"), is hereby authorized and directed to execute said documents, with such changes, insertions and omissions as may be approved by such officials, with the advice of counsel to the District and Bond Counsel, and the Secretary or Assistant Secretary is hereby authorized and directed to attest to such official's signature:

- (a) an Installment Sale Agreement, by and between the District, as purchaser, and the Corporation, as seller, (the "Installment Sale Agreement"), pursuant to which the District will purchase from the Corporation the portion of the Project financed by the Certificates;
- (b) an Agency Agreement, by and between the Corporation and the District (the "Agency Agreement"),
- (c) a Trust Agreement, by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N. A., as trustee (the "Trustee"), relating to the execution and delivery of the Certificates, evidencing the direct, undivided, fractional interests of the owners thereof in installment payments to be made by the District under the Installment Sale Agreement (the "Trust Agreement"); and
- (d) a Continuing Disclosure Agreement by the District and accepted by the Trustee as dissemination agent, relating to the Certificates.

<u>Section 3.</u> The District hereby approves the preparation of an Official Statement describing the financing, together with any changes therein or additions thereto deemed advisable by a Responsible Officer.

Section 4. The District hereby approves the Notice of Sale in the form thereof on file with the Secretary, together with such additions, deletions or changes therein as shall be approved by a Responsible Officer, such approval to be conclusively evidenced by the execution and delivery thereof by said Responsible Officer. Each of the Responsible Officers is hereby authorized to execute the final form of the Notice of Sale, for and in the name and on behalf of the District. Sealed proposals shall be received at the time and place provided for in the Notice of Sale. Each Responsible Officer is hereby authorized to accept the best bid, or to reject all bids therefore, in accordance with the terms of the Notice of Sale. Any irregularities with respect to such bid may be waived after consultation with Bond Counsel. The aggregate principal amount represented by the Certificates shall not exceed \$10,000,000 and the true interest cost represented by the Certificates shall not exceed four and ninety-five hundredths percent (4.95%). The form of the Notice of Intention to Sell, on file with the Secretary, together with such

Nipomo Community Services District Resolution No. 2012-

Resolution of the Board of Directors of the Nipomo Community Services District Authorizing the Sale, Execution and Delivery of Not To Exceed \$10,000,000 Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 and Approving Sale Documents, a Trust Agreement, an Installment Sale Agreement, an Agency Agreement, a Continuing Disclosure Agreement, and Preliminary Official Statement in Connection Therewith and Authorizing the Taking of Certain Actions in Connection Therewith.

additions thereto and changes therein as may be approved by a Responsible Officer, is hereby approved, and use of the Notice of Intention to Sell in connection with the offering and sale of the Certificates is hereby authorized and approved.

The District hereby approves the Preliminary Official Statement relating Section 5. to the Certificates, substantially in the form on file with the Secretary and presented to the Board at this meeting, with such revisions, amendments and completions as shall be approved by a Responsible Officer with the advice of counsel to the District and Bond Counsel, in order to make the Preliminary Official Statement final as of its date, except for the omission of certain information, as permitted by Section 240.15c2-12(b)(1) of Title 17 of the Code of Federal Regulations ("Rule 15c2-12"), and any certificate relating to the finality of the Official Statement under Rule 15c2-12. A Responsible Officer is authorized and directed to approve and execute the final Official Statement, dated as of the date of the sale of the Certificates, and a statement that the facts contained in the final Official Statement, and any supplement or amendment thereto (which shall be deemed an original part thereof for the purpose of such statement) were, at the time of sale of the Certificates, true and correct in all material respects and that the final Official Statement did not, on the date of sale of the Certificates, and does not, as of the date of delivery of the Certificates, contain any untrue statement of a material fact with respect to the District or the Enterprise or omit to state material facts with respect to the District or the Enterprise required to be stated where necessary to make any statement made therein not misleading in the light of the circumstances under which it was made. Any and each Responsible Officer, or the written designee of any such official, shall take such further actions prior to the execution of the final Official Statement as are deemed necessary or appropriate to verify the accuracy thereof. The execution of the final Official Statement by a Responsible Officer, which shall include such changes and additions thereto deemed advisable by a Responsible Officer, shall be conclusive evidence of the approval of the final Official Statement by the District.

<u>Section 6.</u> The final Official Statement, when executed, is approved for distribution in connection with the offering and sale of the Certificates.

Section 7. The President, the General Manager, the Finance Director, the Secretary, the Assistant Secretary and all other appropriate officials of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all other actions, including the publication of any notices necessary or desirable in connection with the sale, execution and delivery of the Certificates, procurement of municipal bond insurance and reserve fund surety bond, and execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, consents, instruments of conveyance, warrants and other documents, which they, or any of them, deem necessary or advisable in order

Nipomo Community Services District Resolution No. 2012-____

Resolution of the Board of Directors of the Nipomo Community Services District Authorizing the Sale, Execution and Delivery of Not To Exceed \$10,000,000 Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 and Approving Sale Documents, a Trust Agreement, an Installment Sale Agreement, an Agency Agreement, a Continuing Disclosure Agreement, and Preliminary Official Statement in Connection Therewith and Authorizing the Taking of Certain Actions in Connection Therewith.

to consummate the lawful sale, execution and delivery of the Certificates and the consummation of the transactions as described herein.

Section 8.	nail take effect immediately.
Upon a motion by Director _ following roll call vote, to wit:	, seconded by Director, on the
AYES:	
NOES:	
ABSTAIN:	
ABSENT:	
the foregoing resolution is hereby passe	ed and adopted on this day of, 2012.
	JAMES HARRISON
	President of the Board
ATTEST:	APPROVED AS TO FORM:
MICHAEL S. LEBRUN	JON S. SEITZ
Secretary to the Board	District Legal Counsel



TRUST AGREEMENT

by and among

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

and

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

and

NIPOMO COMMUNITY SERVICES DISTRICT, as Purchaser

Dated as of June 1, 2012

Relating to

\$____CERTIFICATES OF PARTICIPATION
(SOUTHLAND WASTEWATER PROJECT)
SERIES 2012

TABLE OF CONTENTS

	Pag		
	ARTICLE I		
DEFINITIONS	S; RULES OF CONSTRUCTION; CONTENTS OF CERTIFICATES AND		
	OPINIONS; RECITALS		
Section 1.01.	Definitions		
Section 1.02.	Rules of Construction		
Section 1.03.	Content of Statements and Opinions		
Section 1.04.	Recitals		
	ARTICLE II		
	CERTIFICATES; TERMS AND PROVISIONS		
0.01			
Section 2.01.	Preparation of Certificates		
Section 2.02.	Denominations; Medium and Place of Payment; Dating		
Section 2.03.	Payment of Principal and Interest with Respect to Certificates		
Section 2.04.	Form of Certificates		
Section 2.05.	Execution		
Section 2.06.	Transfer of Certificates		
Section 2.07.	Exchange of Certificates		
Section 2.08.	Certificate Registration Books		
Section 2.09.	Temporary Certificates		
Section 2.10.	Certificates Mutilated, Lost, Destroyed or Stolen		
Section 2.11.	Book-Entry System; Limited Obligation		
Section 2.12.	Representation Letter		
Section 2.13.	Transfers Outside Book-Entry System		
Section 2.14.	Payments and Notices to the Nominee		
Section 2.15.	Initial Depository and Nominee		
	ARTICLE III		
APPLICATION	OF PROCEEDS; COST OF ISSUANCE FUND; CONSTRUCTION FUND		
Section 3.01.	Delivery of Certificates		
Section 3.02.	Application of Proceeds of Certificates and Other Moneys		
Section 3.03.	Validity of Certificates		
Section 3.04.	Cost of Issuance Fund		
Section 3.05.	Construction Fund		
Section 3.06.	Payment of Construction Costs		
Section 3.07.	Transfers of Unexpended Construction Fund Proceeds		
	ARTICLE IV		
	PREPAYMENT OF CERTIFICATES		
Section 4.01.	Prepayment		
Section 4.02.	Selection of Certificates for Prepayment		
Section 4.03.			
Section 4.04.	Partial Prepayment of Certificate		
Section 4.05.	Effect of Notice of Prepayment		
Section 4.06.	Purchase of Certificates		

ARTICLE V INSTALLMENT PAYMENTS

Section 5.01.	Pledge and Deposit of Installment Payments; Parity Pledge of Net		
	Revenues	25	
Section 5.02.	Installment Payment Fund		
Section 5.03.	Investment of Moneys		
Section 5.04.	Reserve Fund		
Section 5.05.	Pledge of Moneys in Funds	28	
	ARTICLE VI		
	COVENANTS		
Section 6.01.	Corporation and the District to Comply with Installment Sale		
	Agreement		
Section 6.02.	Tax Covenants		
Section 6.03.	Accounting Records and Reports		
Section 6.04.	Compliance with Trust Agreement		
Section 6.05.	Observance of Laws and Regulations		
Section 6.06.	Compliance with Contracts		
Section 6.07.	Prosecution and Defense of Suits		
Section 6.08.	Recordation and Filing		
Section 6.09.	Eminent Domain		
Section 6.10.	Further Assurances	31	
	ARTICLE VII		
	DEFAULT AND LIMITATION OF LIABILITY		
Section 7.01.	Notice of Non-Payment	31	
Section 7.02.	Action on Default or Termination	31	
Section 7.03.	Other Remedies of the Trustee		
Section 7.04.	Non-Waiver		
Section 7.05.	Remedies Not Exclusive		
Section 7.06.	No Obligation by the District to Owners	32	
Section 7.07.	Trustee Appointed Agent for Certificate-owners; Direction of		
20 4 2002	Proceedings		
Section 7.08.	Power of Trustee to Control Proceedings		
Section 7.09.	Limitation on Certificate Owners' Right to Sue		
Section 7.10.	No Obligation with Respect to Performance by Trustee		
Section 7.11.	No Liability to Owners for Payment		
Section 7.12.	No Responsibility for Sufficiency		
Section 7.13.	Indemnification of Trustee	34	
Section 7.14.			
	ARTICLE VIII		
	THE TRUSTEE		
Section 8.01.	Employment of Trustee		
Section 8.02.			
Section 8.03.	Trustee, Duties, Removal and Resignation		
Section 8.04.	3		
Section 8.05.	Compensation of the Trustee	36	

Section 8.06.	Protection of the Trustee		
	ARTICLE IX AMENDMENT OF TRUST AGREEMENT		
Section 9.01.	Amendments Permitted		
Section 9.02.	Endorsement or Replacement of Certificates After Amendment or		
Section 9.03.	Supplement		
Section 9.03.	Notice to Rating Agencies		
	ARTICLE X		
	DEFEASANCE		
Section 10.01.	Discharge of Trust Agreement		
Section 10.02.	Deposit of Money or Securities with Trustee41		
Section 10.03.	Unclaimed Moneys		
	ARTICLE XI MISCELLANEOUS		
Section 11.01.	Benefits of Trust Agreement Limited to Parties		
Section 11.02.	Successor Deemed Included in all References to Predecessor		
Section 11.03.	Execution of Documents by Owners		
Section 11.04.	Disqualified Certificates		
Section 11.05.	Waiver of Personal Liability42		
Section 11.06.	6. Acquisition of Certificates by the District; Destruction of Certificates 43		
Section 11.07.	Headings43		
Section 11.08.	Funds and Accounts		
Section 11.09.	Partial Invalidity43		
Section 11.10.	California Law		
Section 11.11.	Notices44		
Section 11.12.	Execution in Counterparts		
EXHIBIT A - FOR	RM OF REVENUE CERTIFICATE OF PARTICIPATION A-		

TRUST AGREEMENT

THIS TRUST AGREEMENT, made and entered into as of June 1, 2012 (the "Agreement"), by and among THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as trustee (the "Trustee"), a national banking association authorized to exercise trust powers, duly organized and existing under the laws of the United States of America, the NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and the NIPOMO COMMUNITY SERVICES DISTRICT, a special district duly organized and existing under and pursuant to the laws of the State of California (the "District"):

WITNESSETH:

WHEREAS, the District wishes to finance a portion of the costs of constructing certain improvements (the "Project") to its wastewater system (the "Enterprise");

WHEREAS, the Board of Directors of the District has determined that in order to accomplish such financing it is necessary and desirable that the Corporation cause the Project to be constructed and sold to the District pursuant to the Installment Sale Agreement dated as of June 1, 2012 (the "Installment Sale Agreement"), by and between the Corporation, as seller, and the District, as purchaser; and

WHEREAS, the Corporation has agreed to assist the District by financing the Project for the District on the terms and conditions set forth in the Installment Sale Agreement;

WHEREAS, the District will agree to make installment payments pursuant to this Installment Sale Agreement in order to purchase the Project from the Corporation;

WHEREAS, the District proposes to cause to be executed and delivered \$_____ aggregate principal amount of its Certificates of Participation (Southland Wastewater Project) Series 2012 under this Trust Agreement; and

WHEREAS, all the conditions to the execution and delivery of this Trust Agreement have been satisfied and the Trustee, the Corporation and the District are duly authorized to execute and deliver this Trust Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE I DEFINITIONS; RULES OF CONSTRUCTION; CONTENTS OF CERTIFICATES AND OPINIONS; RECITALS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of

1

95454232.4

the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Installment Sale Agreement.

<u>Accountant's Report</u>. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

<u>Additional Payments</u>. The term "Additional Payments" means the payments referenced in Section 5.4 of the Installment Sale Agreement.

Additional Revenues. The term "Additional Revenues" means, with respect to the execution of any Contract or the issuance of any Parity Debt, any or all of the following amounts:

- (a) An allowance for Net Revenues from any additions or improvements to or extensions of the Enterprise to be financed from the proceeds of such Contracts or Bonds or from any other source, all in an amount equal to seventy-five percent (75%) of the estimated additional Net Revenues to be derived from such additions, improvements and extensions for the first twelve (12) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the District.
- (b) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise that has become effective prior to the execution of such Contracts or the issuance of such Parity Debt in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the District, all as shown by the certificate or opinion of an Independent Certified Public Accountant.

Agency Agreement. The term "Agency Agreement" means that certain Agency Agreement, dated as of June 1, 2012 by and between the Corporation and the District, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Agreement. The term "Agreement" means this Trust Agreement, as originally executed or as it may from time to time be amended as provided for herein.

Assignment Agreement. The term "Assignment Agreement" means that certain Assignment Agreement, dated as of June 1, 2012 by and between the Corporation and the Trustee, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Business Day. The term "Business Day" means a day other than: a Saturday or Sunday or a day on which (i) banks located in the State of California, or in any state in which the principal corporate trust office of the Trustee is located are required or authorized to remain closed, and (ii) on which The New York Stock Exchange is closed.

Certificate Year. The term "Certificate Year" means the period beginning on the date of initial execution and delivery of the Certificates and ending on June 1, 2013 and each successive

one-year or shorter period thereafter, beginning June 2 until there are no Outstanding Certificates.

<u>Certificates</u>. The term "Certificates" means the certificates of participation executed and delivered by the Trustee pursuant to this Agreement.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder.

<u>Construction Costs</u>. The "Construction Costs" means the costs of the acquisition, construction, rehabilitation, equipping, improvement or financing of improvements to, or part of, the Enterprise constituting the Project.

<u>Construction Fund</u>. The "Construction Fund" means the fund by that name established pursuant to Article III hereof and held by the Trustee.

<u>Contracts</u>. The term "Contracts" means this Installment Purchase Agreement and any amendments and supplements hereto, the State Revolving Fund Loan Contract, and all contracts of the District authorized and executed by the District, the payments under which are on a parity with the Series 2012 Installment Payments and that are secured by a pledge and lien on the Gross Revenues.

Corporate Trust Office or Corporate Trust Office of the Trustee. The term "Corporate Trust Office" or "Corporate Trust Office of the Trustee" means the corporate trust office of the Trustee at _______, except that with respect to presentation of Certificates for payment or the registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

<u>Corporation</u>. The term "Corporation" means the Nipomo Community Services District Public Facilities Corporation, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

Costs of Issuance. The term "Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the financing of the Project from the proceeds of the Certificates, including, but not limited to, filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges and first year's administration fee of the Trustee, Trustee's counsel fees and expenses, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for execution, transportation and safekeeping of the Certificates, travel expenses and charges and fees in connection with the foregoing.

<u>Cost of Issuance Fund</u>. The term "Cost of Issuance Fund" means the fund by that name established in Section 3.04 hereof.

Debt Service. The term "Debt Service" means, for any period of calculation, the sum of:

(a) the interest accruing during such period on all outstanding Parity Debt, assuming that all outstanding serial Parity Debt are retired as scheduled and that all outstanding term Parity Debt are prepaid or paid from sinking fund payments as scheduled

(except to the extent that such interest is to be paid from the proceeds of sale of any Parity Debt),

- (b) those portions of the principal amount of all outstanding serial Parity Debt maturing in such period and in the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts,
- (c) those portions of the principal amount of all outstanding term Parity Debt required to be prepaid or paid in such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts, and
- (d) those portions of the Installment Payments required to be made during such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such Installment Payments were deemed to accrue daily during such period in equal amounts (except to the extent the interest evidenced and represented thereby is to be paid from the proceeds from the sale of certificates of participation in Installment Payments under any Contract):

provided that, as to any such Parity Debt or Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be assumed to be the highest of: (i) the actual rate on the date of calculation, or if the Parity Debt or Installment Payments are not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Debt or Installment Payments have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(1) if interest on the Parity Debt or Installment Payments is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest rate on direct United States Treasury obligations with comparable maturities plus fifty (50) basis points;

provided further that if any series or issue of such Parity Debt or Installment Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the period of determination as if the principal of and interest on such series or issue of such Parity Debt or Installment Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

<u>provided further</u> that, as to any such Parity Debt or Installment Payments or portions thereof bearing no interest but that are sold at a discount that accretes with respect to such Parity Debt or Installment Payments or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Parity Debt and Contracts for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such

amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted; and

provided further that if interest on any Parity Debt or Installment Payments is reasonably anticipated to be reimbursed to the District by the United States of America pursuant to a future program similar to previously enacted Section 54AA of the Code, then interest payments with respect to such Parity Debt or Installment Payments shall be reduced by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America.

Debt Service shall also include any amounts owed by the District to the issuer of a Reserve Fund credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, if and to the extent the District chooses to satisfy the Series 2012 Reserve Fund Requirement with a Qualified Reserve Fund Credit Instrument.

<u>Defeasance Obligations</u>. The term "Defeasance Obligations" means (a) cash, or (b) non-callable Federal Securities.

<u>Delivery Date</u>. The term "Delivery Date" means, with respect to the Certificates, the date on which such Certificates were executed and delivered to the original purchaser thereof.

<u>Depository or DTC</u>. The term "Depository" or "DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

<u>District</u>. The term "District" means the Nipomo Community Services District, a Community Services District organized and existing under the laws of the State, or any successor thereto.

<u>District Representative</u>. The term "District Representative" means the President or Vice-President of the District, the General Manager, District Secretary, Treasurer, or General Counsel, or any persons authorized to act on behalf of the District under or with respect to this Trust Agreement, the Installment Sale Agreement and/or the Assignment Agreement and identified as such to the Trustee in writing.

<u>Enterprise</u>. The term "Enterprise" means any and all facilities, properties and improvements at any time owned, controlled or operated by the District for the treatment of wastewater, and any necessary lands, rights or way and other real or personal property useful in connection therewith.

Event of Default. The term "Event of Default" means an event of default under the Installment Sale Agreement, as defined in Section 9.01 thereof.

Fair Market Value. The term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "fair market value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit the value of which is determined in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or

reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) the value of which is determined in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security-State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California, but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of a District Representative in any written directions of a District Representative.

<u>Federal Securities</u>. The term "Federal Securities" means direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or obligations the timely payment of principal of and interest on which are guaranteed by, the United States of America.

<u>Fiscal Year</u>. The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Gross Revenues. The term "Gross Revenues" means all gross income and revenue received by the District from the ownership and operation of the Enterprise, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Enterprise, (b) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to the Enterprise, and (c) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted in the Installment Sale Agreement; provided, that the term "Gross Revenues" shall not include customers' deposits or any other deposits subject to refund until such deposits have become the property of the District.

<u>Hazardous Substances</u>. The term "Hazardous Substances" means any substance, waste pollutant or contaminant now or hereafter included in such (or any similar) term under any federal, state or local law, statutes, code or ordinance or regulation now existing or hereafter enacted or amended.

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

<u>Independent Financial Consultant</u>. The term "Independent Financial Consultant" means a financial consultant or firm of such consultants appointed by the District, and who, or each of whom:

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

- (b) does not have any substantial interest, direct or indirect, with the District or the Corporation; and
- (c) is not connected with the District or the Corporation as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey District, New Jersey 07302, Attention: Fitch "Called Bond Department," 5250 Center Drive, Suite 150, Charlotte, NC 28217; S&P "Called Bond Record," 65 Broadway, 16th Floor, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the District may designate in a Written Request of the purchaser delivered to the Trustee.

Installment Payment Date; Series 2012 Installment Payment Date. The term "Installment Payment Date" means each date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Contract. The term "Series 2012 Installment Payment Date" means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

<u>Installment Payment Fund</u>. The term "Installment Payment Fund" means the fund by that name established in Section 5.02 hereof.

Installment Payments; Series 2012 Installment Payments; Interest Component of Series 2012 Installment Payments. The term "Installment Payments" means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts. The term "Series 2012 Installment Payments" means the Installment Payments scheduled to be paid by the District under and pursuant to the Installment Sale Agreement. The term "Interest Component of Series 2012 Installment Payment", with respect to any Series 2012 Installment Payment, means the "Amount Attributable to Interest" in respect of such payment as reflected in Exhibit A to the Installment Sale Agreement. The term "Principal Component of Series 2012 Installment Payment", with respect to any Series 2012 Installment Payment, means the "Amount Attributable to Principal" in respect of such payment as reflected in Exhibit A to the Installment Sale Agreement.

<u>Installment Sale Agreement</u>. The term "Installment Sale Agreement" means the Installment Sale Agreement, dated as of June 1, 2012 by and between the District and the Corporation, as originally executed or as it may from time to time be amended in accordance with its terms.

<u>Interest Payment Date</u>. The term "Interest Payment Date" means June 1 and December 1 of each year, commencing December 1, 2012.

<u>Law.</u> The term "Law" means the Community Services District Law, being Division 3 of Title 6 of the California Government Code, commencing with Section 61000.

Letter of Representations. The term "Letter of Representations" means the letter of the District and the Trustee, if required, delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates setting forth the basis on which the

Depository serves as depository for such book-entry certificates, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

<u>Maximum Annual Debt Service</u>. The term "Maximum Annual Debt Service" means, as of the date of any calculation and with respect to all outstanding Contracts and Parity Debt, the maximum sum obtained for the current or any future Certificate Year during the Term of Installment Sale Agreement by totaling the following amounts for such Certificate Year:

- (a) the aggregate amount of the Installment Payments coming due and payable in such Certificate Year pursuant hereto;
- (b) the principal amount of all outstanding Contracts and Parity Debt, if any, coming due and payable by their terms in such Certificate Year; and
- (c) the amount of interest that would be due during such Certificate Year on the aggregate principal amount of all outstanding Contracts and Parity Debt, if any, that would be outstanding in such Certificate Year if such Contracts and Parity Debt were retired as scheduled; provided, however, that with respect to any Contracts and Parity Debt that bear interest at a variable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the J.J. Kinney Index (or, in the event and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations as may be selected by the District in its sole discretion).

<u>Net Proceeds</u>. The term "Net Proceeds" means any insurance proceeds or condemnation award paid with respect to the Project, remaining after payment therefrom of all expenses incurred in the collection thereof.

Net Revenues. The term "Net Revenues" means Gross Revenues less Operation and Maintenance Expenses.

1998 State Revolving Fund Loan Contract. The term "1998 State Revolving Fund Loan Contract" mean the 1998 State Revolving Loan Contract No. ______ entered into by the District and the State Water Resources Board on April 30, 1998 relating to the \$697,367 loan from the State Revolving Fund payable over twenty (20) years at a zero percent interest rate, currently outstanding in the principal amount of \$_____.

1999 State Revolving Fund Loan Contract. The term "1999 State Revolving Fund Loan Contract" mean the 1999 State Revolving Loan Contract No. 8-819-550-0, entered into by the District and the State Water Resources Control Board on February 24, 1999 and subsequently approved on June 30, 1999 by the Department of General Services, as amended by Contract No. 8-819-550-1, relating to the \$843,605 loan from the State Revolving Fund payable over twenty (20) years at a zero percent interest rate, currently outstanding in the principal amount of \$______.

Operation and Maintenance Expenses. The term "Operation and Maintenance Expenses" means:

- (a) Costs spent or incurred for maintenance and operation of the Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Enterprise, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and
- (b) All other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the Certificates or of the Installment Sale Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Parity Debt or of such Parity Debt, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

Nominee. The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.11 hereof.

Outstanding. The term "Outstanding," when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 11.04) all Certificates theretofore or thereupon executed and delivered by the Trustee except:

- (a) Certificates canceled by the Trustee or delivered to the Trustee for cancellation;
- (b) Certificates paid or deemed to have been paid within the meaning of Section 10.01; and
- (c) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.10.

Owner. Unless the context clearly indicates otherwise, the term "Owner" or "Certificate Owner" or "Owner of Certificates" or any similar term, when used with respect to the Certificates, means any person who shall be the registered owner of any Outstanding Certificate as shown on the registration books maintained by the Trustee pursuant to Section 2.08.

<u>Parity Debt</u>. The term "Parity Debt" means the payments made pursuant to any other indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Gross Revenues equally and ratably with the Series 2012 Installment Payments.

<u>Participants</u>. The term "Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

<u>Permitted Encumbrances</u>. The term "Permitted Encumbrances" means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of Article VI of the Installment Sale Agreement, permit to remain unpaid; (b) the State Revolving Fund Loan Contracts, (c) the Installment Sale Agreement and the assignment of the Corporation's interests in the Installment

Sale Agreement pursuant to the Assignment Agreement; (d) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law and (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of the Installment Sale Agreement.

<u>Permitted Investments</u>. The term "Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein, provided that the same are of appropriate maturity and acquired at Fair Market Value:

- (a) Federal Securities;
- (b) bonds, debentures or notes issued by any of the following: Banks for Cooperatives, Federal Land Banks or Federal National Mortgage Association (including participation certificates and Federal Farm Credit Banks Consolidated System Bonds);
- (c) bonds or obligations of the State of California which are rated "AA" or better by S&P;
- (d) interest bearing demand or time deposits (including certificates of deposit) in national banks, state banks, federal savings and loan associations or state chartered savings and loan associations, which have deposits insured by the Federal Deposit Insurance Corporation (the "FDIC"); provided, however, that the portion of such certificates of deposit in excess of the amount insured by the FDIC, if any, shall be with a provider whose short term S&P rating is "A-1+" or better;
- (e) repurchase agreements with:
 - (1) any institution with long-term debt rated in one of the two highest Rating Categories by S&P;
 - (2) with any company or other entity that falls under the jurisdiction of the Federal Bankruptcy Code, provided that:
 - A. the term of such repurchase agreement is less than one year or due on demand;
 - B. a trustee has possession of the collateral;
 - C. the market value of the collateral is maintained as follows:
 - (a) if valued daily and with a remaining maturity of (a) one year or less, at 102%; (b) five years or less, at 105%; (c) ten years or less, at 106%; (d) fifteen years or less, at 108%; and (e) thirty years or less, at 114%;

- (b) if valued weekly and with a remaining maturity of (a) one year or less, at 103%; (b) five years or less at 111%; (c) ten years or less, at 112%; (d) fifteen years or less, at 114%; and (e) thirty years or less, at 120%;
- (c) if valued monthly and with a remaining maturity of (a) one year or less, at 106%; (b) five years or less, at 118%; (c) ten years or less, at 123%; (d) fifteen years or less, at 128%; and (e) thirty years or less, at 138%; and
- if valued quarterly and with a remaining maturity of (a) one year or less, at 107%; (b) five years or less, at 120%; (c) ten years or less, at 130%; (d) fifteen years or less, at 133%; and (e) thirty years or less, at 140%;
- D. failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately;
- the repurchase securities must be obligations of, or fully guaranteed as to principal and interest by, the United States of America; and
- F. the repurchase securities are free and clear of any third party lien or claim; or
- (3) with financial institutions insured by the FDIC or any broker-dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corp. ("SIPC"), provided that:
 - (i) the market value of the collateral is maintained as described in (2)(C) above;
 - (ii) a trustee has possession of the collateral;
 - (iii) the Trustee has a perfected first priority security interest in the collateral;
 - (iv) the collateral is free and clear of any third party lien or claim and, in the case of a broker-dealer with "retail customers" which falls under the jurisdiction of SIPC, the collateral was not acquired pursuant to a repurchase agreement or a reverse repurchase agreement;
 - (v) the repurchase securities must be obligations of, or fully guaranteed as to principal and interest by, the United States of America; and
 - failure to maintain the requisite collateral levels will require the Trustee to liquidate the collateral immediately; and

- (f) money market funds consisting of Federal Securities, which are rated in the highest Rating Category by S&P including funds for which the Trustee or its affiliates provides investment advisory or other management services; and
- (g) the Local Agency Investment Fund of the State.

<u>Prepayment Price</u>. The term "Prepayment Price" means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion thereof) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and this Agreement.

<u>Project</u>. The term "Project" means the capital improvements to the Enterprise as more particularly described in Exhibit B to the Installment Sale Agreement.

<u>Purchase Price</u>. The term "Purchase Price" means the principal amount plus interest thereon owed by the District to the Corporation under the terms as provided in Section 4.4 of the Installment Sale Agreement.

Rate Stabilization Fund. The term "Rate Stabilization Fund" means the fund by that name established in Section 5.6 of the Installment Sale Agreement.

<u>Rating Category</u>. The term "Rating Category" means, with respect to any Permitted Investment, one or more of the generic categories of rating by S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

Record Date. The term "Record Date" means, with respect to any Interest Payment Date for the Certificates, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Reserve Fund. The term "Reserve Fund" means the fund by that name established in Section 5.04 hereof.

Reserve Fund Credit Facility. The term "Reserve Fund Credit Facility" means a letter of credit, a bond insurance policy, any other comparable credit facility or any combination thereof, which has been approved in writing by the rating agency then rating the Certificates and which in the aggregate making funds available in the Reserve Fund in an amount equal to the Reserve Requirement.

Reserve Requirement. The term "Reserve Requirement" or "Series 2012 Reserve Fund Requirement" means, as of any date of calculation, the least of (i) ten percent (10%) of the proceeds (within the meaning of Section 148 of the Code) of the Certificates; (ii) 125% of average Installment Payments for that and all subsequent Certificate Years; or (iii) maximum aggregate Installment Payments for that or any subsequent Certificate Year.

<u>S&P</u>. The term "S&P" means Standard & Poor's, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the District.

Securities Depositories. The term "Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

<u>Sewer Enterprise Fund</u>. The term "Sewer Enterprise Fund" means the existing fund by that name established and held by the Treasurer of the District with respect to Gross Revenues of the Enterprise.

Special Counsel. The term "Special Counsel" means (a) Fulbright & Jaworski L.L.P. or (b) any other attorney or firm of attorneys appointed by or acceptable to the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

State. The term "State" means the State of California.

<u>State Revolving Fund Loan Contracts</u>. The term "State Revolving Fund Loan Contracts" means the 1998 State Revolving Loan Contract and the 1999 State Revolving Loan Contract.

Loan Contract No. 8-819-550-0, entered into by the District and the State Water Resources Control Board on February 24, 1999 and subsequently approved on June 30, 1999 by the Department of General Servicesas amended by Contract No. 8-819-550-1the,

Statement of the Corporation or the District. The term "Statement of the Corporation or the District" means a statement signed by or on behalf of (a) the Corporation by its Chairperson, its Executive Director or its Treasurer or (b) the District by the President, the General Manager or Finance Director or by any person who is specifically authorized by resolution of the District (a certified copy of which has been delivered to the Trustee) to sign or execute such a document on its behalf. If and to the extent required by the provisions of Section 1.03, each Statement of the Corporation or the District shall include the statements provided for in Section 1.03.

<u>Subordinate Debt</u>. The term "Subordinate Debt" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Gross Revenues subordinate to the Installment Payments.

<u>Trustee</u>. The term "Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States of America having a corporate trust office in Los Angeles, California, or its successor as Trustee hereunder.

Written Consent of the Corporation or the District, Written Order of the Corporation or the District, Written Requisition of the Corporation or the District. The terms "Written Consent of the Corporation or the District," "Written Order of the Corporation or the District," "Written Request of the Corporation or the District," and "Written Requisition of the Corporation or the District," mean, respectively, a written consent, order, request or requisition signed by or on behalf of (a) the Corporation by its Executive Director or Treasurer or (b) the District by its President, General Manager, Finance

Director or by any person who is specifically authorized by resolution of the District (a certified copy of which has been delivered to the Trustee) to sign or execute such a document on its behalf.

Section 1.02. Rules of Construction. Words of any gender shall be deemed and construed to include all genders, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa.

Section 1.03. Content of Statements and Opinions. Every statement or opinion with respect to compliance with a condition or covenant provided for in this Agreement, including each Statement of the Corporation, shall include (a) a statement that the person or persons making or giving such statement or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such statement or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such statement or opinion made or given by an officer of the Corporation may be based, insofar as it relates to legal or accounting matters, upon a statement or opinion of or representations by counsel or accountants, unless such officer knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his statement or opinion may be based, as aforesaid, are erroneous. Any such statement or opinion made or given by counsel or accountants may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the Corporation, or upon the statement or opinion of or representations by an officer or officers of the Corporation, unless such counsel, accountant or consultant knows, or in the exercise of reasonable care should have known, that the statement or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous.

Section 1.04. Recitals.

- (a) <u>Agency Agreement</u>. The Corporation and the District have entered into the Agency Agreement whereby the District has agreed to construct the Project for and on behalf of the Corporation.
- (b) <u>Installment Sale Agreement</u>. The Corporation and the District have entered into the Installment Sale Agreement whereby the Corporation has agreed to sell to the District the Project, and the District has agreed to purchase the Project from the Corporation.
- (c) <u>Installment Payments</u>. Under the Installment Sale Agreement, the District is obligated to pay to the Corporation or its assigns Installment Payments for the purchase of the Project.
- (d) <u>Assignment Agreement</u>. The Corporation has assigned and transferred all of its rights, title and interest in the Installment Sale Agreement (other than its rights to indemnification pursuant to Section 10.14 thereof) to the Trustee, pursuant to the Assignment

Agreement; in consequence, the Trustee shall pursuant to this Trust Agreement execute and deliver the Certificates, each evidencing an undivided ownership interest in the Installment Sale Agreement, including in the Installment Payments to be made thereunder, in the aggregate face amount equal to the aggregate of Principal Components of Series 2012 Installment Payments, and to apply the proceeds of sale of such interests to the payment by the Trustee, as assignee of the Corporation, of the purchase price of the Project.

(e) <u>Conditions Precedent Satisfied</u>. The District and the Corporation hereby certify that all acts, conditions and things required by law to exist, happen and be performed precedent to and in connection with the execution and entering into of this Agreement have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly empowered to execute and enter into this Agreement.

ARTICLE II CERTIFICATES; TERMS AND PROVISIONS

Section 2.02. Denominations; Medium and Place of Payment; Dating. The Certificates shall be delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby maturing in more than one year. The Certificates shall be payable in lawful money of the United States of America.

The payments of principal and Prepayment Price with respect to all Certificates shall be made upon presentation and surrender thereof at the Corporate Trust Office of the Trustee. Payments of interest with respect to Certificates shall be payable by check of the Trustee mailed by first class mail on the Interest Payment Date of such Certificates to the respective Certificate Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to Section 2.08, or, upon the request of an Owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such Owner in writing to the Trustee prior to the Record Date, except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, and such defaulted interest is subsequently received by the Trustee, such defaulted interest shall be paid to the Owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee.

The Certificates shall be dated the Delivery Date. Interest with respect to Certificates shall be accrued from the Interest Payment Date preceding their date of execution, unless such date shall be after a Record Date and on or before the succeeding Interest Payment Date, in which case interest shall be accrued from such Interest Payment Date, or unless such date shall be on or before the first Record Date, in which case interest shall be accrued from the Delivery Date, provided, however, that if, as shown by the records of the Trustee, interest represented by

the Certificates shall be in default, Certificates executed in exchange for Certificates surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Certificates, or, if no interest has been paid or duly provided for with respect to the Certificates, from the Delivery Date.

Section 2.03. Payment of Principal and Interest with Respect to Certificates.

(a) Payments of principal and interest with respect to the Certificates shall be made on June 1 in the years and in the amounts and with an interest component as provided in subsection (b) below at the rates (based on a 360-day year of twelve (12) thirty-day months), as follows:

Maturity Date
(June 1) Principal Amount Interest Rate

Principal or Prepayment Price due with respect to the Certificates at maturity or prepayment thereof shall, to the extent of the aggregate principal amount stated upon the Certificates, represent the sum of those portions of the Installment Payments designated as principal coming due on the Installment Payment Dates immediately preceding June 1 in each year.

- (b) Interest with respect to the Certificates shall be payable on each Interest Payment Date to and including the date of maturity or prior prepayment. Said interest shall represent the sum of those portions of the Installment Payments designated as interest coming due on the Installment Payment Dates, at the rates set forth in subsection (a) above.
- Section 2.04. Form of Certificates. The Certificates and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Agreement.
- **Section 2.05. Execution**. The Certificates shall be executed by and in the name of the Trustee, as Trustee under this Agreement, by the manual signature of an authorized officer or signatory of the Trustee.
- Section 2.06. Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Certificate for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates of the same maturity for a like

aggregate principal amount and interest rate. The Trustee may require the payment by any Certificate Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the District. Following any transfer of Certificates the Trustee shall cancel and destroy the Certificates it has received.

Section 2.07. Exchange of Certificates. Certificates may be exchanged upon surrender thereof at the Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity and interest rate. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Each such Written Request of the District shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Following any exchange of Certificates the Trustee shall cancel and destroy the Certificates it has received.

The Trustee shall not be required to register the exchange or transfer pursuant to Section 2.06 hereof, of any Certificate (a) within 15 days preceding selection of Certificates for prepayment or (b) selected for prepayment.

Section 2.08. Certificate Registration Books. The Trustee shall keep or cause to be kept, at its Corporate Trust Office, sufficient books for the registration and transfer of the Certificates, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the Corporation or the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates as hereinbefore provided.

The person in whose name any Certificate shall be registered shall be deemed the Owner thereof for all purposes hereof, and all payments with respect to such Certificate shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such Certificate to the extent of the sum or sums so paid.

Section 2.09. Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in registered form and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Certificate shall be executed by the Trustee upon the same conditions and in substantially the same manner as the definitive Certificates. If temporary Certificates are initially delivered, the District shall furnish definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee, and the Trustee shall deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of the same maturity or maturities. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under this Agreement as definitive Certificates executed and delivered hereunder.

Section 2.10. Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee shall execute and deliver a new Certificate of like tenor,

maturity and principal amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee at its Corporate Trust Office, of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed.

If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the Corporation and the District, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor, maturity and principal amount, and numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require reasonable payment for preparing each new Certificate executed under this Section and of the expenses that may be incurred by the Trustee under this Section. Any Certificate executed under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Agreement with all other Certificates secured by this Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates that may be executed hereunder or for the purpose of determining any percentage of Certificates Outstanding hereunder, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Certificate for a Certificate that has been mutilated, lost, destroyed or stolen and that has matured or been selected for prepayment, the Trustee may make payment of such Certificate upon receipt of indemnity satisfactory to the Trustee.

Section 2.11. Book-Entry System; Limited Obligation. The Certificates shall be initially executed and delivered in the form of a separate single fully registered Certificate (which may be typewritten) for each of the maturities of the Certificates. Upon initial execution and delivery, the ownership of each such global Certificate shall be registered in the Certificate register in the name of the Nominee as nominee of the Depository. Except as provided in Section 2.13 hereof, all of the Outstanding Certificates shall be registered in the Certificate Register kept by the Trustee in the name of the Nominee and the Certificates may be transferred, in whole but not in part, only to the Depository, to a successor Depository or to another nominee of the Depository or of a successor Depository. Each global Certificate shall bear a legend substantially to the following effect: "UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE TRUST AGREEMENT) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE EXECUTED AND DELIVERED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF. CEDE & CO., HAS AN INTEREST HEREIN."

With respect to Certificates registered in the Certificate register in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any Depository Participant or to any person on behalf of which such a Depository Participant holds a beneficial interest in the Certificates. Without limiting the immediately preceding sentence, the

95454232.4

District and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of the Depository, the Nominee or any Depository Participant with respect to any beneficial ownership interest in the Certificates, (b) the delivery to any Depository Participant, beneficial owner or any other person, other than the Depository, of any notice with respect to the Certificates, including any prepayment notice, (c) the selection by the Depository and the Depository Participants of the beneficial interests in the Certificates to be prepaid in part, or (d) the payment to any Depository Participant, beneficial owner or any other person, other than the Depository, of any amount with respect to the Certificates. The District and the Trustee may treat and consider the person in whose name each Certificate is registered in the Certificate register as the holder and absolute Owner of such Certificate for the purpose of payments with respect to the Certificate, for the purpose of giving prepayment notices with respect to the Certificate and other notices with respect to the Certificate, and for all other purposes whatsoever, including, without limitation, registering transfers with respect to the Certificate.

The Trustee shall make payments in respect of the Certificates only to or upon the order of the respective Certificate Owners, as shown in the Certificate register kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid hereunder with respect to the payment of principal, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than a Certificate Owner, as shown in the Certificate register, shall receive a Certificate evidencing the obligation to make payments of principal, premium, if any, and interest with respect to such Certificate pursuant to this Agreement. Upon delivery by the Depository to the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Agreement shall refer to such new nominee of the Depository.

Section 2.12. Representation Letter. In order to qualify the Certificates for the Depository's book-entry system, the General Manager or Finance Director of the District and is hereby authorized to execute, countersign and deliver on behalf of the District to such Depository a letter from the District representing such matters as shall be necessary to so qualify the Certificates (the "Representation Letter"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.11 hereof or in any other way impose upon the District or the Corporation any obligation whatsoever with respect to persons having beneficial interests in the Certificates other than the Owners, as shown in the Certificate Register kept by the Trustee. In the written acceptance by the Trustee of the Representation Letter, the Trustee shall agree, and hereby agrees, to take all actions necessary for all representations of the Trustee in the Representation Letter with respect to the Trustee to at all times be complied with. In addition to the execution and delivery of the Representation Letter, the District Representative and all other officers of the District, and their respective deputies and designees, each is hereby authorized to take any other actions, not inconsistent with this Agreement, to qualify the Certificates for the Depository's book-entry program.

Section 2.13. Transfers Outside Book-Entry System. If at any time the Depository notifies the District that it is unwilling or unable to continue as Depository with respect to the Certificates or if at any time the Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934 or other applicable statute or regulation and a successor Depository is not appointed by the District within 90 days after the District receives notice or becomes aware of such condition, as the case may be, Section 2.11 hereof shall no longer be applicable and the Trustee shall execute and deliver certificates representing the

Certificates as provided below. In addition, the District may determine at any time that the Certificates shall no longer be represented by global certificates and that the provisions of Section 2.11 hereof shall no longer apply to the Certificates. In any such event the Trustee shall execute and deliver certificates representing the Certificates as provided below. Certificates executed and delivered in exchange for global certificates pursuant to this Section 2.13 shall be registered in such names and delivered in such Authorized Denominations as the Depository, pursuant to instructions from the Depository Participants or otherwise, shall instruct the District and the Trustee. The Trustee shall deliver such certificates representing the Certificates to the persons in whose names such Certificates are so registered.

If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or cause to be prepared a new fully-registered global certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute securities depository or its nominee, or make such other arrangements as are acceptable to the District, the Trustee and such securities depository and not inconsistent with the terms of this Agreement.

Section 2.14. Payments and Notices to the Nominee. Notwithstanding any other provision of this Agreement to the contrary, so long as any Certificate is registered in the name of the Nominee, all payments with respect to such Certificate and all notices with respect to such Certificate shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

Section 2.15. Initial Depository and Nominee. The initial Depository under this Agreement shall be DTC. The initial Nominee shall be Cede & Co., as nominee of DTC.

ARTICLE III APPLICATION OF PROCEEDS; COST OF ISSUANCE FUND; CONSTRUCTION FUND

Section 3.01. Delivery of Certificates. The Trustee is hereby authorized to execute and deliver Certificates in an aggregate principal amount of \$______, upon the Written Order of the Corporation.

Section 3.02. Application of Proceeds of Certificates and Other Moneys. The proceeds received from the sale of the Certificates shall be applied by the Trustee to the construction of the Project. The District hereby directs that such payment be applied in the following manner: (a) set aside in the Cost of Issuance Fund \$______; (b) deposit in the Construction Fund \$______; and (d) transfer to the Reserve Fund the amount of \$______(the initial Reserve Requirement).

Section 3.03. Validity of Certificates. The validity of the authorization and delivery of the Certificates is not dependent on and shall not be affected in any way by any proceedings taken by the District or the Trustee with respect to or in connection with the Installment Purchase Agreement. The recital contained in the Certificates that all acts, conditions and things required by the Constitution and statutes of the State of California and this Agreement to exist, to have happened and to have been performed precedent to and in the delivery thereof do exist, have happened and have been performed in due time, form and manner as required by law shall be

conclusive evidence of their validity and of compliance with the provisions of law in their delivery.

Section 3.04. Cost of Issuance Fund. There is hereby established with the Trustee the Cost of Issuance Fund, which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Cost of Issuance Fund shall be used and withdrawn by the Trustee to pay any Cost of Issuance upon submission of Written Requisitions of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is a proper charge against said fund and that payment for such charge has not previously been made. Upon ninety days after the delivery of the Certificates, or upon the earlier Written Request of the District, all amounts remaining in the Cost of Issuance Fund shall be transferred by the Trustee to the Construction Fund for application in accordance with Section 3.05. Upon such transfer, the Cost of Issuance Fund shall be closed.

Section 3.05. Construction Fund. There is hereby established with the Trustee the Construction Fund, which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Construction Fund shall be used and withdrawn by the Trustee to pay costs of the acquisition, construction, rehabilitation, equipping, improvement or financing of improvements to, or part of, the Project.

Section 3.06. Payment of Construction Costs. Amounts in the Construction Fund shall be disbursed for Construction Costs. Disbursements from the Construction Fund shall be made by the Trustee upon receipt of a sequentially numbered requisition, [a form of which is attached as Exhibit __], requesting disbursement, and executed by a District Representative. Each such requisition shall:

- (a) set forth the amounts to be disbursed for payment or reimbursement of previous payments of Construction Costs and the person or persons to whom such amounts are to be disbursed;
- (b) state that the amounts to be disbursed constitute Construction Costs, that the amounts are required to be disbursed pursuant to a contract entered into therefor by or on behalf of the Corporation or the District, or were necessarily and reasonably incurred, and that the amounts are not being paid in advance of the time, if any, fixed for payment;
- (c) state that no amount set forth in the requisition was included in any requisition requesting disbursement previously filed with the Trustee pursuant to this Section 3.06;
- (d) state that there has been compliance with Section 6.5 of the Installment Sale Agreement relating to the private business use limitation and the private loan limitation;
- (e) state that (A) insofar as such requisition relates to payment for work, materials, equipment or supplies, such work was actually performed, or such materials, equipment or supplies were actually installed in furtherance of the construction of the Project or delivered to the appropriate site for such purpose, or delivered for storage or fabrication at a place approved by the District; and

(f) if such requisition relates to payment to a contractor, state that no liens have been imposed on the Project as a result of such construction except liens that have not yet ripened or that would attach by operation of law.

The Trustee shall be responsible for the safekeeping and investment (in accordance with Article VIII hereof) of the moneys held in the Construction Fund and the payment thereof in accordance with this Section 3.06. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Section 3.07. Transfers of Unexpended Construction Fund Proceeds. The Trustee is hereby directed that all unexpended moneys remaining in the Construction Fund and not identified in writing by a District Representative to be required for payment of Construction Costs or other capital improvements (the "Unexpended Proceeds") shall, on the date of completion of the Project or as soon thereafter as the Trustee is so notified by the District, be transferred to the Installment Payment Fund and applied to the prepayment of Certificates. Since the Project is also being financed in part by sources of revenue other than bond proceeds, it is not anticipated that there will be moneys remaining in the Construction Fund to be transferred pursuant to this Section.

ARTICLE IV PREPAYMENT OF CERTIFICATES

Section 4.01. Prepayment.

- (a) <u>Generally</u>. The Certificates shall not be subject to prepayment prior to maturity, except in the manner, at the times and in all respects in accordance with the provisions of this Article IV.
- (b) Prepayment From Net Proceeds of Insurance and Condemnation and from Unexpended Proceeds. The Certificates shall be subject to prepayment prior to their respective stated maturities, as a whole on any date or in part on any Interest Payment Date, in the order of stated maturity as directed by the District in a Written Request of the District provided to the Trustee at least 60 days prior to the prepayment date, or (in the event the District has not directed the order of stated maturity, in inverse order of stated maturity), and by lot within each stated maturity in integral multiples of \$5,000, from prepaid Installment Payments made by the District from Net Proceeds and Unexpended Proceeds which are, in either case deposited in the Installment Payment Fund and credited towards prepayment made by the District, upon the terms and conditions of, and as provided for in, Sections 3.07 and 6.09 of this Agreement, and Sections 6.8 and 6.14 of the Installment Purchase Agreement (provided that such prepayment shall occur on the next Interest Payment Date subsequent to such transfer with respect to which timely notice of prepayment can be provided as required hereunder) at a Prepayment Price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.
- (c) Optional Prepayment. In addition, The Certificates bearing stated maturities of on or after October 15, ____ shall be subject to prepayment at the option of the District as a whole or in part, on any date on or after _____, from any available source of funds, at the following Prepayment Prices (expressed as a percentage of the principal amount of the

Certificates to be prepaid) together with accrued interest thereon to the date fixed for prepayment:

Prepayment Date

Prepayment Price

(d)	Mandatory Prepayment.	The Certificates bearing stated maturities of June 1,
are sub	ject to mandatory prepayme	ent, upon notice as hereinafter provided, in part (by lot)
on each June	1 on and after June 1,	_, in integral multiples of \$5,000 at a Prepayment Price
of the princip	oal amount thereof plus acc	crued interest evidenced and represented thereby to the
date fixed for	r prepayment, without prem	nium. Such Certificates shall be prepaid in the amounts
and upon the	dates as follows:	

Mandatory Prepayment Dates (June 1)

Amount

In the event of a partial prepayment of Certificates pursuant to Section 4.01(b) or 4.01(c) above, the foregoing annual mandatory prepayments shall be reduced in equal percentages, as nearly as practicable, provided that the reductions shall be made in multiples of \$5,000. The District shall provide the Trustee with the amended mandatory prepayment schedule calculated as set forth above.

Section 4.02. Selection of Certificates for Prepayment. Whenever provision is made in this Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee shall select Certificates for prepayment in any order of maturity selected by the District and by lot within a maturity. The Trustee shall promptly notify the District and the Corporation in writing of the Certificates so selected for prepayment.

Section 4.03. Notice of Prepayment. Notice of any such prepayment shall be given by the Trustee on behalf and at the expense of the District by mailing a copy of a prepayment notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for prepayment to such Owner of the Certificate or Certificates to be prepaid at the address shown on the Certificate Register maintained by the Trustee; provided, however, that neither the failure to receive such notice nor any defect in any notice shall affect the sufficiency of the proceedings for the prepayment of the Certificates.

All notices of prepayment shall be dated and shall state: (i) the prepayment date, (ii) the prepayment price, (iii) if less than all Outstanding Certificates are to be prepaid, the identification (and, in the case of partial prepayment, the respective principal amounts) of the Certificates to be prepaid, (iv) that on the prepayment date the prepayment price will become due and payable with respect to each such Certificate or portion thereof called for prepayment, and that interest with respect thereto shall cease to accrue from and after said date, (v) the place where such Certificates are to be surrendered for payment of the prepayment price, which place of payment shall be the Principal Trust Office.

Prior to the mailing of any prepayment notice other than a prepayment notice relating to Certificates that are the subject of an advance refunding), the District shall deposit, or cause to be deposited, with the Trustee an amount of money sufficient to pay the prepayment price of all the Certificates or portions of Certificates which are to be prepaid on the applicable prepayment date. In the case of a prepayment notice relating to Certificates that are the subject of an advance refunding, the District shall deposit, or cause to be deposited, with the Trustee on or prior to the applicable prepayment date, an amount of money sufficient to pay the prepayment price of all the Certificates or portions of Certificates which are to be prepaid on such prepayment date.

Notice of prepayment having been given as aforesaid, the Certificates or portions of Certificates so to be prepaid shall, on the prepayment date, become due and payable at the prepayment price therein specified, and from and after such date (unless the District shall default in the payment of the prepayment price) interest with respect to such Certificates or portions of Certificates shall cease to be payable. Upon surrender of such Certificates for prepayment in accordance with said notice, such Certificates shall be paid by the Trustee at the prepayment price. Installments of interest due on or prior to the prepayment date shall be payable as herein provided for payment of interest. Upon surrender for any partial prepayment of any Certificate, there shall be executed and delivered for the Owner a new Certificate or Certificates of the same maturity in the amount of the unprepaid principal. All Certificates which have been prepaid shall be canceled by the Trustee, shall not be redelivered and shall be destroyed pursuant to Section 11.06.

In addition to the foregoing notice, notice shall be given by the Trustee by telecopy, registered, certified or overnight mail, to all Securities Depositories one Business Day prior to the date of mailing of notice to the Owners and to an Information Service on the date such notice is mailed to the Owners, which shall state the information set forth above, but no defect in said notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for prepayment if notice thereof is given as prescribed above.

The Trustee shall have no responsibility for a defect in the CUSIP number that appears on any Certificate or in the prepayment notice. The prepayment notice may provide that the CUSIP numbers have been assigned by an independent service and are included in the notice solely for the convenience of Certificate Owners and that the Trustee and the District shall not be liable in any way for inaccuracies in said numbers.

Section 4.04. Partial Prepayment of Certificate. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

Section 4.05. Effect of Notice of Prepayment. Notice having been given as aforesaid, and the moneys for the prepayment, including interest to the applicable Interest Payment Date and premium, if any, having been set aside in the Installment Payment Fund, the Certificates to be prepaid shall become due and payable on such Interest Payment Date, and, upon presentation and surrender thereof at the office or offices specified in the notice, the Certificates shall be paid at the unpaid principal amount with respect thereto, and any unpaid and accrued interest to such Interest Payment Date.

If, on such Interest Payment Date, moneys for the prepayment of all the Certificates to be prepaid, together with interest to such Interest Payment Date, shall be held by the Trustee so as to be available therefor on such Interest Payment Date, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after such Interest Payment Date, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. If the moneys shall not be so available on such Interest Payment Date, interest with respect to such Certificates shall continue to be payable at the same rates as it would have been payable had the Certificates not been called for prepayment. All moneys held by or on behalf of the Trustee for the prepayment of particular Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid. The Trustee shall not be liable for any interest earned on the amounts so held.

Section 4.06. Purchase of Certificates. In lieu of prepayment of Certificates as provided in this Article IV, amounts held by the Trustee for such prepayment may also be used on any Interest Payment Date, upon receipt by the Trustee at least ninety (90) days prior to the next scheduled Interest Payment Date of the written request of a District Representative, for the purchase of Certificates at public or private sale as and when and at such prices (including brokerage, accrued interest and other charges) as the District may in its discretion direct, but not to exceed the prepayment price which would be payable if such Certificates were prepaid; provided, however, that no Certificates shall be purchased in lieu of prepayment with a trade settlement date less than seventy-five (75) days prior to the relevant prepayment date. The aggregate principal amount of Certificates of the same maturity purchased in lieu of prepayment pursuant to this Section 4.06 shall not exceed the aggregate principal amount of Certificates of such maturity which would otherwise be subject to such prepayment. Remaining moneys, if any, shall be deposited in the Installment Payment Fund.

ARTICLE V INSTALLMENT PAYMENTS

Section 5.01. Pledge and Deposit of Installment Payments; Parity Pledge of Net Revenues. The Installment Payments are hereby irrevocably pledged to, and shall be used for, the timely payments with respect to the Certificates, and the Installment Payments shall not be used for any other purpose while any of the Certificates remains Outstanding. This pledge shall constitute a first and exclusive lien on the Installment Payments in accordance with the terms hereof.

Pursuant to the terms of the Assignment Agreement, all Installment Payments to which the Corporation may at any time have been entitled (including income or profit from investments pursuant to Section 5.03) are to be made directly to the Trustee; if any such Installment Payment is received by the Corporation at any time, it shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. The Trustee shall deposit all

Installment Payments as and when received in the Installment Payment Fund. All moneys at any time deposited in the Installment Payment Fund shall be held by the Trustee in trust for the benefit of the Owners from time to time of the Certificates, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes herein set forth. The Assignment Agreement creates an absolute assignment and transfer of the rights of the Corporation as set forth therein and does not merely create a security interest in such rights.

Section 5.02. Installment Payment Fund. There is hereby established with the Trustee the Installment Payment Fund, which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The Trustee shall pay from the Installment Payment Fund, the interest and principal payments with respect to Installments that become payable on each Interest Payment Date, and the Prepayment Price of Installments that become payable as provided in Section 4.01 hereof.

All earnings derived from the investment of funds on deposit in the Installment Payment Fund shall be retained therein. At least ten (10) days before each Interest Payment Date or, if such day is not a Business Day, on the next preceding Business Day, the Trustee shall transfer all earnings from the Reserve Fund not used to meet the Reserve Requirement to the Installment Payment Fund.

Amounts deposited into the Installment Payment Fund shall be held as a credit against the obligation of the District with respect to its payment of the immediately succeeding Installment Payment; at least ten (10) days before an Interest Payment Date or, if such day is not a Business Day, on the next preceding Business Day, the Trustee shall notify the District in writing of the amount necessary to be deposited in the Installment Payment Fund to pay the Installment Payment coming due on the next Interest Payment Date.

Section 5.03. Investment of Moneys. Any moneys in the Installment Payment Fund, the Cost of Issuance Fund and the Reserve Fund shall be invested by the Trustee, upon the Written Request of the District at least two (2) Business Days before the investment date, in Permitted Investments that will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund; provided, however, that any Permitted Investments purchased with moneys in the Reserve Fund will, subject to the fourth paragraph of this Section 5.03, mature in five years or less from the date of purchase. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the District, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (f) of the definition thereof.

Subject to the further provisions of Section 6.02 hereof, the Trustee may sell or present for prepayment any obligations so purchased at the written direction of the District whenever it shall be necessary in order to provide moneys to meet any payments and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or any of its affiliates may act as principal or agent in the acquisition or disposition of any investment. The Trustee may commingle moneys held in any of the funds or accounts established pursuant to this Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling. Permitted Investments that are registrable securities shall be registered in the name of the Trustee.

Any investment of moneys held in the Reserve Fund shall be valued at fair market value and marked to market at least once per calendar year. No investment of moneys in the Reserve Fund shall have a maturity greater than five years.

The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee hereunder. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or with any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account.

Such investments (except investment agreements) shall be valued by the Trustee at least semi-annually at the Fair Market Value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in the Reserve Fund resulting from a decline in market value shall be restored no later than the succeeding valuation date.

In making any valuations of securities hereunder, the Trustee may utilize and rely upon computerized securities pricing services that may be available to it, including those available through its regular accounting system.

Section 5.04. Reserve Fund. There is hereby established with the Trustee the Reserve Fund, which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The Trustee shall deposit in the Reserve Fund, the amounts required to be deposited therein pursuant to the Installment Sale Agreement and this Agreement and shall apply moneys in the Reserve Fund in accordance with this Section 5.04.

If one day prior to any Interest Payment Date, or if such date is not a Business Day, then the preceding Business Day, the money in the Installment Payment Fund is insufficient to make the payments required by this Trust Agreement with respect to Certificates on such Interest Payment Date, the Trustee shall give the District notice of such shortfall and shall transfer from the Reserve Fund to the Installment Payment Fund the amount of such insufficiency.

In the event that the Trustee has transferred money from the Reserve Fund to the Installment Payment Fund in accordance with this Section 5.04, upon receipt of the moneys from the District to increase the balance in the Reserve Fund to the Reserve Fund Requirement, the Trustee shall deposit such money in the Reserve Fund. Any deficiency in the Reserve Fund due to a draw thereon shall be replenished by the District within one year of such deficiency in twelve equal monthly installments.

All moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal and interest with respect to the Certificates or, to the extent that the value of the Reserve Fund exceeds the Reserve Fund Requirement, monies in an amount equal to such excess shall be transferred from the Reserve Fund to the Installment Payment

95454232.4

Fund. All amounts on deposit in the Reserve Fund on the date no Certificates remain outstanding shall be transferred to the District.

The District may fund all or a portion of the Reserve Requirement with one or more Reserve Fund Credit Facilities. Upon deposit of any Reserve Fund Credit Facility with the Trustee, the Trustee, upon the Written Order of the District, shall pay to the District from amounts in the Reserve Fund an amount equal to the principal of the Reserve Fund Credit Facility. The District undertakes to apply all such amounts to capital expenditures and, pending such application, to hold such amounts in a segregated account and if invested into Investment Property (within the meaning of section 148(a) of the Code) then invested to produce a yield not in excess of the yield on the Installment Sale Agreement.

In any case where the Reserve Fund is funded with a combination of cash and a Reserve Fund Credit Facility, the Trustee shall deplete all cash balances before drawing on the Qualified Surety Bond. With regard to replenishment, any available moneys provided by the District shall be used first to reinstate the Reserve Fund Credit Facility and second, to replenish the cash in the Reserve Fund. In the event the Reserve Fund Credit Facility is drawn upon, the District shall make payment of interest on amounts advanced under the Reserve Fund Credit Facility after making any Installment Payments to the Installment Sale Agreement.

In the event the Reserve Fund Credit Facility will lapse or expire, the Trustee shall draw upon such Reserve Fund Credit Facility prior to its lapsing or expiring, make deposits from available moneys provided by the District to the Reserve Fund to increase the amount on deposit therein to the Reserve Requirement or substitute such Reserve Fund Credit Facility with a Reserve Fund Credit Facility furnished to it by the District that satisfies the requirements of this section.

Section 5.05. Pledge of Moneys in Funds. All amounts on deposit in the Installment Payment Fund and the Reserve Fund are hereby irrevocably pledged by the District to the Owners of the Certificates as provided herein.

ARTICLE VI COVENANTS

Section 6.01. Corporation and the District to Comply with Installment Sale Agreement. Each of the Corporation and the District covenants and agrees with the Owners of the Certificates to perform all obligations and duties imposed on it under the Installment Sale Agreement and, together with any assignee thereof, to enforce such Installment Sale Agreement against the other party thereto in accordance with its terms.

The Corporation and the District each will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Installment Sale Agreement to be kept, performed and complied with by it.

The Corporation and the District each agrees not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement.

Section 6.02. Tax Covenants. Under Section 6.5 of the Installment Sale Agreement, the Corporation has undertaken certain covenants with respect to the exclusion of the Interest Component of Series 2012 Installment Payments from the gross income of the owner thereof for federal income tax purposes. Said provision also restricts assignment of the Installment Sale Agreement by the Corporation unless the assignee, other than the Trustee, shall have assumed and undertaken the obligations of the Corporation under said Section 6.5.

Section 6.03. Accounting Records and Reports. The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Installment Payments, and such books shall be available for inspection by the District and by any Owner of Certificates, or his agent or representative, at reasonable hours and under reasonable conditions. Each month, so long as the Certificates are Outstanding, the Trustee shall furnish to the District a statement covering receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created hereunder held by it.

Section 6.04. Compliance with Trust Agreement. The Trustee will execute the Certificates upon Written Order of the Corporation as provided in Section 3.01 hereof. The District will not suffer or permit any default by it to occur under this Agreement, but will faithfully observe and perform all the covenants, conditions and requirements hereof.

Section 6.05. Observance of Laws and Regulations. To the extent necessary to assure its performance hereunder, the Corporation and the District will each well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the Corporation or the District respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 6.06. Compliance with Contracts. The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the Project by the District, and all other contracts and agreements affecting or involving the Project to the extent that the District is a party thereto.

Section 6.07. Prosecution and Defense of Suits. The District shall promptly, upon request of the Trustee or any Certificate Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Enterprise or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and, to the extent permitted by law, shall indemnify and save the Trustee, the Corporation and every Certificate Owner harmless from all loss, cost, damage and expense, including attorneys fees, that they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District shall defend against every suit, action or proceeding at any time brought against the Trustee, the Corporation or any Certificate Owner upon any claim arising out of the receipt, application or disbursement of any of the Installment Payments or involving the rights of the Trustee, the Corporation or any Certificate Owner under this Agreement; provided that the

Trustee, the Corporation or any Certificate Owner at such party's election may appear in and defend any such suit, action or proceeding. To the extent permitted by law, the District shall indemnify and hold harmless the Trustee, the Corporation and the Certificate Owners against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Certificate Owners against any attorneys fees or other expenses that any of them may incur in connection with any litigation to which any of them may become a party by reason of ownership of Certificates. The District shall promptly reimburse the Corporation or any Certificate Owner in the full amount of any attorneys fees or other expenses that it or such Owner may incur in litigation or otherwise in order to enforce such party's rights under this Agreement or the Certificates, provided that such litigation shall be concluded favorably to such party's contentions therein.

Section 6.08. Recordation and Filing. The District, or the Trustee, at the written direction of the District, shall record, register, file, renew, refile and re-record all such documents, including financing statements, as may be required by law in order to maintain a security interest in this Agreement and the Assignment Agreement, all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Certificate Owners and the rights and security interests of the Trustee. The District shall do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of this Agreement and the Assignment Agreement.

Section 6.09. Eminent Domain. If all or any part of the Project shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the proceeds therefrom shall be applied in the manner specified in Section 6.14 of the Installment Sale Agreement.

Section 6.10. Further Assurances. Whenever and so often as may be necessary, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Certificate Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Agreement.

ARTICLE VII DEFAULT AND LIMITATION OF LIABILITY

Section 7.01. Notice of Non-Payment. In the event of delinquency in the payment of any Installment Payments due by the District pursuant to the Installment Sale Agreement, the Trustee shall give written notice, to the District and the Corporation, of the delinquency and the amount of the delinquency no later than one (1) Business Day following the date upon which such delinquent Installment Payment was due.

Section 7.02. Action on Default or Termination. Upon the occurrence of an Event of Default (as that term is defined in the Installment Sale Agreement), which event shall constitute a default hereunder, and in each and every such case during the continuance of such Event of Default, the Trustee, at the written direction of the Owners of not less than a majority in aggregate principal amount of Certificates at the time Outstanding shall be entitled, upon notice

in writing to the District, to accelerate the unpaid Installment Payments under the Installment Sale Agreement and to exercise the remedies provided to the Corporation in the Installment Sale Agreement.

Upon declaration of the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with Section 8.1 of the Installment Sale Agreement, the Trustee may apply all moneys received as Installment Payments and all moneys held in any fund or account hereunder to the payment of the entire principal amount of the Certificates and the accrued interest with respect thereto, with interest on the overdue Certificates at the rate or rates of interest applicable to the Certificates if paid in accordance with their terms.

Section 7.03. Other Remedies of the Trustee. The Trustee shall have the right --

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform or carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained herein;
- (b) by suit in equity to enjoin any acts or things that are unlawful or violate the rights of the Trustee; or
- (c) by suit in equity upon the happening of any default hereunder to require the District and its directors, officers and employees to account as the trustee of an express trust.

Section 7.04. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is discontinued, abandoned or determined adversely to the Trustee, the Trustee, the District and the Certificate Owners shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 7.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Certificate Owners is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Section 7.06. No Obligation by the District to Owners. Except for the payment of Installment Payments when due in accordance with the Installment Sale Agreement and the performance of the other covenants and agreements of the District contained in said Installment

Sale Agreement and herein, the District shall have no obligation or liability to the Owners of the Certificates with respect to this Agreement or the execution, delivery or transfer of the Certificates, or the disbursement of Installment Payments to the Owners by the Trustee; provided however that nothing contained in this Section shall affect the rights, duties or obligations of the Trustee expressly set forth herein.

Section 7.07. Trustee Appointed Agent for Certificate-owners; Direction of Proceedings. The Trustee is hereby appointed the agent and attorney of the Owners of all Certificates outstanding hereunder for the purpose of filing any claims relating to the Certificates. The Owners of a majority in aggregate principal amount of the Certificates Outstanding hereunder shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, provided such direction shall be in accordance with law and the provisions of this Trust Agreement and that the Trustee shall have the right to decline to follow any such direction that in the opinion of the Trustee would be unjustly prejudicial to Certificate owners not parties to such a direction.

Section 7.08. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Certificates then outstanding pursuant to Section 7.07 hereof, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Certificates Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Section 7.09. Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Section 7.10. No Obligation with Respect to Performance by Trustee. Neither the District nor the Corporation shall have any obligation or liability to any of the other parties hereto or to the Owners of the Certificates with respect to the performance by the Trustee of any duty imposed upon it under this Agreement.

Section 7.11. No Liability to Owners for Payment. The Corporation shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Sale Agreement or herein. Except as provided in this Agreement, the Trustee shall not have any obligation or liability to the Owners of the Certificates with respect to the payment of the Installment Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Installment Sale Agreement or herein.

Section 7.12. No Responsibility for Sufficiency. The Trustee shall not be responsible for the sufficiency of this Trust Agreement, the Installment Sale Agreement, or of the assignment made to it by the Assignment Agreement of rights to receive Installment Payments pursuant to the Installment Sale Agreement, or the value of or title to the Project. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with this Agreement.

Section 7.13. Indemnification of Trustee. To the extent permitted by law, the District shall indemnify the Trustee and hold it harmless against any loss, liability, expenses or advances, including but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee, (i) arising out of or in connection with the acceptance or administration of this trust or in the exercise and performance of any of the powers and duties hereunder or under the Installment Sale Agreement by the Trustee, (ii) relating to or arising out of the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, the Project or any part thereof, (iii) arising out of or relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates, or (iv) the use, presence, storage, disposal or release of any Hazardous Substances on or about the Project, including the costs and expenses of defending itself against any claim of liability arising under this Agreement. Such indemnity shall survive payment of the Certificates or resignation or removal of the Trustee.

ARTICLE VIII THE TRUSTEE

Section 8.01. Employment of Trustee. In consideration of the recitals hereinabove set forth and for other valuable consideration, the District hereby agrees to employ the Trustee to receive, hold, invest and disburse the moneys received pursuant to the Installment Sale Agreement for credit to the various funds and accounts established by this Agreement; to execute, deliver and transfer the Certificates; and to apply and disburse the Installment Payments received from the District to the Owners of Certificates; and to perform certain other functions; all as herein provided and subject to the terms and conditions of this Agreement.

Section 8.02. Acceptance of Employment. In consideration of the compensation herein provided for, the Trustee accepts the employment above referred to subject to the terms and conditions of this Agreement.

- Section 8.03. Trustee, Duties, Removal and Resignation. By executing and delivering this Agreement, the Trustee accepts the duties and obligations of the Trustee provided in this Agreement, but only upon the terms and conditions set forth in this Agreement.
 - (a) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.
 - (b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.
 - (c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in principal amount of the Certificates relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Agreement.
 - (d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Agreement at the request or direction of any of the Owners pursuant to this Agreement, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that might be incurred by it in compliance with such request or direction.

The District, or, if the District is in default under the Installment Sale Agreement, the Owners of a majority in aggregate principal amount of all Certificates Outstanding, may by written request to the Trustee, remove the Trustee and any successor thereto, and may appoint a successor Trustee, but any such successor shall be a bank, national banking association or trust company doing business and having a corporate trust office in California, that has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the District and by giving to the Certificate Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the District petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee.

Section 8.04. Merger or Consolidation of Trustee. Any company into which the Trustee may be merged or with which it may be consolidated, or any company resulting from any merger or consolidation to which the Trustee shall be a party, or any company succeeding to all or substantially all of the corporate trust business of the Trustee or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided that such successor trustee shall be eligible under the provisions of Section 8.03.

Section 8.05. Compensation of the Trustee. The District shall from time to time, subject to any agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee for all its advances and expenditures, including but not limited to, advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. Such compensation and reimbursement shall be paid by the District; provided, however, that the Trustee shall not otherwise have any claims, except in accordance with Section 7.13 hereof and Section 8.2 of the Installment Sale Agreement or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder but may take whatever legal actions are lawfully available to it directly against the District. The agreement contained in this Section shall survive the payment of the Certificates, the discharge of this Agreement and the appointment of a successor trustee.

Section 8.06. Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting, refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document that it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of this Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee may consult with counsel, who may be counsel to the Corporation or the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith in accordance therewith.

Whenever in the administration of this Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, omitting or suffering any action hereunder, the Trustee may (unless other evidence in respect thereof be herein specifically prescribed) rely on a certificate of the Corporation or the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Agreement upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates provided pursuant to this Agreement, and may join in any action that any Owner may be entitled to take with like effect as if the Trustee were not a party to this Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with

the District or the Corporation, and may act as depositary, trustee, or agent for any committee or body of Owners of Certificates or of obligations of the Corporation or the District as freely as if it were not Trustee hereunder.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder either directly or by or through attorneys, agents, or receivers, and the Trustee shall not be responsible for the negligence or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Agreement or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the District or the Corporation contained in this Agreement or in the Certificates shall be taken and construed as made by and on the part of the District or Corporation and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

Except during the continuance of an Event of Default the Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Agreement and no implied duties or obligations shall be read into this Agreement against the Trustee.

No provision in this Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of its rights or powers.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the District or the Corporation having any claim against the Trustee arising from this Agreement shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The Trustee makes no representation or warranty express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Corporation of the Project. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Installment Sale Agreement or this Agreement for the existence, furnishing or use of the Project.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under the Installment Sale Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in Section 11.11 hereof.

The Trustee shall not be accountable for the use or application by the District, or the Corporation or any other party of any funds that the Trustee has released in accordance with the terms of this Agreement.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of a majority (or other percentage provided for herein) in aggregate principal amount of Certificates outstanding relating to the exercise of any right, power or remedy available to the Trustee.

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

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

ARTICLE IX AMENDMENT OF TRUST AGREEMENT

Section 9.01. Amendments Permitted. (a) This Agreement and the rights and obligations of the Corporation, the District, the Owners of the Certificates and of the Trustee

may be modified or amended at any time by an amendment hereto, which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 11.04 hereof, shall have been filed with the Trustee, provided, however, that no such modification or amendment shall (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or (3) modify any of the rights or obligations of the Trustee or the Corporation without its respective written consent thereto.

- (b) This Agreement and the rights and obligations of the Corporation, the District and of the Owners of the Certificates may also be modified or amended at any time by an amendment hereto, which shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes:
- (1) to add to the covenants and agreements of the Corporation or the District contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, but only if such addition or surrender does not adversely affect the interests of the Owners of the Certificates;
- (2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Corporation or the District may deem necessary or desirable, but only if such cure, correction or supplementation does not adversely affect the interests of the Owners of the Certificates; and
- (3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto.

Supplement. After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificate and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action shall be made on such Certificate. If the Trustee shall so determine, new Certificates so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Certificates such new Certificates shall be exchanged at the principal corporate trust office of the Trustee without cost to each Owner for Certificates then Outstanding upon surrender of such Outstanding Certificates.

Section 9.03. Amendment of Particular Certificates. The provisions of this article shall not prevent any Owner from accepting any amendments to the particular Certificates held by him, provided that due notation thereof is made on such Certificates.

In connection with any amendment of this Agreement, the Trustee may conclusively rely on an opinion of counsel that the requirements of this Article IX have been met.

Section 9.04. Notice to Rating Agencies. Any rating agency rating the Certificates shall receive notice of each amendment to this Trust Agreement and a copy thereof at least 15 days in advance of its execution.

ARTICLE X DEFEASANCE

Section 10.01. Discharge of Trust Agreement. When the obligations of the District under the Installment Sale Agreement shall cease pursuant to Article IX of the Installment Sale Agreement (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by this Agreement shall thereupon cease, terminate and become void, and after provision for payment of amounts due the Trustee hereunder, the Trustee shall turn over to the District, as an overpayment of Installment Payments, any surplus in the Installment Payment Fund and all balances remaining in any other funds or accounts (other than moneys and Permitted Investments held for the payment of the Certificates at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal and interest and premium, if any, represented by the Certificates), and (unless otherwise provided herein) after such payment this Agreement shall become void.

If Defeasance Obligations are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such Defeasance Obligations shall have been deposited with it, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.08, setting forth (a) the date fixed for prepayment of the Certificates, (b) a description of the Defeasance Obligations, and (c) that this Agreement has been released in accordance with the provisions of this Section.

Section 10.02. Deposit of Money or Securities with Trustee. Whenever in this Agreement or the Installment Sale Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Agreement and shall be only Defeasance Obligations. In the event of an advance refunding, the District shall cause to be delivered a verification report or a report of an independent nationally recognized certified public accountant.

Section 10.03. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal or Prepayment Price represented by any of the Certificates that remain unclaimed for two (2) years after the later of (a) the date when such interest or principal or

Prepayment Price shall have become payable, or (b) the date of deposit of such moneys if deposited with the Trustee after the date when the interest or principal or Prepayment Price represented by such Certificates shall have become payable, shall be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal or Prepayment Price represented by such Certificates; provided, however, that before being required to make any such payment to the District, the Trustee shall, at the expense of the District, first mail a notice to the Owners of the Certificates so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the District.

ARTICLE XI MISCELLANEOUS

Section 11.01. Benefits of Trust Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Trustee, the Corporation, and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee, the Corporation, and the Owners.

Section 11.02. Successor Deemed Included in all References to Predecessor. Whenever the District, the Corporation or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District, the Corporation or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the District, the Corporation or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03. Execution of Documents by Owners. Any declaration, request or other instrument that is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such person's attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept that it deems sufficient.

The ownership of any Certificates and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.08.

Any declaration, request or other instrument in writing of the Owner of any Certificate shall bind all future Owners of such Certificate with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

Section 11.04. Disqualified Certificates. Unless all Certificates are then so owned or held, Certificates known to the Trustee to be owned or held by or for the account of the Corporation or the District shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided for in this Agreement, and shall not be entitled to consent to or take any other action provided for in this Agreement. For the purpose hereof no bank organized under the laws of the State and no national banking association doing business in said State, or elsewhere, shall be deemed to be an agency of the Corporation or of the District.

The Trustee may adopt appropriate regulations to require each Owner of Certificates, before his consent provided for in this Agreement shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this Section.

Section 11.05. Waiver of Personal Liability. No director, officer or employee of the District or the Corporation shall be individually or personally liable for the payment of the interest or principal or the prepayment premiums, if any, represented by the Certificates, but nothing contained herein shall relieve any director, officer or employee of the District or Corporation from the performance of any official duty provided by any applicable provisions of law or by the Installment Sale Agreement or hereby.

Section 11.06. Acquisition of Certificates by the District; Destruction of Certificates. All Certificates acquired by the District, whether by purchase or gift or otherwise shall be surrendered to the Trustee for cancellation. Whenever in this Agreement provision is made for the cancellation by the Trustee of any Certificates, the Trustee shall destroy such Certificates and deliver a certificate of such destruction to the District.

Section 11.07. Headings. Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Agreement or affect its meaning, construction or effect.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

Section 11.08. Funds and Accounts. Any fund required by this Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with sound industry practices and with due regard for the protection of the security of the Certificates and the rights of every Owner thereof.

Section 11.09. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the District, the Corporation or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall

retain all the benefit, protection and security afforded to them under any applicable provisions of law. The District, the Corporation and the Trustee hereby declare that they would have executed this Trust Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Certificates pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

Section 11.10. California Law. THIS AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE.

Section 11.11. Notices. All written notices to be given under this Agreement shall be given by mail, unsecured email with an imaged or scanned attachment (such as a .pdf), or fax machine or other similar electronic transmission, with confirmation of receipt of such transmission, to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time.

If to the District: Nipomo Community Services District

P.O. Box 326

Nipomo, CA 93444-0326 Attention: General Manager Fax No.: (805) 929-1932

Email address:

If to the Corporation: Nipomo Community Services District Public Facilities

Corporation P.O. Box 326

Nipomo, CA 93444-0326 Attention: Executive Director Fax No.: (805) 929-1932

Email address:

If to the Trustee: The Bank of New York Mellon Trust Company, N.A.

700 South Flower Street, Suite 500 Los Angeles, California 90017 Attention: Corporate Trust

Fax No.: Email address:

Section 11.12. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Trust Agreement by their officers thereunto duly authorized as of the day and year first written above.

By:_______Authorized Signatory

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, as Corporation

By:______Executive Director

NIPOMO COMMUNITY SERVICES DISTRICT, as District

By:______President

THE BANK OF NEW YORK MELLON TRUST

Exhibit A

[FORM OF REVENUE CERTIFICATE OF PARTICIPATION]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE TRUST AGREEMENT) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE EXECUTED AND DELIVERED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

REVENUE CERTIFICATE OF PARTICIPATION (Southland Wastewater Project) Series 2012

Evidencing the Direct, Undivided Fractional Interest of the Owner Hereof in Installment Payments to be Made by

THE NIPOMO COMMUNITY SERVICES DISTRICT, CALIFORNIA

As the Purchase Price for Certain Property
Pursuant to an Installment Sale Agreement With the
NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

CERTIFICATE		
PAYMENT	DATED	
DATE	DATE	<u>CUSIP</u>
June 1,	June, 2012	
	PAYMENT	PAYMENT DATED DATE DATE

GEDTIEIG A TE

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

DOLLARS

THIS IS TO CERTIFY that the Registered Owner (specified above) of this Revenue Certificate of Participation (herein called the "Certificate") is the owner of an undivided interest in the right to receive certain Installment Payments (as that term is defined in the Trust Agreement hereinafter mentioned) (the "Installment Payments") under that certain Installment Sale Agreement dated as of June 1, 2012 (the "Installment Sale Agreement") by and between

Nipomo Community Services District Public Facilities Corporation (the "Corporation") and the Nipomo Community Services District (the "District"), the Installment Payments to be made thereunder having been assigned to The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), having a corporate trust office in Los Angeles, California. The Trustee has executed and delivered \$ aggregate principal amount of Certificates.

The Registered Owner of this Certificate is entitled to receive, subject to the terms of the Installment Sale Agreement and the Trust Agreement, on the Certificate Payment Date (specified above) the Principal Amount (specified above) representing a portion of the Installment Payments designated as principal coming due on the Certificate Payment Date, and to receive an interest component on such principal component at the interest rate per annum specified above, from the Interest Payment Date (as hereinafter defined) preceding the date of execution hereof by the Trustee, unless such date of execution is after a Record Date (as hereinafter defined) and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date, or unless such date of execution is on or before the first Record Date, in which case interest shall be payable from the Delivery Date, provided, however, that if, as shown by the records of the Trustee, interest represented by this Certificate shall be in default, Certificates executed in exchange for this Certificate surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to this Certificate, or, if no interest has been paid or duly provided for with respect to this Certificate, from the Delivery Date. Interest with respect to this Certificate shall be paid on June 1 and December 1 of each year, commencing June 1, 2012 (each, an "Interest Payment Date"), to and including the Certificate Payment Date set forth above or the date of prior prepayment hereof. The principal and prepayment price with respect hereto are payable in lawful money of the United States of America upon presentation and surrender at the Corporate Trust Office (as defined in the Trust Agreement) of the Trustee. Interest with respect hereto is payable by check of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof as of the close of business on the fifteenth day of the calendar month preceding such Interest Payment Date, whether or not such day is a business day (the "Record Date") at the address shown on the registration books maintained by the Trustee or, upon the request of an owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such owner in writing to the Trustee prior to the Record Date except in each case, that, if and to the extent that there shall be a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the owner in whose name this Certificate is registered at the close of business on a special record date as determined by the Trustee.

REFERENCE IS MADE TO THE FURTHER PROVISIONS OF THIS CERTIFICATE SET FORTH ON THE REVERSE SIDE, WHICH SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH HERE.

The District has certified that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner as required by law.

This Certificate has been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of June 1, 2012, by and among the Trustee, the Corporation and the District

(the "Trust Agreement"). Copies of the Trust Agreement and the Installment Sale Agreement are on file at the Corporate Trust Office of the Trustee, and reference is made to the Trust Agreement and the Installment Sale Agreement and any and all amendments thereto for a description of the pledges and covenants securing the Certificates, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the registered owners of the Certificates with respect thereto and the other terms and conditions upon which the Certificates are delivered thereunder.

The Certificates are payable from Installment Payments and other moneys on deposit in the funds and accounts created under the Trust Agreement. All Gross Revenues and all amounts on deposit in the Sewer Enterprise Fund (as such terms are defined in the Trust Agreement) are irrevocably pledged to the payment of the Installment Payments and the Gross Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of Gross Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Sale Agreement. Such pledge constitutes a lien on Gross Revenues and, subject to application of Gross Revenues and all amounts on deposit in the Sewer Enterprise Fund as permitted in the Installment Sale Agreement, the Sewer Enterprise Fund and other funds and amounts created under the Installment Sale Agreement for the payment of the Installment Payment and all Parity Debt (as such term is defined in the Trust Agreement) in accordance with the terms of the Installment Sale Agreement and the Trust Agreement. The obligation of the District to make Installment Payments is a special obligation of the District payable solely from such Gross Revenues (as such term is defined in the Trust Agreement), the Sewer Enterprise Fund and other funds described in the Installment Sale Agreement and in the Trust Agreement and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The District has covenanted not to issue evidences of indebtedness or incur other obligations that are payable from and secured by a pledge of and lien on Gross Revenues senior to the pledge of and lien on Gross Revenues of the Installment Payments. The District may at any time execute or issue any Parity Debt, the payments of which, as the case may be, are on a parity with the Installment Payments and which are secured by a pledge of or lien on the Gross Revenues in accordance with the Installment Sale Agreement.

The Certificates are authorized to be executed and delivered in the form of fully registered Certificates in the denomination of \$5,000 each or any integral multiple thereof; provided that no Certificate shall have principal represented thereby becoming payable in more than one year. Subject to the limitations and conditions and upon payment of the taxes or charges, if any, as provided in the Trust Agreement, Certificates may be exchanged for a like aggregate principal amount of Certificates of the same Certificate Payment Date and interest rate of other authorized denominations at the Corporate Trust Office of the Trustee.

This Certificate is transferable by the Registered Owner hereof, in person or by such person's duly authorized attorney, at said office of the Trustee, but only in the manner, subject to the limitations and upon payment of the taxes or charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. Upon such transfer a new Certificate or Certificates, of the same Certificate Payment Date, and of authorized denomination

or denominations, for a like aggregate principal amount and interest rate will be delivered to the transferee in exchange therefor. The Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Trustee shall not be required to register the transfer or exchange of any Certificate (i) within 15 days preceding selection of Certificates for prepayment or (ii) selected for prepayment.

The Certificates maturing on or after June 1, 20 are subject to optional prepayment prior to maturity upon notice to the Trustee on June 1, 20, or any date thereafter, from any source of available funds, as a whole or in part, at a price of par together with interest accrued thereon to the date of Prepayment, without premium.

The Certificates shall be subject to prepayment prior to their respective stated maturities, as a whole on any date or in part on any Interest Payment Date, in the order of maturity as directed by the District in a written request provided to the Trustee at least 60 days prior to the prepayment date, or in the event the District has not directed the order of maturity, in inverse order of maturity, and by lot within each maturity in integral multiples of \$5,000, from prepaid Installment Payments made by the District from net proceeds of insurance or condemnation awards upon the terms and conditions of, and as provided for, in the Trust Agreement and the Installment Sale Agreement (provided that such prepayment shall occur on the next Interest Payment Date subsequent to such transfer with respect to which timely notice of prepayment can be provided) at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

The Certificates maturing on June 1, 20__ and June 1, 20__, respectively, are to be called for mandatory sinking fund prepayment prior to such maturity dates in part, by lot, at 100% of the principal amount thereof plus accrued interest to the prepayment date, as set forth in the Trust Agreement.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, at least thirty days but not more than sixty days prior to the prepayment date, to the Registered Owner of this Certificate. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment. Any failure to receive such notice or defect in the notice or the mailing will not affect the validity of the prepayment of this Certificate.

The Trustee has no obligation or liability to the Certificate owners for the payment of interest, principal or prepayment premium, if any, with respect to the Certificates out of the Trustee's own funds; the Trustee's sole obligations are those described in the Trust Agreement. The recitals of facts in the Trust Agreement shall be taken as statements of the District and the Corporation and the Trustee does not have any responsibility for the accuracy thereof.

The Trustee has executed this Certificate solely in its capacity as Trustee under the Trust Agreement.

an authorized officer of the Trustee, all as of the date set forth below.
Execution date: June, 2012
THE BANK OF NEW YORK MELLON TRUST

-		
Ву		
	Authorized Officer	

COMPANY, N.A., as Trustee

[FORM OF ASSIGNMENT]

For value received the undersigned	do(es) hereby sell, assign and transfer unto
the within-	-mentioned Certificate and hereby irrevocably
constitute(s) and appoint(s)	attorney, to transfer the same on the Certificate
register of the Trustee with full power of substit	ution in the premises.
Parameter and the second secon	and the many control of the control
Dated:	
	Note: The signature(s) to this Assignment must
	correspond with the name(s) as written on the
	face of the within Certificate in every
	particular, without alteration or enlargement or any change whatsoever
Signature Guaranteed:	
Note: Signature guarantee shall be made by a	
guarantor institution participating in the	
Securities Transfer Agents Medallion Program	
or in such other guarantee program acceptable	
to the Trustee.	

E1-2

INSTALLMENT SALE AGREEMENT

by and between

NIPOMO COMMUNITY SERVICES DISTRICT, as Purchaser

and

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, as Seller

Dated as of June 1, 2012

Relating to

\$____CERTIFICATES OF PARTICIPATION
(SOUTHLAND WASTEWATER PROJECT)
SERIES 2012

TABLE OF CONTENTS

	Page
	ARTICLE I
	DEFINITIONS AND EXHIBITS
Section 1.1.	Definitions
Section 1.2.	Content of Written Certificates
Section 1.3.	Exhibits
REPRI	ARTICLE II ESENTATIONS AND WARRANTIES; OPINIONS OF COUNSEL
Section 2.1.	Representations by the District
Section 2.2.	Representations and Warranties by the Corporation
	ARTICLE III
	DEPOSIT OF MONEYS; CONSTRUCTION OF PROJECT
Section 3.1.	Deposit of Moneys4
Section 3.2.	Construction of Project
Section 3.3.	Payment of Construction Costs and Delivery Costs4
Section 3.4.	Unexpended Proceeds
	ARTICLE IV JECT; TITLE TO THE PROJECT; TERM OF THE INSTALLMENT SALE AGREEMENT; INSTALLMENT PAYMENTS
Section 4.1.	Sale4
Section 4.2.	Title
Section 4.3.	Term of the Installment Sale Agreement
Section 4.4.	Purchase Price
Section 4.5.	Series 2012 Installment Payments
	ARTICLE V SECURITY
Section 5.1.	Pledge of Revenues 6
Section 5.2.	Allocation of Gross Revenues
Section 5.3.	Issuance of Parity Debt7
Section 5.4.	Additional Payments8
Section 5.5.	Investments
Section 5.6.	Rate Stabilization Fund
	ARTICLE VI COVENANTS OF THE PURCHASER
Section 6.1.	Compliance with Installment Sale Agreement and Ancillary Agreements
Section 6.2.	Against Encumbrances 9
Section 6.3.	Against Sale or Other Disposition of Property
Section 6.4.	Against Competitive Facilities
Section 6.5.	Tax Covenants
	*

Section 6.6.	Maintenance and Operation of the Enterprise	14
Section 6.7.	Payment of Claims	14
Section 6.8.	Insurance	
Section 6.9.	Accounting Records; Financial Statements and Other Records	16
Section 6.10.	Protection of Security and Rights of the Corporation	16
Section 6.11.	Payment of Taxes and Compliance with Governmental Regulations	16
Section 6.12.	Amount of Rates, Fees and Charges	17
Section 6.13.	Collection of Rates and Charges	17
Section 6.14.	Eminent Domain Proceeds	17
Section 6.15.	Further Assurances	18
Section 6.16.	Continuing Disclosure	18
Section 6.17.	Access to the Enterprise	
_	ARTICLE VII	
P	REPAYMENT OF SERIES 2012 INSTALLMENT PAYMENTS	
Section 7.1.	Prepayment	18
Section 7.2.	Method of Prepayment	
	ARTICLE VIII	
E	VENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY	
Section 8.1.	Events of Default and Acceleration of Maturities	10
Section 8.1.		
Section 8.3.	Application of Funds Upon Acceleration Other Remedies of the Corporation	
Section 8.4.	Non-Waiver	
Section 8.5.	Remedies Not Exclusive	
Section 8.5.		22
	ARTICLE IX	
	DISCHARGE OF OBLIGATIONS	
Section 9.1.	Discharge of Obligations	22
	ARTICLE X	
	MISCELLANEOUS	
Section 10.1.	Liability of District Limited to Net Revenues	23
Section 10.2.	Benefits of Installment Sale Agreement Limited to Parties	
Section 10.3.	Successor Is Deemed Included in all References to Predecessor	
Section 10.4.	Waiver of Personal Liability	23
Section 10.5.	Third Party Beneficiary	23
Section 10.6.	Article and Section Headings; Gender and References	24
Section 10.7.	Partial Invalidity	
Section 10.8.	Assignment	
Section 10.9.	Net Contract	
Section 10.10.	California Law	
Section 10.11.	Notices	
Section 10.12.	Effective Date	
Section 10.13.	Execution in Counterparts	
Section 10.14.	Indemnification of Corporation	

Section 10.15.	Amendments Permitted	
Section 10.16.	[Notice to Rating Agencies]	26
EXHIBIT A – P	URCHASE PRICE	A-1
EXHIBIT B - D	ESCRIPTION OF IMPROVEMENTS	R-1

95449519.5 iii

INSTALLMENT SALE AGREEMENT

This INSTALLMENT SALE AGREEMENT ("Agreement"), made and entered into as of June 1, 2012, by and between the NIPOMO COMMUNITY SERVICES DISTRICT, a community services district duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "District"), as seller, and the NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), as purchaser:

WITNESSETH:

WHEREAS, the District wishes to finance a portion of the costs of constructing certain improvements (the "Project") to its wastewater system (the "Enterprise"), the balance of such costs to be paid from other monies of the District;

WHEREAS, the Board of Directors of the District has determined that in order to accomplish such financing it is necessary and desirable that the Corporation cause the Project to be constructed and sold to the District pursuant to this Agreement; and

WHEREAS, the Corporation has agreed to assist the District by financing the Project for the District on the terms and conditions set forth in this Agreement;

WHEREAS, the District will agree to make installment payments pursuant to this Agreement in order to purchase the Project from the Corporation;

WHEREAS, the District proposes to cause to be executed and delivered \$_____ aggregate principal amount of its Certificates of Participation (Southland Wastewater Project) Series 2012 under the Trust Agreement dated as of June 1, 2012 (the "Trust Agreement"), by and among the Corporation, the District and The Bank of New York Mellon Trust Company, N.A., as trustee; and

WHEREAS, the District and the Corporation have duly authorized the execution of this Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I DEFINITIONS AND EXHIBITS

Section 1.1. Definitions. Unless the context otherwise requires, the capitalized terms used herein shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein and if not defined herein, shall have the meanings ascribed thereto in the Trust Agreement.

Section 1.2. Content of Written Certificates.

Every certificate provided for in this Agreement with respect to compliance with any provision hereof shall include (a) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the certificate is based; (c) a statement that, in the opinion of such person, he or she has made or caused to be made such examination or investigation as is necessary to enable him or her to express an informed opinion with respect to the subject matter referred to in the instrument to which his or her signature is affixed; (d) a statement of the assumptions upon which such certificate is based, and that such assumptions are reasonable; and (e) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate made or given by a District Representative may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an accountant, unless such District Representative knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an accountant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the District, as the case may be) upon a certificate or opinion of or representation by a District Representative, unless such counsel or accountant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person's certificate or opinion or representation may be based, as aforesaid, is erroneous. The same District Representative, or the same counsel or accountant, as the case may be, need not certify to all of the matters required to be certified under any provision of this Agreement, but different officers, counsel or accountants may certify to different matters, respectively.

Section 1.3. Exhibits.

The following Exhibits are attached to, and by this reference are made a part of, this Agreement:

Exhibit A: Schedule of Series 2012 Installment Payments

Exhibit B: Project Description.

ARTICLE II REPRESENTATIONS AND WARRANTIES; OPINIONS OF COUNSEL

Section 2.1. Representations by the District. The District makes the following representations:

- (a) The District is a community services district duly organized and existing under and pursuant to the laws of the State of California.
- (b) The District has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Agreement, and the District has complied with the provisions of the Law in all matters relating to such transactions.
- (c) By proper action, the District has duly authorized the execution, delivery and due performance of this Agreement.
- (d) The District will not take or, to the extent within its power, permit any action to be taken as a consequence of which any Interest Component of Series 2012 Installment Payments would fail to be excluded pursuant to section 103(a) of the Code from the gross income of the Corporation or its assigns for purposes of federal income taxation, or to fail to be exempt from the California personal income tax.
- (e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District finance the Project in the manner provided for in this Agreement.
- **Section 2.2.** Representations and Warranties by the Corporation. The Corporation makes the following representations and warranties:
- (a) The Corporation is a nonprofit public benefit corporation authority duly organized and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement and by proper action has duly authorized the execution and delivery and due performance of this Agreement.
- (b) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Corporation is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Corporation.
- (c) The Corporation will not take or permit any action to be taken as a consequence of which any Interest Component of Series 2012 Installment Payments would fail to be excluded pursuant to section 103(a) of the Code from the gross income of the Corporation or its assigns

for purposes of federal income taxation, or to fail to be exempt from the California personal income tax.

ARTICLE III DEPOSIT OF MONEYS; CONSTRUCTION OF PROJECT

- **Section 3.1. Deposit of Moneys**. On the Closing Date, the Corporation shall cause to be deposited with the Trustee the amount derived from Certificate proceeds.
- Section 3.2. Construction of Project. The Corporation hereby agrees to construct the Project under the terms and conditions set forth herein. The Corporation has appointed the District as its agent to construct the Project pursuant to the Agency Agreement.
- Section 3.3. Payment of Construction Costs and Delivery Costs. Payment of the Construction Costs shall be made from the moneys deposited with the Trustee in the Construction Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with Section 3.06 of the Trust Agreement. Payment of Issuance Costs shall be made from the moneys deposited with the Trustee in the Costs of Issuance Fund, which moneys shall be disbursed for such purpose in accordance and upon compliance with Section 3.04 of the Trust Agreement. The District hereby covenants to pay necessary Construction Costs and Issuance Costs in excess of amounts available from Certificate proceeds from any legally available source of funds.
- **Section 3.4. Unexpended Proceeds.** In accordance with Section 3.07 of the Trust Agreement, all excess moneys remaining in the Construction Fund and not required for payment of Construction Costs shall be transferred to the Installment Payment Fund and applied to the prepayment of Certificates.

ARTICLE IV SALE OF PROJECT; TITLE TO THE PROJECT; TERM OF THE INSTALLMENT SALE AGREEMENT; INSTALLMENT PAYMENTS

- Section 4.1. Sale. The Corporation hereby sells, bargains and conveys the Project to the District, and the District hereby purchases the Project from the Corporation, for a purchase price not to exceed \$______, upon the terms and conditions set forth in this Agreement.
- Section 4.2. Title. The District and the Corporation agree that title to the Project shall be deemed conveyed to and vested in the District on the Closing Date, subject only to Permitted Encumbrances. The Corporation and its officers shall take all actions necessary to vest in the District all of the Corporation's rights in and title to the Project.
- Section 4.3. Term of the Installment Sale Agreement. The Term of this Agreement shall commence as of the date hereof and shall end on May 1, 2052, unless such term is sooner terminated.

Section 4.4. Purchase Price.

- (a) The Purchase Price to be paid by the District hereunder to the Corporation is the sum of the principal amount of the District's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.
- (b) The principal amount of the payments to be made by the District hereunder on each Series 2012 Installment Payment Date is set forth in Exhibit A hereto; provided however, the amount payable by the District to the Corporation on each Series 2012 Installment Payment Date shall be reduced by the amount, if any, on deposit in the Installment Payment Fund and available or to be available for the payment of principal of and interest with respect to the Certificates on such Interest Payment Date as a result of prepayment in accordance with Article VII.
- (c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 2.03 of the Trust Agreement and Exhibit A hereto, and shall be paid by the District as and constitute interest paid on the principal amount of the District's obligations hereunder.
- Section 4.5. Series 2012 Installment Payments. The District shall, subject to any rights of prepayment provided in Article VII, pay the Corporation the Purchase Price in installment payments consisting of components of interest and principal in the amounts relating to each Series 2012 Installment Payment Date as set forth in Exhibit A hereto.

Each Series 2012 Installment Payment shall be paid to the Corporation in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid; and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Series 2012 Installment Payments if paid in accordance with their terms.

The obligation of the District to make the Series 2012 Installment Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the District will not discontinue or suspend any Series 2012 Installment Payments required to be made by it under this section when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part and such payments shall not be subject to reduction whether by offset, abatement or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

ARTICLE V SECURITY

Section 5.1. Pledge of Revenues. All Gross Revenues and all amounts on deposit in the Sewer Enterprise Fund are hereby irrevocably pledged to the payment of the 2012 Installment Payments as provided in this Agreement. The Gross Revenues shall not be used for

any other purpose while any of the 2012 Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge shall constitute a first and exclusive lien on Gross Revenues and, subject to application of amounts on deposit therein as permitted herein, the moneys in the Sewer Enterprise Fund shall be used by the District for the payment of the 2012 Installment Payments and all other Contracts and Parity Debt in accordance with the terms hereof and the Trust Agreement. Moneys in the Reserve Fund are pledged to the 2012 Installment Payments as provided herein.

Section 5.2. Allocation of Gross Revenues. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants that all Gross Revenues shall be received by the District in trust hereunder and shall be deposited when and as received in a special fund designated as the "Sewer Enterprise Fund", which fund is hereby created and established and which fund the District agrees and covenants to maintain and to hold in trust separate and apart from other funds so long as any Installment Payments or Parity Debt remain unpaid. Moneys in the Sewer Enterprise Fund shall be used and applied by the District as provided in this Agreement. Investment earnings received by the Trustee from the investment of moneys on deposit in the Certificate Payment Fund and the Reserve Fund are to be retained by the Trustee and applied by it as provided for in the Trust Agreement.

The District shall, from the moneys in the Sewer Enterprise Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. Thereafter, all remaining moneys in the Sewer Enterprise Fund shall be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(a) <u>Certificate Payment Fund</u>. On or before each Series 2012 Installment Payment Date until the Certificates have been paid or provision for their payment has been made as provided in Section 10.01 of the Trust Agreement, the District shall, from the moneys in the Sewer Enterprise Fund, transfer to the Trustee for deposit in the Certificate Payment Fund the Series 2012 Installment Payment due and payable on that Series 2012 Installment Payment Date. The District shall also, from the moneys in the Sewer Enterprise Fund, transfer to any trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, to pay any other Debt Service in accordance with the provisions of any Parity Debt or Contract.

Such deposit to the Certificate Payment Fund shall be reduced to the extent amounts on deposit therein are available for application to the Series 2012 Installment Payment due and payable on said Series 2012 Installment Payment Date.

All money in the Certificate Payment Fund shall be used and withdrawn by the Trustee in accordance with the Trust Agreement.

(b) Reserve Fund. On or before each Series 2012 Installment Payment Date until the Certificates have been paid or provision for their payment has been made as provided in Section

10.01 of the Trust Agreement, the District shall, from the remaining moneys in the Sewer Enterprise Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee as provided in Section 5.04 of the Trust Agreement for deposit in the Reserve Fund and such other reserve funds and/or accounts, if any, as may have been established in connection with Parity Debt or Contracts other than this Agreement, that sum, if any, necessary to (i) reimburse amounts advanced under any Reserve Fund Credit Facility; (ii) restore the Reserve Fund to an amount equal to the Series 2012 Reserve Fund Requirement and/or such other reserve funds or accounts to an amount equal to the amount required to be maintained therein, provided, however, that the District may provide for the Reserve Fund by means other than cash and Permitted Investments pursuant to Section 5.04 of the Trust Agreement; and (iii) pay the provider thereof interest on amounts advanced under any Reserve Fund Credit Facility.

No transfer of moneys for deposit to the Reserve Fund in connection with the Series 2012 Installment Payments need be made if the amount contained therein is at least equal to the Series 2012 Reserve Fund Requirement.

- deposit in the funds of the District in such a manner that all deposits required to be made pursuant to the preceding subsection (a) shall be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred and be continuing hereunder, the District may each Certificate Year following the payment in full of the principal of and interest on the Certificates due and payable during such Certificate Year and the payment in full of any principal of and interest on any Contract or Parity Debt during said period of time, use and apply Net Revenues on deposit in the funds of the District for (i) deposits to the Rate Stabilization Fund; (ii) the payment of Additional Payments; (iii) the payment of any subordinate obligations or any unsecured obligations of the District; (iv) the acquisition or construction of extensions or betterments to the Enterprise; (v) the prepayment of any other obligations of the District relating to the Enterprise; or (vi) any other lawful purpose of the District.
- Section 5.3. Issuance of Parity Debt. The District may at any time execute any Contract or issue any Parity Debt, as the case may be, in accordance herewith; provided:
- (a) No Event of Default shall have occurred and be continuing, and the District shall deliver a certificate to that effect to the Trustee;
- (b) The Net Revenues, calculated in accordance with accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service;
- (c) There shall be established upon the execution of such Contracts or the issuance of such Parity Debt a reserve fund for such Contracts or Parity Debt in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the District with respect to such Contracts or Parity Debt during any Fiscal Year, or (ii) the maximum amount then permitted under the Code; and

(d) The trustee or fiscal agent for such Contracts or Parity Debt shall be the same entity performing the functions of Trustee under the Trust Agreement.

The provisions of subsection (b) of this Section shall not apply to any Contracts or Parity Debt if all of the proceeds of such Contracts or Parity Debt (other than proceeds applied to pay costs of executing such Contracts or issuing such Parity Debt and to make a reserve fund deposit required pursuant to subsection (c) of this Section) shall be deposited in an irrevocable escrow for the purpose of paying the principal of and interest and premium (if any) on any Installment Payments or on any outstanding Contracts or Parity Debt.

For purposes of this section, Net Revenues shall include investment earnings on the Reserve Fund transferred to the Trustee for deposit in the Certificate Payment Fund.

Section 5.4. Additional Payments. In addition to the Installment Payments, the District shall pay when due all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Trust Agreement or any related documents, together with all amounts required to indemnify the Trustee pursuant to the Trust Agreement, and all costs and expenses of auditors, engineers and accountants. The Additional Payments shall be payable from, but shall not be secured by a pledge or lien upon, the Gross Revenues. The rights of the Trustee and the obligations of the District under this Section 5.4 shall survive the termination of this Agreement and the resignation or removal of the Trustee.

Section 5.5. Investments. All moneys held by the District in the Sewer Enterprise Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

Section 5.6. Rate Stabilization Fund. The District shall maintain and hold a separate fund to be known as the "Rate Stabilization Fund". From time to time the District may deposit in the Rate Stabilization Fund from Gross Revenues remaining, after making the allocation provided in Section 5.2(b) hereof, such amounts as the District shall determine, provided that deposits with respect to any Fiscal Year may be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days following the end of such Fiscal Year. The District may withdraw amounts from the Rate Stabilization Fund for inclusion in Gross Revenues for any Fiscal Year, or for any other lawful purpose of the Enterprise, such withdrawals to be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as Gross Notwithstanding the foregoing, no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent such Gross Revenues were included in an independent consultant's report submitted in accordance with the Installment Sale Agreement or an instrument relating to Parity Debt and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from the Gross Revenues employed in rendering said independent consultant's report would cause noncompliance with provisions of this Agreement.

ARTICLE VI COVENANTS OF THE PURCHASER

Compliance with Installment Sale Agreement and Ancillary Section 6.1. Agreements. The District will punctually pay the Series 2012 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it; and it is expressly understood and agreed by and between the parties to this Agreement that, subject to Section 10.6 hereof, each of the agreements, conditions, covenants and terms contained in each of this Agreement and the Trust Agreement is an essential and material term of the purchase of and payment for the Project by the District pursuant to and in accordance with the Law.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Parity Debt as such may from time to time be executed or issued, as the case may be.

Section 6.2. Against Encumbrances. The District will not make any pledge of or place any lien on Gross Revenues or the moneys in the Sewer Enterprise Fund except as provided herein. The District may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a pledge of and lien on Gross Revenues or any moneys in the Sewer Enterprise Fund as may from time to time be deposited therein (as provided in Section 5.2), provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein. The District will not issue any evidences of indebtedness or incur other obligations that are payable from and secured by a pledge of and lien on Gross Revenues senior to the pledge of and lien on Gross Revenues of the Series 2012 Installment Payments.

Section 6.3. Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease that impairs the operation of the Enterprise or any part thereof necessary to secure adequate Gross Revenues for the payment of the Series 2012 Installment Payments, or that would otherwise impair the rights of the Corporation hereunder or the operation of the Enterprise. Any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Enterprise, or any material or equipment that has become worn out, may be sold if such sale will not impair the ability of the

District to pay the Series 2012 Installment Payments and if the proceeds of such sale are deposited in the Sewer Enterprise Fund.

Nothing herein shall restrict the ability of the District to sell or lease any portion of the Enterprise if such portion is immediately repurchased or relet by the District or an entity related to the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Enterprise exercising any remedy that would deprive the District or a related entity of or otherwise interfere with its right to own and operate such portion of the Enterprise.

Section 6.4. Against Competitive Facilities. To the extent that it can so legally obligate itself, the District covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the territory of the District any wastewater system competitive with the Enterprise.

Section 6.5. Tax Covenants. The District and the Corporation covenant as follows:

(a) <u>Definitions</u>. When used in this Section, the following terms have the following meanings:

"Computation Date" has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

"Gross Proceeds" means any proceeds as defined in section 1.148-1(b) of the Tax Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of this Agreement. The District and the Corporation acknowledge that this Agreement is intended to be treated for federal income tax purposes as an obligation the debt service on which comprises the mandatory rental or installment payments, respectively, that undivided interests in the form of certificates of participation were or are to be sold in respect of that obligation, and that the "Gross Proceeds" of that obligation include the proceeds of sale of such certificates of participation and any other amounts that, had such certificates of participation comprised an issue of governmental obligations, would be "proceeds" or "replacements proceeds" of such issue.

"Investment" has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

"Nonpurpose Investment," with respect to any issue of governmental obligations (including this Agreement), means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of such obligations are invested and that is not acquired to carry out the governmental purposes of such obligations.

"Rebatable Amount" has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

"Yield" of

- (1) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and
- (2) this Agreement has the meaning set forth in section 1.148-4 of the Tax Regulations.
- (b) Not to Cause Interest Component to Fail to be Excluded. The District and Corporation shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts in respect of this Agreement (including any amounts derived from the sale or offering of the Certificates), or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with such Gross Proceeds, in a manner that if made or omitted, respectively, would cause any Interest Component of Series 2012 Installment Payments to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the Corporation or its assigns for purposes of federal income taxation, or to fail to be exempt from the California Personal Income Tax. Without limiting the generality of the foregoing, unless and until the District receives a written opinion of Special Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion from gross income for federal income tax purposes of any Interest Component of Series 2012 Installment Payment, the District and Corporation shall comply with each of the specific covenants in this Section. The Corporation shall not assign this Agreement, or any interest therein, unless the assignee, other than the Trustee, shall have assumed and undertaken the obligations of the Corporation under this Section 6.5; provided further, however, that no such assignment permitted unless the Corporation shall have undertaken to cooperate with the assignee in its satisfaction of such obligations. Any assignment described in the previous sentence having been completed, each reference to "Corporation" in this Section 6.5 then after shall be treated as a reference also to the assignee.
- (c) <u>No Private Use or Private Payments</u>. Except as would not cause this Agreement to become a "private activity bond" within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the District shall at all times prior to the making of the final Series 2012 Installment Payment and termination of this Agreement:
 - (1) require that one or more state or local governmental agencies exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the this Agreement, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and
 - (2) not permit the direct or indirect imposition of any charge or other payment on or by any person or entity that is treated as using Gross Proceeds of this Agreement or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the District.

For purposes of the foregoing, any "use" of the Gross Proceeds of this Agreement, or of any portion of the Enterprise, by any person as a member of (i.e., on the same basis as) the general public will be disregarded; provided, however, that (i) use pursuant to an output contract (such as a take, or a take or pay, contract) will not be treated as use by the nongovernmental person as a member of the general public unless that use is pursuant to generally applicable tariffs and is pursuant to a contract having a term of not in excess of ninety days, or is pursuant to a retail requirements contract, is pursuant to an arm's-length arrangement having a term not in excess of thirty days, or commences only after consultation by the District with Special Counsel or with other counsel that is nationally recognized as expert in the area of taxation of municipal obligations on the basis of which consultation the District concludes such arrangement will not result in a violation of the covenants of this Section, and (ii) use pursuant to an arrangement under which a nongovernmental person provides services to the District with respect to any portion of the Enterprise will not be disregarded unless such arrangement satisfies the administrative criteria established by the Internal Revenue Service for management contracts that do not establish private business use relationships or commences only after consultation by the District with Special Counsel or with other counsel that is nationally recognized as expert in the area of taxation of municipal obligations on the basis of which consultation the District concludes such arrangement will not result in a violation of the covenants of this Section.

- (d) No Private Loan. Except as would not cause this Agreement to become a "private activity bond" within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation has used or permitted the use of, or shall use or permit the use of Gross Proceeds of this Agreement to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction that is the economic equivalent of a loan.
- (e) Not to Invest at Higher Yield. Except as would not cause this Agreement to become an "arbitrage bond" within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor Corporation shall directly or indirectly invest or permit the investment of Gross Proceeds of this Agreement at any time prior to the final payment of the Series 2012 Installment Payments and the termination of this Agreement in any Investment, if as a result of such investment the Yield on Investments acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of this Agreement within the meaning of said section 148. For purposes of this paragraph, Yield on Investments shall be determined in accordance with the provisions of section 1.148-5 of the Tax Regulations (which, under certain circumstances, requires Yield to be determined separately for each Investment or class of Investments).
- (f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall take or omit to take, or permit, any action that would cause this Agreement to be treated as

"federally guaranteed" within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

- (g) <u>Information Report</u>. The District shall timely file or cause to be filed any information required by section 149(e) of the Code with respect to this Agreement with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.
- (h) <u>Rebate</u>. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations and rulings thereunder:
 - (1) The District shall account for all Gross Proceeds of this Agreement (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day of final payment of the Series 2012 Installment Payments and termination of this Agreement. However, to the extent permitted by law, the District may commingle Gross Proceeds of this Agreement with other money of the District, provided that the District separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.
 - (2) Not less frequently than each Computation Date, the District shall calculate the Rebatable Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder, which the District shall maintain with its official transcript of proceedings relating to the execution and delivery of this Agreement until six years after the final Computation Date, and to provide promptly to the Corporation a copy of each said calculation.
 - (3) In order to assure the excludability of the Interest Component of Series 2012 Installment Payments from the gross income of the owners thereof for federal income tax purposes, the District shall make or cause to be made rebate payments at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, which payments shall be accompanied by Form 8038-T prepared by the Districts or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder.
 - (4) The District shall cause the exercise of reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3) hereof, that if nevertheless an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after the error has been or with the exercise of reasonable diligence would have been discovered), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) of the Tax Regulations.
- (i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, neither the District nor the Corporation shall enter into any transaction that reduces the amount required to be paid to the United States

pursuant to section 148(f) of the Code because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and the Yield of this Agreement had been irrelevant to each party.

- (j) Agreement Not Hedge Bond. The District represents that (i) on the date of execution and delivery of this Agreement, it reasonably expects that no less than 85 percent of the spendable proceeds of this Agreement would be expended for the governmental purposes of that obligation within the three-year period commencing on such date, and (ii) no more than 50% of the proceeds of this Agreement will be invested in "nonpurpose investments" having a substantially guaranteed yield for 4 years or more.
- Section 6.6. Maintenance and Operation of the Enterprise. The District will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.
- Section 6.7. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies that, if unpaid, might become a lien on the Revenues or the funds or accounts created hereunder or under the Trust Agreement or on any funds in the hands of the District pledged to pay the Installment Payments or to the Owners prior or superior to the lien of the Installment Payments or that might impair the security of the Installment Payments, except that if the District desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the District will forthwith pay or cause to be paid and discharged such judgment.

Section 6.8. Insurance.

(a) The District will procure and maintain or cause to be procured and maintained insurance relating to the Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Enterprise) as are usually covered in connection with facilities similar to the Enterprise, so long as such insurance is available from reputable insurance companies at reasonable costs.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Enterprise. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Enterprise shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Enterprise, and/or the cost of the construction of additions, betterments, extensions or improvements to the Enterprise, then the excess Net Proceeds shall be applied in part to prepayment of Series 2012 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Parity Debt in the

same proportion that the aggregate unpaid principal balance of the Series 2012 Installment Payments then bears to the aggregate unpaid principal amount of such Parity Debt. If such Net Proceeds are sufficient to enable the District to retire the entire obligation evidenced hereby prior to the final due date of the Series 2012 Installment Payments as well as the entire obligations evidenced by Parity Debt then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Enterprise, and/or not to construct other additions, betterments, extensions or improvements to the Enterprise; and thereupon such Net Proceeds shall be applied to the prepayment of the Series 2012 Installment Payments as provided in Article VII and to the retirement of such Parity Debt.

- (b) The District will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal wastewater systems similar to the Enterprise.
- (c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with wastewater systems similar to the Enterprise and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall provide that the Corporation and the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

The Trustee shall not be responsible for the sufficiency or adequacy of the insurance maintained by the District.

Section 6.9. Accounting Records; Financial Statements and Other Records.

- (a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Enterprise, which records shall be available for inspection by the Corporation and the Trustee at reasonable hours and under reasonable conditions.
- (b) The District will prepare and file with the Corporation and the Trustee annually within two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2012);
 - (1) financial statements of the District for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and
 - (2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the District with respect to the Enterprise, as of the close of such Fiscal Year, including the names of the insurers that have issued the policies and the amounts thereof and the property or risks covered thereby.

- (c) The District will prepare annually not more than two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2012) a summary report showing in reasonable detail the Gross Revenues and the Operation and Maintenance Costs for such Fiscal Year and containing a general statement of the physical condition of the Enterprise. The District will furnish a copy of such summary report to the Corporation and upon request to any investment bankers, security dealers and others interested in the Series 2012 Installment Payments.
- Section 6.10. Protection of Security and Rights of the Corporation. The District will preserve and protect the security hereof and the rights of the Corporation to the Series 2012 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.
- Section 6.11. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges that may hereafter be lawfully imposed upon the Enterprise, or any part thereof or upon the Gross Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Enterprise, or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.
- Section 6.12. Amount of Rates, Fees and Charges. The District shall fix, prescribe and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues (excluding amounts in the Reserve Fund for purposes of this Section 6.12) sufficient to pay the following amounts in the following order of priority:
- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) All Installment Payments and payments of principal of and interest on any Parity Debt as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Installment Payments or interest on any Contract or Parity Debt are payable from proceeds of the Certificates, Contracts or Parity Debt deposited for such purpose;
- (c) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement; and
- (d) All payments required to meet any other obligations of the District that are charges, liens, encumbrances upon, or that are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year, that are sufficient to yield Net Revenues, that are at least equal to [[one hundred twenty-five percent (125%)]] of the amount described in the preceding clause (b) for such Fiscal Year.

- Section 6.13. Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates, fees and charges applicable to the wastewater services and providing for the billing thereof and for a due date and a delinquency date for each bill.
- **Section 6.14. Eminent Domain Proceeds.** If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:
- If (1) the District files with the Corporation and the Trustee a certificate showing (a) (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Enterprise proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the District, on the basis of such certificate filed with the Corporation and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive), then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Sewer Enterprise Fund.
- (b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the District in part to the prepayment of Series 2012 Installment Payments as provided in Article VII, and in part to such other fund or account as may be appropriate and used for the retirement of Parity Debt in the same proportion that the aggregate unpaid principal balance of Series 2012 Installment Payments then bears to the aggregate unpaid principal amount of such Parity Debt.
- **Section 6.15. Further Assurances**. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.
- **Section 6.16. Continuing Disclosure**. The District will comply with the continuing disclosure requirements promulgated under Securities and Exchange Commission Rule 15c2-12(b)(5) and will also comply with the terms of the Continuing Disclosure Agreement.
- Section 6.17. Access to the Enterprise. The District agrees that the Corporation, the Trustee, and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Enterprise. The District further agrees that the Corporation and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Enterprise as may be reasonably necessary to cause the proper maintenance of the Enterprise in the event of failure by the District to perform its obligations hereunder.

ARTICLE VII PREPAYMENT OF SERIES 2012 INSTALLMENT PAYMENTS

- Section 7.1. Prepayment. (a) <u>Prepayment from Net Proceeds</u> The District may or shall, as the case may be, prepay from the Net Proceeds as provided in Sections 6.8 and 6.14 herein and from unexpended proceeds the Series 2012 Installment Payments as a whole or in part in the order of payment date as directed by the District (or in the event the District has not directed the order of payment date, in inverse order of maturity) at a Prepayment Price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment as provided in Section 4.01(b) of the Trust Agreement.
- (b) Optional Prepayment. The 2012 Installment Payments are subject to optional prepayment in accordance with the provisions of Section 4.01(c) of the Trust Agreement relating to optional prepayment of the Certificates.
- (c) <u>Other Obligations</u>. Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Corporation).
- Section 7.2. Method of Prepayment. Before making any prepayment pursuant to Section 7.1, the District shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Corporation and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Trust Agreement.

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

- Section 8.1. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --
 - (1) if default shall be made in the due and punctual payment of any Series 2012 Installment Payment or any Parity Debt when and as the same shall become due and payable;
 - (2) if default shall be made by the District in the performance of any of the agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Corporation; provided, however, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure shall not constitute an Event of Default if corrective action is instituted by the District within such thirty (30) day period and the District shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

(3) if the District shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default specified in clause (3) above, the Corporation shall, and for any other such Event of Default the Corporation may, by notice in writing to the District, declare the entire principal amount of the unpaid Series 2012 Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2012 Installment Payments referred to in clause (1) above that have come due and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the Series 2012 Installment Payments or any Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2012 Installment Payments or such Parity Debt if paid in accordance with their terms, and the reasonable expenses of the Corporation, and any and all other defaults known to the Corporation (other than in the payment of the entire principal amount of the unpaid Series 2012 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.2. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.1, all Gross Revenues thereafter received shall be applied in the following order -

<u>First</u>, to the payment of the fees, costs and expenses of the Trustee, if any, incurred in and about the performance of its powers and duties under this Agreement and then to the payment of the Corporation of the fees, costs and expenses, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants, advisors and legal counsel;

Second, to the payment of the Operation and Maintenance Costs; and

Third, to the payment of the entire principal amount of the unpaid Series 2012 Installment Payments and Contracts or Parity Debt and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2012

Installment Payments and Contracts or Parity Debt if paid in accordance with their respective terms.

- Section 8.3. Other Remedies of the Corporation. The Corporation shall have the right -
- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under the Law and the agreements and covenants required to be performed by it or him contained herein:
- (b) by suit in equity to enjoin any acts or things that are unlawful or violate the rights of the Corporation or the Trustee; or
- (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the trustee of an express trust.

Notwithstanding anything contained herein, the Corporation shall have no security interest in or mortgage on the Project or the Enterprise or any other real property of the District and no default hereunder shall result in the loss of the Project or the Enterprise or any other real property of the District

Section 8.4. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Series 2012 Installment Payments to the Corporation at the respective due dates or upon prepayment from the Net Revenues, the Sewer Enterprise Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the District and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Section 8.5. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation or the Certificate Owners, or as provided in the Trust Agreement, is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in

addition to every other remedy given hereunder or under the Trust Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

ARTICLE IX DISCHARGE OF OBLIGATIONS

Section 9.1. Discharge of Obligations. When:

- (a) all or any portion of the Series 2012 Installment Payments shall have become due and payable in accordance herewith or a written notice of the District to prepay all or any portion of the Series 2012 Installment Payments shall have been filed with the Trustee; and
- (b) there shall have been deposited with the Trustee at or prior to the Series 2012 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Corporation or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2012 Installment Payments, Defeasance Securities in a sufficient amount to pay all principal, prepayment premium, if any, and interest of such Series 2012 Installment Payments to their respective Series 2012 Installment Payment Dates or prepayment date or dates as the case may be; and
 - (c) provision shall have been made for paying all fees and expenses of the Trustee,

then and in that event, if an opinion of Special Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the tax exempt status of the interest portion of the Series 2012 Installment Payments, the right, title and interest of the Corporation herein and the obligations of the District hereunder shall, with respect to all or such portion of the Series 2012 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Series 2012 Installment Payments).

In such event, upon request of the District the Trustee shall cause an accounting for such period or periods as may be requested by the District to be prepared and filed with the District and shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the District, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of Series 2012 Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Series 2012 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Series 2012 Installment Payments and shall be applied by the Trustee to the payment of the Series 2012 Installment Payments of the District.

ARTICLE X MISCELLANEOUS

Section 10.1. Liability of District Limited to Net Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Net Revenues, the Sewer Enterprise Fund and the other funds provided herein and in the Trust Agreement for the payment of the Series 2012 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Series 2012 Installment Payments is a special obligation of the District payable solely from Net Revenues, the Sewer Enterprise Fund and other funds described in this Agreement and in the Trust Agreement, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Section 10.2. Benefits of Installment Sale Agreement Limited to Parties. Except as provided in Section 10.3 hereto, nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Corporation any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District, the Corporation shall be for the sole and exclusive benefit of the other party.

Section 10.3. Successor Is Deemed Included in all References to Predecessor. Whenever either the District or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.4. Waiver of Personal Liability. No director, officer or employee of the District shall be individually or personally liable for the payment of the Series 2012 Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.5. Third Party Beneficiary. The Trustee shall be and is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary.

Section 10.6. Article and Section Headings; Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby", "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.7. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Corporation hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.8. Assignment. This Agreement and any rights hereunder may be assigned by the Corporation to the Trustee, as a whole or in part, without the necessity of obtaining the prior consent of the District.

Section 10.9. Net Contract. This Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the Series 2012 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.10. California Law. THE INSTALLMENT SALE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 10.11. Notices. All written notices to be given hereunder shall be given by mail, unsecured email with an imaged or scanned attachment (such as a .pdf), or fax machine or other similar electronic transmission, with confirmation of receipt of such transmission, to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:

Nipomo Community Services District

P.O. Box 326

Nipomo, CA 93444-0326 Attention: General Manager Fax No.: (805) 929-1932:

Email address:

If to the Corporation:

Nipomo Community Services District Public Facilities

Corporation P.O. Box 326

Nipomo, CA 93444-0326 Attention: Executive Director Fax No.: (805) 929-1932

Email address:

Section 10.12. Effective Date. This Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Corporation).

Section 10.13. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 10.14. Indemnification of Corporation. The District hereby agrees to indemnify and hold harmless the Corporation if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder, under the Trust Agreement, and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder, under the Trust Agreement or the Assignment Agreement by the Corporation.

Section 10.15. Amendments Permitted. (a) This Agreement and the rights and obligations of the Corporation, the District, the Owners of the Certificates and of the Trustee may be modified or amended at any time, by an amendment hereto that shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 12.04 of the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall

- (1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or
- (2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or
- (3) modify any of the rights or obligations of the Trustee or the Corporation without its respective written consent thereto.
- (b) This Agreement and the rights and obligations of the Corporation, the District and of the Owners of the Certificates may also be modified or amended at any time, by an amendment hereto that shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes-
 - (1) to add to the covenants and agreements of the Corporation or the District contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and that shall not adversely affect the interests of the Owners of the Certificates;

- (2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Corporation or the District may deem necessary or desirable and that shall not adversely affect the interests of the Owners of the Certificates; and
- (3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.
- (c) No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto.

Section 10.16. Notice to Rating Agencies. Any rating agency rating the Certificates shall receive notice of each amendment to the Installment Sale Agreement and a copy thereof at least 15 days in advance of its execution.

IN WITNESS WHEREOF, the parties hereto have executed and attested this Agreement by their officers thereunto duly authorized as of the day and year first written above.

By: _______

President

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, as Seller

By: _______

Executive Director

NIPOMO COMMUNITY SERVICES DISTRICT,

EXHIBIT A

PURCHASE PRICE AND SCHEDULE OF SERIES 2012 INSTALLMENT PAYMENTS

1. \$	The principal am	ount of payments	s to be made by	the District hereunder	is
2. on the Insta	The installment pa allment Payment Dates		al and interest are p	payable in the amounts	and
Se	eries 2012 Installment	Amount Attributable	Amount Attributable		
	Payment Date	to Principal	to Interest	Total	

TOTAL

EXHIBIT B

DESCRIPTION OF PROJECT

95449519.5 B-1



AGENCY AGREEMENT

by and between

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION,

as Seller

and

NIPOMO COMMUNITY SERVICES DISTRICT,

as Purchaser

Dated as of June 1, 2012

2

Nipomo Community Services District Revenue Certificates of Participation (Southland Wastewater Project) Series 2012

AGENCY AGREEMENT

This AGENCY AGREEMENT, dated as of June 1, 2012, by and between NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), and NIPOMO COMMUNITY SERVICES DISTRICT, a community services district duly organized and existing under the laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the Corporation and the District have executed and entered into an Installment Sale Agreement (the "Agreement"), dated as of the date hereof, whereby the Corporation has agreed to construct certain improvements to the District's wastewater enterprise, as described in Exhibit A thereto (collectively, the "Project"); and

WHEREAS, under and pursuant to the Agreement, the District is obligated to make Series 2012 Installment Payments, as defined therein, to the Corporation for the purchase of the Project; and

WHEREAS, the Corporation, under and pursuant to an Assignment Agreement (the "Assignment Agreement") to be executed and entered into as of the date hereof by and between the Corporation and The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, as trustee (the "Trustee"), has assigned without recourse all its rights to receive the Series 2012 Installment Payments scheduled to be paid by the District under and pursuant to the Agreement to the Trustee for the benefit of the owners of certain certificates of participation (the "Certificates") to be executed and delivered under a Trust Agreement (the "Trust Agreement") to be executed and entered into as of the date hereof by and among the Trustee, the Corporation and the District; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Agency Agreement do exist, have happened and have been performed in regular and due time, form and manner, as required by law, and the parties hereto are now duly authorized to execute and enter into this Agency Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

- Section 1. <u>Definitions</u>. Unless the context otherwise requires, all capitalized terms used in this Agency Agreement and not defined herein shall for all purpose of this Agency Agreement have the meaning specified therefor in the Trust Agreement.
- Section 2. <u>District to Act as Agent for the Corporation</u>. The Corporation hereby irrevocably appoints the District as its agent in connection with the acquisition, construction, delivery and/or installation of the Project in accordance with such other agreements as shall be approved and entered into by the District. The District, as the agent of the Corporation for the foregoing purpose, shall cause the acquisition, delivery and installation of the Project to be completed in accordance with the Agreement and any applicable requirements of governmental authorities and law.
- Section 3. <u>Acceptance</u>. The District, for One Dollar (\$1.00) and other good and valuable consideration in hand received, does hereby accept the foregoing appointment as agent of the Corporation for the purposes set forth in Section 2.
- <u>Disclaimers of the Corporation</u>. The District acknowledges and agrees Section 4. that the design of the Project has not been made by the Corporation, and the Corporation has not supplied any plans or specifications with respect thereto and that the Corporation (a) is not a manufacturer of, or a dealer in, any component of the Project, (b) has not made any recommendation, given any advice nor taken any other action with respect to (1) the choice of any supplier, vendor or designer of, or any other contractor with respect to, the Project or any component of the Project or any property or rights relating thereto or (2) any action taken or to be taken with respect to the Project or any component of the Project or any property or rights relating thereto at any stage of the acquisition, delivery or installation thereof, (c) has not at any time had physical possession of the Project or any component of the Project or made any inspection thereof or any property or rights relating thereto and (d) has not made any warranty or other representation, express or implied, that the Project or any component of the Project or any property or rights relating thereto (1) will not result in or cause injury or damage to persons or property, (2) has been or will be properly designed or constructed or will accomplish the results which the District intends therefor or (3) is safe in any manner or respect.

The Corporation makes no express or implied warranty or representation of any kind whatsoever with respect to the Project or any component of the Project to the District or any other circumstance whatsoever with respect thereto, including but not limited to any warranty or representation with respect to: the merchantability or the fitness or suitability thereof for any purpose; the design or condition thereof; the safety, workmanship, quality or capacity thereof; compliance thereof with the requirements of any law, rule, specification or contract pertaining thereto; any latent defect; the title to or interest of the Corporation thereof beyond that title or interest which the District obtains for the Corporation pursuant hereto; the ability thereof to perform any function; that the proceeds derived from the sale of the Certificates will be sufficient (together with other available funds of the District) to pay the cost of acquiring, delivering,

installing and/or constructing the Project; or any other characteristic of the Project; it being agreed that all risks relating to the Project or the transactions contemplated hereby or by the Agreement, the Assignment Agreement or the Trust Agreement are to be borne by the District, and the benefits of any and all implied warranties and representations of the Corporation are hereby waived by the District.

IN WITNESS WHEREOF, the parties hereto have executed and entered into this Agency Agreement by their respective officers thereunto duly authorized as of the day and year first written above.

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION, as Seller

	Ву
	Executive Director
ATTEST:	
By:Secretary	-
APPROVED AS TO FORM:	
By:Counsel to the Corporation	-
	NIPOMO COMMUNITY SERVICES DISTRICT, as Purchaser
	ByPresident
ATTEST:	
By:Secretary	±
APPROVED AS TO FORM:	
By: General Counsel to the District	-
*	

NEW ISSUE — BOOK-ENTRY ONLY

RATING: "AA" - Stable Outlook (See "RATING" herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, the interest component of each Installment Payment, and the allocable portion thereof distributable in respect of any Certificate, is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Special Counsel that under existing law the interest component of each Installment Payment, and the allocable portion thereof distributable in respect of any Certificate, is exempt from personal income taxes of the State of California. See "TAX EXEMPTION" herein.



of to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in registration or qualification under the securities laws of such jurisdiction.

This Preliminary Official Statement and the information contained herein are subject to comp Statement is delivered in final form. Under no circumstances shall this Preliminary Official any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registratio

REVENUE CERTIFICATES OF PARTICIPATION

(Southland Wastewater Project) Series 2012 Evidencing the Direct, Undivided Fractional Interest of the Owners Thereof in Installment Payments to Be Made by the

NIPOMO COMMUNITY SERVICES DISTRICT

as the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

Dated: Date of Delivery

Due: June 1, as shown on inside cover page

The Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates") are certificates of Participation (Southfand Wastewater Project) Series 2012 (the "Certificates") are certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in certain installment payments (the "Installment Payments"), and the interest thereon, to be made by the Nipomo Community Services District (the "District") pursuant to the Installment Sale Agreement, dated as of June 1, 2012 (the "Installment Sale Agreement"), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the "Corporation"). Pursuant to the Trust Agreement, dated as June 1, 2012 (the "Trust Agreement"), by and among the District, the Corporation, and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured and pursuant to which the Certificates are executed and delivered. Installment Payments under the Installment Sale Agreement are payable solely from Net Revenues (as more fully described in the Trust Agreement, the "Net Revenues") as provided in the Installment Sale Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Town Division Wastewater System of the District (the "Enterprise") remaining after payment of Operation and Maintenance Expenses, as further described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein. The Installment Sale Agreement provides that the obligation of the District to pay the Installment Payments, and payments of interest thereon, and certain other payments required to be made in accordance with the Installment Sale Agreement, solely from Net Revenues, is absolute and unconditional. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

The Certificates are executed and delivered as fully registered certificates in book-entry form only in denominations of \$5,000 or integral multiples thereof. The Certificates will be registered in the name of Cede & Co. as nominee of The Depository Trust Company 'DTC"), as securities depository for the Certificates. Individual purchases are to be made in book-entry form in authorized denominations. Purchasers, as Beneficial Owners, will not receive certificates evidencing their ownership interest in such Certificates. Interest is payable semiannually each June 1 and December 1 to and including the maturity dates shown on the inside cover page, commencing December 1, 2012, unless the Certificates are prepaid.

The proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise (ii) fund a Reserve Fund for the Certificates, and (iii) pay the costs of issuance relating to the execution and delivery of the Certificates. The right of the Corporation to receive Installment Payments from the District under the Installment Sale Agreement will be assigned to the Trustee.

The Certificates are payable solely from Installment Payments to be made by the District under the Installment Sale Agreement. The Installment Payments are special limited obligations of the District payable solely from, and secured by separate pledges of and first liens on the Net Revenues, as defined herein, of the Enterprise.

The District may incur additional obligations that have a parity claim on Net Revenues as set forth in the Installment Sale Agreement. See "SECURITY AND SOURCE OF REPAYMENT - Parity Obligations" herein.

THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS DO NOT CONSTITUTE OBLIGATIONS FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS CONSTITUTES A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES ARE SECURED BY ANY SECURITY INTEREST IN, OR MORTGAGE ON, THE ENTERPRISE.

The Certificates are subject to prepayment prior to maturity, as more fully described herein.

^{*} Preliminary, subject to change.

This cover page is not a summary of the issues. Investors should read the entire Official Statement to make an informed investment decision. See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates are offered when, as and if executed and delivered, subject to approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by Shipsey & Seitz, Inc., San Luis Obispo, California. California, and Fulbright & Jaworski L.L.P., Disclosure Counsel. Delivery of the Certificates through the facilities of DTC is expected on or about June __, 2012.

Dated: June ___, 2012

Revenue Certificates of Participation (Southland Wastewater Project) Series 2012

MATURITY SCHEDULE

	\$	Serial Certi	ificates	
Maturity Date (June 1)	Principal Amount	Coupon	Yield	CUSIP ⁽¹⁾

\$ % Term Certificate due	1, 20, Yield	%* CUSIP ⁽¹⁾
\$ % Term Certificate due	1, 20, Yield	%* CUSIP ⁽¹⁾

^{*} CUSIP® A registered trademark of the American Bankers Association. Copyright © 1999-2012 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by CUSIP® Global Services, managed by Standard & Poor's Financial Services LLC, on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Initial Purchaser or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

^{*} Preliminary, subject to change.

NIPOMO COMMUNITY SERVICES DISTRICT/ NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

DISTRICT/CORPORATION BOARD

James Harrison, President/Chairperson
Larry Vierheilig, Vice President/Vice-Chairperson
Michael Winn, Director/Boardmember
Ed Eby, Director/Boardmember
Dan A. Gaddis, Director/Boardmember

DISTRICT/CORPORATION

Michael S. LeBrun, District Manager, Secretary, Treasurer/Executive Director
Lisa Bognuda, District Finance Director
Peter Sevcik, District Engineer
Tina P. Grietens, Utility Superintendent

DISTRICT ATTORNEY/AUTHORITY COUNSEL

Jon S. Seitz, Esq. Shipsey & Seitz, Inc. San Luis Obispo, California

SPECIAL SERVICES

Special Counsel and Disclosure Counsel

Fulbright & Jaworski L.L.P. Los Angeles, California

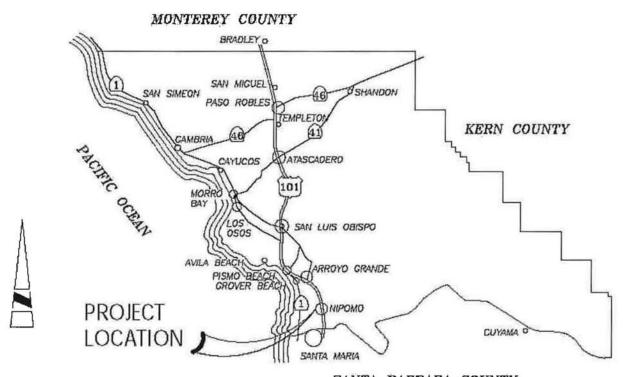
Financial Advisor

C.M. de Crinis & Co., Inc. Glendale, California

Trustee

The Bank of New York Mellon Trust Company, N.A. Los Angeles, California

NIPOMO COMMUNITY SERVICES DISTRICT



SANTA BARBARA COUNTY

VICINITY MAP

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Certificates other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Certificates will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described in this Official Statement.

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

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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

Document References and Summaries. All references to and summaries of the Trust Agreement, the Lease Agreement or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Certificates are Exempt from Securities Laws Registration. The issuance and sale of the Certificates have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

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

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

INTRODUCTION1	Post-Employment Benefits	18
The District	Deferred Compensation	18
The Wastewater System2	Risk Management	18
SANDALA TAKA KARAKAN SANDARAN MARAMASAN MARAMASAN MARAMASAN SANDARAN MARAMASAN SANDARAN MARAMASAN TA	THE ENTERPRISE	19
THE CERTIFICATES	Description of the Enterprise	19
Payment of Principal, Prepayment Price and	Sources of Supply	
Interest3	Existing Facilities	
Prepayment3	Water Treatment	
Secondary Market Disclosure Undertaking5	Water Quality	
Installment Payment Schedules5	Conservation Program	
ESTIMATED SOURCES AND USES OF	Historical Water Production	
PROCEEDS6	Water Rates and Charges	
Sources and Uses of Proceeds6	Delinquencies	
	Capital Improvement Program	
FINANCING PLAN6	Summary of Projected Operating Results of	~ .
Financing Plan6	the Enterprise	31
SECURITY AND SOURCES OF PAYMENT	•	
FOR THE CERTIFICATES7	THE AUTHORITY	33
General	7 LITIGATION	33
Source of Payment for the Certificates; Net	TAX EXEMPTION	33
Revenues	UNDERWRITING	34
Issuance of Parity Obligations9		
Rate Stabilization Fund	RATING	34
Installment Payments 11	LEGAL MATTERS	35
Reserve Fund		
Assignment	FINANCIAL ADVISOR	35
Assignment 11 Investments 12	FINANCIAL STATEMENTS	35
RISK FACTORS12	MISCELLANEOUS	35
Water System Demand and Growth12		
Shortage of Imported Water12		
Water System Expenses13	APPENDIX A – COUNTY OF SAN LUIS	
Constitutional Limit on Fees and Chargers13	OBISPO DEMOGRAPHIC AND	
Constitutional Limitations on Appropriations 13	ECONOMIC DATAA	\ -1
Articles XIIIC and XIIID of the California	APPENDIX B – AUDITED FINANCIAL	
Constitution13	STATEMENTS FOR THE YEAR ENDED	
Limitations on Remedies Available15	JUNE 30, 2011B	3-1
Secondary Market15	APPENDIX C – SUMMARY OF PRINCIPAL	
Loss of Tax-Exemption15	LEGAL DOCUMENTSC	2-1
Seismic Risk16	APPENDIX D – PROPOSED FORM OF	
NIDOMO COM ALBUTY SERVICES	SPECIAL COUNSEL OPINIOND)-1
NIPOMO COMMUNITY SERVICES	APPENDIX E - FORM OF CONTINUING	
DISTRICT17	DISCLOSURE AGREEMENT	3-1
General 17	APPENDIX F - BOOK-ENTRY SYSTEM F	7-1
Municipal Government17		
Water Division17		
Retirement Programs17		

OFFICIAL STATEMENT

\$

REVENUE CERTIFICATES OF PARTICIPATION

(Southland Wastewater Project) Series 2012 Evidencing the Direct, Undivided Fractional Interest of the Owners Thereof in Installment Payments to Be Made by the

NIPOMO COMMUNITY SERVICES DISTRICT

as the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the

NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

INTRODUCTION

This Official Statement, including its cover page and appendices, is provided in connection with the offering of \$______ principal amount of Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates"). The Certificates represent direct, undivided fractional interests of the registered owners thereof in the Installment Payments (the "Installment Payments") to be made by the Nipomo Community Services District (the "District") pursuant to an Installment Sale Agreement, dated as of June 1, 2012 (the "Installment Sale Agreement"), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the "Corporation"), relating to the District's Town Division wastewater system as described herein. All capitalized terms used herein, unless otherwise indicated, have the meanings ascribed to them in the Installment Sale Agreement and the Trust Agreement (as herein defined). See also "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Definitions."

The District currently owns and operates two (2) separate and distinct wastewater systems, Town Division system and Blacklake Division system. The Town Division system (hereinafter, the "Enterprise") is the subject of this financing. The proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise, (ii) fund a Reserve Fund for the Certificates, and (iii) pay the costs of issuance relating to the execution and delivery of the Certificates. See "FINANCING PLAN."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), among the District, the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to an Assignment Agreement from the Corporation to the Trustee, dated as of June 1, 2012 (the "Assignment Agreement"), the Corporation has assigned to the Trustee, for the benefit of the owners of the Certificates, certain of its rights under the Installment Sale Agreement, including (a) all of its right, title and interest in and to the Installment Payments made by the District under the Installment Sale Agreement, and (b) any and all other rights and remedies of the Corporation under the Installment Sale Agreement other than its rights to indemnification thereunder. Installment Payments under the Installment Sale Agreement are payable solely from Net Revenues (as defined hereinafter) as provided in the Installment Sale Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Enterprise remaining after payment of Operation and Maintenance Expenses, as further described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.

The Installment Payments due under the Installment Sale Agreement are structured to be at least sufficient in both time and aggregate amount to pay, when due, the principal of, and interest with respect to the Certificates. The Installment Payments are special limited obligations of the District payable solely from, and secured by, a pledge of and first lien on the Net Revenues (as herein defined). The District may incur additional

^{*} Preliminary, subject to change.

obligations payable from the Net Revenues of the Enterprise on a parity with the Installment Payments securing the Certificates, subject to the terms and conditions of the Installment Sale Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Parity Obligations."

NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS CONSTITUTE OBLIGATIONS OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT SALE AGREEMENT CONSTITUTES A DEBT OF THE DISTRICT, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY NOR ITS OFFICERS OR DIRECTORS ARE LIABLE FOR PAYMENT WITH RESPECT TO THE CERTIFICATES.

The District

The District was formed in 1965 as a community services district under the Community Services District Law, found in of the Government Code of the State of California, for purposes of supplying water for domestic irrigation, sanitation, industrial, commercial, recreation and fire suppression use. The District is located off of Highway 101 on the central coast of California between San Francisco and Los Angeles, in the rural area of San Luis Obispo County (the "County"), south of the City of San Luis Obispo and north of the City of Santa Maria. The District includes approximately 4,450 acres of land comprising 7 square miles.

The District's service area includes portions of unincorporated area of San Luis Obispo County. Most of the customers reside in single family homes, but service is also provided to multi-family residential homes and commercial and light industrial users.

The District currently has a population of approximately 11,850, and provides sewer service to approximately 3,472 residential, commercial and industrial connections under its two (2) separate wastewater systems, the Town Division and the Blacklake Division.

See APPENDIX A – COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC DATA.

The Enterprise

The District owns, operates, and maintains two (2) separate sewer collection, treatment, and disposal systems, one for the Town Division and the other for the Blacklake Division. The District's Town Division and Blacklake Division systems are operated and managed as independent systems. The sewer rates paid by customers of each sewer system is generally intended to cover the costs of such sewer system.

The Enterprise consists solely of the Town Division wastewater system which provides sewer utility service to residential, commercial and industrial consumers located within the District. *The Blacklake Division system is not part of the Enterprise and does not affect Net Revenues*. For certain information regarding the Enterprise, see "THE ENTERPRISE," and "APPENDIX B — AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011."

This Official Statement contains information about the District, the Enterprise, the Installment Sale Agreement, the Assignment Agreement and the Trust Agreement. The references to and summaries of provisions of the laws of the State and the descriptions of documents included do not purport to be complete and are qualified in their entirety by reference to the complete provisions thereof, copies of which are available from the District or the Underwriters during the period of the initial offering of the Certificates.

Professionals Involved in the Financing

All proceedings in connection with the execution and delivery of the Certificates are subject to the approval of Fulbright & Jaworski L.P.P., Los Angeles, California, as bond counsel and as disclosure counsel. Certain matters will be passed upon for the District and the Corporation by Shipsey & Seitz, Inc., San Luis Obispo, California. C.M. de Crinis & Co., Inc. is acting as financial advisor to the District. Payment of the fees and expenses of bond counsel, disclosure counsel, financial advisor and the underwriters is contingent upon the execution, delivery and sale of the Certificates.

THE CERTIFICATES

The Certificates are to be executed and delivered, solely as fully registered Certificates in the denomination of \$5,000 or integral multiples thereof, and are dated, mature and bear interest as described on the front and inside cover page hereof.

Payment of Principal, Prepayment Price and Interest

While the Certificates remain in book-entry only form, payments to Beneficial Owners are governed by the rules of DTC as described in "APPENDIX F — BOOK-ENTRY SYSTEM." In the event that DTC ceases to act as securities depository for the Certificates, payment may be made as described below.

The payments of principal and prepayment price with respect to all Certificates is to be made upon presentation and surrender thereof at the corporate trust office of the Trustee. Interest is payable semiannually each June 1 and December 1, commencing December 1, 2012. Interest on any Certificate is to be paid to the owner of such Certificate as shown on the registration books kept by the Trustee, as Paying Agent, as of the close of business on the "Record Date," which is the fifteenth (15th) day of the calendar month preceding each Interest Payment Date, or, upon the request of an owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such owner in writing to the Trustee prior to the Record Date. If and to the extent that there is a default in the payment of the interest due on an Interest Payment Date, and such defaulted interest is subsequently received by the Trustee, such defaulted interest is to be paid to the owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee.

The Corporation and the Trustee may treat each owner of a Certificate appearing on the registration books maintained by the Trustee as the absolute owner of such Certificate for all purposes and will not be affected by any notice to the contrary.

Any Certificate delivered in transfer or exchange therefor bears interest (a) from the date of execution, if executed on an Interest Payment Date to which interest has been paid, or (b) from the last preceding Interest Payment Date to which interest has been paid (or from the date of their original delivery if no interest thereon has been paid) in all other cases.

Prepayment

The Certificates are subject to prepayment, in whole or in part, in integral multiples of \$5,000, prior to their stated maturity only as set forth below:

Optional Prepayment. The Certificates maturing on or after June 1, 20_ are subject to optional prepayment prior to maturity upon notice to the Trustee, on June 1, 20_, or any date thereafter, from any source of available funds, as a whole or in part at a price of par together with interest accrued thereon to the date of prepayment, without premium.

Mandatory Prepayment from Net Proceeds. Each series of Certificates is subject to prepayment prior to its respective stated maturities, as a whole on any date or in part on any Interest Payment Date, in the order of stated maturity as directed by the District in a Written Request of the District provided to the Trustee at least 60 days prior to the prepayment date, or (in the event the District has not directed the order of stated maturity, in inverse order of stated maturity) and by lot within each stated maturity in integral multiples of \$5,000, from prepaid related Installment Payments made by the District from related Net Proceeds (the proceeds of any insurance or condemnation award remaining after payment of all expenses incurred in the collection of such proceeds), upon the terms and conditions of, and as provided for in, the related Installment Sale Agreement (provided that such prepayment will occur on the next Interest Payment Date subsequent to such transfer with respect to which timely notice of prepayment can be provided) at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

Mandatory Sinking Fund Prepayment. The Certificates maturing on June 1, 20_ are to be called for mandatory sinking fund prepayment prior to such maturity dates in part, by lot, at 100% of the principal amount thereof plus accrued interest to the prepayment date, as follows:

Mandatory Prepayment Dates (June 1)

Principal Amount

The Certificates maturing on June 1, 20_ (bearing interest at ______%) are to be called for mandatory sinking fund prepayment prior to such maturity dates in part, by lot, at 100% of the principal amount thereof plus accrued interest to the prepayment date, as follows:

Mandatory Prepayment Date (June 1)

Principal Amount

The Certificates maturing on June 1, 20_ are to be called for mandatory sinking fund prepayment prior to such maturity dates in part, by lot, at 100% of the principal amount thereof plus accrued interest to the prepayment date, as follows:

Mandatory Prepayment Dates (June 1)

Principal Amount

Selection of Certificates for Prepayment. Except as provided for Mandatory Sinking Fund Prepayment, whenever less than all outstanding Certificates are to be redeemed pursuant to the provisions of the Trust Agreement, the Certificates to be prepaid are to be selected by the Trustee as described above, provided, however, that the portion of any Certificate is to be in the principal amount of \$5,000 or any integral multiple thereof.

Notice of Prepayment. The Trustee is to give notice of prepayment by first class mail at least 30 days but not more than 60 days prior to the date fixed for prepayment to the owners of the Certificates designated for prepayment at their addresses appearing on the registration books. So long as the book-entry system is used for the Certificates, the Trustee will give any notice of prepayment or any other notices required to be given to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the prepayment of the Certificates called for prepayment. Beneficial Owners may desire to make arrangements with a DTC Participant so that all notices of prepayment or other communications to DTC which affect such Beneficial Owners, including notification of all interest payments, will be forwarded in writing by such DTC Participant. See "APPENDIX F — BOOK-ENTRY SYSTEM."

Effect of Prepayment. Notice having been given and the money for the prepayment (including the interest to the applicable prepayment date) having been set with the Trustee, the Certificates or portions thereof to be redeemed will cease to be entitled to any benefit or security under the Trust Agreement, and the owners of such Certificates will no longer have rights in respect thereof except to receive payment of the stated prepayment price.

Installment Payment Schedules

The table below shows the annualized Installment Payment schedule (with payment dates being fifteen days or, if such date is not a Business Day, then the preceding Business Day prior to June 1 and December 1) under the Installment Sale Agreement with respect to the Certificates.

			CERTIFIC	ATES	
Certificate	SWRCB			Annual	
Year Ending	LOANS			Certificates Debt	Total
June 1	Debt Service	Principal	Interest	Service	Debt Service

Total

ESTIMATED SOURCES AND USES OF PROCEEDS

Sources and Uses of Proceeds

Proceeds from the sale of the Certificates are estimated to be applied as follows:

Estimated Sources of Proceeds

Principal Amount of Certificates
Plus/Less:: Net Original Issue Premium/Discount
Less: Underwriter's Discount
Total

Estimated Uses of Proceeds
Deposit to Reserve Fund
Deposit to Project Fund
Costs of Execution and Delivery of the Certificates (1)
Total

FINANCING PLAN

General

A portion of the proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise, (ii) fund a Reserve Fund for the Certificates and (iii) pay the costs of issuance relating to the Certificates.

The proposed project involves the installation of improved treatment facilities to upgrade the wastewater treatment capabilities of the existing Southland Wastewater Treatment Facility ("Southland WWTF"). The District owns and operates the Southland WWTF, which is located west of Highway 101 in the southern portion of the County. The Southland WWTF treats a combination of domestic, commercial, and some light industrial wastewater from the unincorporated community of Nipomo, California. These proposed wastewater treatment facilities involve two basic elements: a) the upgrading of existing wastewater treatment facilities at the Southland WWTF within Phase I of the proposed project which will improve the treatment capability of the plant but will not increase the existing treatment capacity of the facility; and b) the provision of additional facilities at the Southland WWTF for wastewater disposal.

Phase I improvements, will increased the level of treatment at the Southland WWTF while maintaining the existing discharge capacity of 0.9 million gallons per day (MGD) on a maximum monthly flow (MMF) basis, while facilitating the additional phases of construction required for future flows and loadings. The net proceeds of the Certificates, along with funds of the Enterprise in the amount of \$______, will complete Phase I of the proposed project.

A final Environmental Impact Report for the proposed project was certified in November 2011. Notice inviting construction bids for Phase I has been provided and bid proposals were due May 3, 2012.

The District prequalified general contractors and mechanical, electrical, and instrumentation and controls subcontractors for the proposed project. Only general contractors and mechanical, electrical, and

Includes fees and expenses of special and disclosure counsel, trustee fees and expenses, costs of printing the preliminary and final official statement and rating agency fees.

instrumentation and controls subcontractors who have been prequalified can participate in bidding for the contract to construct the Project. Pre-qualification criteria were based on technical, financial and other measures pertaining to the contractor's experience on projects of similar type, complexity and comparable value as the proposed project. The District has prequalified the following general contractors, who are also prequalified as mechanical subcontractors: C.W. Roen Construction Company, Cushman Contracting Corporation, J.F. Shea Construction, Inc., PCL Construction, Inc., SSC Construction, Inc., Stanek Constructors, Inc., W.M. Lyles Company, and Western Water Constructors, Inc. Five bids were received and the low bid came from Cushman Contracting Corporation. [More on Cushman]

[Chart of cost components]

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

As payment of the purchase price of the facilities constructed for the Enterprise, the District covenants to pay Installment Payments, which payments have been assigned by the Corporation to the Trustee pursuant to the Assignment Agreement. The Installment Payments consist of principal and interest components represented by the Certificates.

Source of Payment for the Certificates; Net Revenues

Each Certificate represents a direct, undivided fractional interest in the Installment Payments to be made by the District to the Corporation under the Installment Sale Agreement. The Installment Payments are irrevocably pledged to, and shall be used for, the timely payments with respect to the Certificates. The Installment Payments are not to be used for any other purpose while any of the Certificates remain Outstanding. Payments of principal and interest due with respect to the Certificates will be made from the Installment Payments, interest or other income derived from the investment of the funds and accounts held by the Trustee for the District pursuant to the Trust Agreement, or in certain instances from the Reserve Fund established by the Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES — Reserve Fund."

Installment Payments are absolute and unconditional obligations of the District payable solely from, and secured by a pledge of and a first lien on, the Net Revenues of the Enterprise. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Parity Obligations" below. The Installment Payments are not secured by, and the Certificate owners have no security interest in or mortgage on, the Enterprise.

Pursuant to the Installment Sale Agreement, all Net Revenues and all amounts on deposit in the Reserve Fund and the Installment Payment Fund are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Sale Agreement. The Net Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Sale Agreement. The pledge in the Installment Sale Agreement constitutes a first and exclusive lien on Net Revenues and, subject to application of amounts on deposit therein as permitted herein, the moneys in the Sewer Enterprise Fund shall be used by the District for the payment of the Installment Payments and all Parity Obligations in accordance with the terms of the Installment Sale Agreement and such other contracts as may be entered into.

In order to carry out and effectuate the pledge and lien contained in the Installment Sale Agreement, the Purchaser agrees and covenants that all of the Gross Revenues shall be deposited by the Purchaser immediately upon receipt in the Sewer Enterprise Fund maintained by the Treasurer of the District. Net Revenues payable under the Installment Sale Agreement shall be applied in the following order of priority: <u>first</u>, on or before each

Installment Payment Date during the term of the Installment Sale Agreement, the District shall withdraw from the Net Revenues on deposit in the funds of the District and transfer to the Trustee, for deposit in the Installment Payment Fund, the full amount then required to be deposited for the payment of the Installment Payments, and to the trustee for any Parity Obligations, for deposit in such fund or account equivalent to the Installment Payment Fund, to pay the principal of and interest on any Parity Obligations; second, the District shall reimburse amounts advanced under any Reserve Fund Credit Facility; third, the District shall pay to the Trustee the amount of any deficiency in the Reserve Fund (the notice of which deficiency shall have been given to the District pursuant to the Trust Agreement) or any deficiency in the Reserve Fund of any Parity Obligations; fourth, the District shall pay to the provider thereof interest on amounts advanced under any Reserve Fund Credit Facility; and fifth, the District shall pay all other amounts when and as due and payable under the Installment Sale Agreement.

A Reserve Fund has been established for the Certificates which shall be funded in the amount of the Reserve Requirement. See "ESTIMATED SOURCES AND USES OF PROCEEDS." The amounts in the Reserve Fund are to be used only for the payment of Installment Payments to the extent amounts in the Installment Payment Fund are insufficient therefor. See "— Reserve Fund" below and "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement — Reserve Fund."

Pursuant to the Assignment Agreement, the Corporation will assign to the Trustee, for the benefit of the registered owners of the Certificates, its rights under the Installment Sale Agreement, including (a) all its right, title and interest in and to the Installment Payments payable by the District under the Installment Sale Agreement, and (b) any and all other rights and remedies of the Corporation under the Installment Sale Agreement, other than its right to reimbursement of costs and expenses and to indemnification thereunder. See "Assignment" below.

NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS CONSTITUTE A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION OR AN OBLIGATION FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, ANY FORM OF TAXATION.

Revenues; Related Covenants

The term "Net Revenues" means for any period, Gross Revenues for such period minus all Operating and Maintenance Costs becoming payable for such period.

The term "Gross Revenues" under the Installment Sale Agreement means for any period of computation, all gross charges received for, and all other gross income and revenues derived by the District from, the ownership or operation of the Enterprise or otherwise arising from the Enterprise during such period, including but not limited to, without duplication, (a) all charges received by the District arising from the Enterprise, including Demand Fees (b) all receipts derived from the investment of funds held by the District or the Trustee under the Trust Agreement and receipts from the Rate Stabilization Fund, (c) all moneys received by the District from other public entities whose inhabitants are served pursuant to contracts with the District, and (d) moneys deposited in the Installment Payment Fund, the Sewer Enterprise Fund or other fund to secure the Certificates or Parity Obligations or to provide for the payment of the principal of or interest with respect to the Certificates or Parity Obligations.

The term "Operation and Maintenance Costs" means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, overhead, insurance, taxes (if any) and other similar costs, but excluding in all cases,

depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

In the Installment Sale Agreement, the District covenants to fix, prescribe and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

- (a) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (b) All Installment Payments and payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Installment Payments or interest on any Parity Obligations are payable from proceeds of the Certificates or Parity Obligations deposited for such purpose;
- (c) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement; and
- (d) All payments required to meet any other obligations of the District that are charges, liens, encumbrances upon, or that are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year, that are sufficient to yield Net Revenues, including Demand Fees (defined as one-time charges at the time of and as a condition precedent to the connection of properties to the Enterprise), that are at least equal to one hundred twenty-five percent (125%) of the amount described in the preceding clause (b) for such Fiscal Year.

In any Fiscal Year in which the Net Revenues of Enterprise are in excess of the aggregate annual principal and interest requirements of the Certificates and Parity Obligations in such Fiscal Year and other conditions of the Installment Sale Agreement have been satisfied, such excess may be used by the District for any purpose permitted by law, all as further described in "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Installment Sale Agreement — Surplus."

For information regarding the Enterprise, including financial information, see "NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION" and "APPENDIX B — AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009."

Issuance of Parity Obligations

Except for obligations incurred to prepay or post a security deposit for the payment of Installment Payments or Parity Obligations, the District shall not issue or incur any additional Parity Obligations during the term hereof unless:

- (a) The District is not in default under the terms of this Agreement;
- (b) Net Revenues (including Demand Fees), calculated on sound accounting principles, and excluding any balances in any fund (other than the Rate Stabilization Fund) at the beginning of the period of computation, as shown by the books of the District for the latest Fiscal Year, or any more recent twelve (12)-month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the District, plus, at the option of the District, either or both of the items below designated (i) and (ii), shall have amounted to at least

1.25 times the sum of the maximum Installment Payments and the maximum debt service with respect to all Parity Obligations that will be outstanding immediately subsequent to the issuance of such Parity Obligations coming due and payable in any future twelve-month period or Fiscal Year subsequent to the incurring of such Parity Obligations.

Either or both of the following items may be added to Net Revenues for the purpose of applying the restriction contained in (b) above:

- (i) An allowance for revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 90% of the estimated additional average annual net revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Obligations, all as shown by the certificate or opinion of a qualified independent engineer or consultant employed by the District.
- (ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which Net Revenues would have been increased if such increase to charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer or consultant employed by the District; and
- (iii) A reserve fund shall be funded for such Parity Obligations which is at least equal to the amount resulting from the application on the closing date of such Parity Obligations of the formula contained in the definition of Reserve Requirement under the Trust Agreement as applied to the Parity Obligations.

Rate Stabilization Fund

The District shall maintain and hold a separate fund to be known as the "Rate Stabilization Fund." From time to time the District may deposit in the Rate Stabilization Fund from Gross Revenues remaining, after making the allocation provided in the Installment Sale Agreement, such amounts as the District shall determine, provided that deposits with respect to any Fiscal Year may be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days following the end of such Fiscal Year. The District may withdraw amounts from the Rate Stabilization Fund for inclusion in Gross Revenues for any Fiscal Year, or for any other lawful purpose of the Enterprise, such withdrawals to be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as Gross Revenues. Notwithstanding the foregoing, no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent such Gross Revenues were included in an independent consultant's report submitted in accordance with the Installment Sale Agreement or an instrument relating to Parity Obligations and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from the Gross Revenues employed in rendering said independent consultant's report would cause noncompliance with provisions of the Installment Sale Agreement.

Simultaneously with the execution and	delivery of the	Certificates, the Distric	t shall	fund	the	Rate
Stabilization Fund in the amount of \$	from the	fund of the Enterprise.				

Installment Payments

Installment Payments are required to be made by the District under the Installment Sale Agreement on the fifth (5th) day prior to each Interest Payment Date (or if such date is not a Business Day the next preceding Business Day) (each an "Installment Payment Date"). The Trust Agreement requires that Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on each Interest Payment Date, the Trustee is to use the moneys deposited to the Installment Payment Fund (i) to pay the interest then due with respect to the Certificates on such Interest Payment Date, and (ii) to pay the principal, if any, coming due and payable or required to be prepaid for mandatory sinking fund prepayment on such Interest Payment Date or to be prepaid at the direction of the District. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement — Installment Payment Fund."

Reserve Fund

The Reserve Fund for the Certificates is established pursuant to the Trust Agreement. An amount equal to the Reserve Requirement is to be maintained in the Reserve Fund. See "ESTIMATED SOURCES AND USES OF PROCEEDS." The Reserve Requirement equals, as of any date of calculation, the least of (i) 10% of the proceeds of the Certificates; (ii) 125% of average Installment Payments for that and all subsequent Certificate Years; or (iii) maximum aggregate Installment Payments for that or any subsequent Certificate Year.

The Reserve Fund will be maintained by the Trustee until all the Installment Payments are paid in full pursuant to the Installment Sale Agreement or until there are no longer any related Certificates outstanding. If moneys in the Installment Payment Fund are insufficient to pay the interest portion or the principal portion of Installment Payments as due, the Trustee is to transfer an amount sufficient to make up such deficiency from the Reserve Fund to the Installment Payment Fund.

In the event that moneys on deposit in the Reserve Fund are transferred to the Installment Payment Fund to make up a deficiency therein, the amount required to restore such depleted Reserve Fund to its Reserve Requirement will be paid by the District as a portion of its Installment Payments relating to the Installment Sale Agreement. Such amount is to be paid in twelve equal monthly installments. The funds necessary to restore the amount in the Reserve Fund to its Reserve Requirement will be derived from the Enterprise's Revenues, the insufficiency of which resulted in the transfer of funds from the Reserve Fund. The District will take such action with respect to fees, rates and charges as is necessary to generate sufficient Net Revenues from the Enterprise to restore the Reserve Requirement and make Installment Payments as the same become due. See "Revenues; Related Covenants" above and "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Installment Sale Agreement — Amount of Rates; Fees and Charges." If, based on a valuation described under the caption "Investments" below there is a deficiency in the Reserve Fund, such deficiency will be made up over a twelve-month period by the District, in twelve substantially equal payments.

The Trustee will, on each Installment Payment Date, transfer amounts on hand in the Reserve Fund in excess of the Reserve Requirement, if any, to the Installment Payment Fund for application in accordance with the Trust Agreement. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement — Reserve Fund."

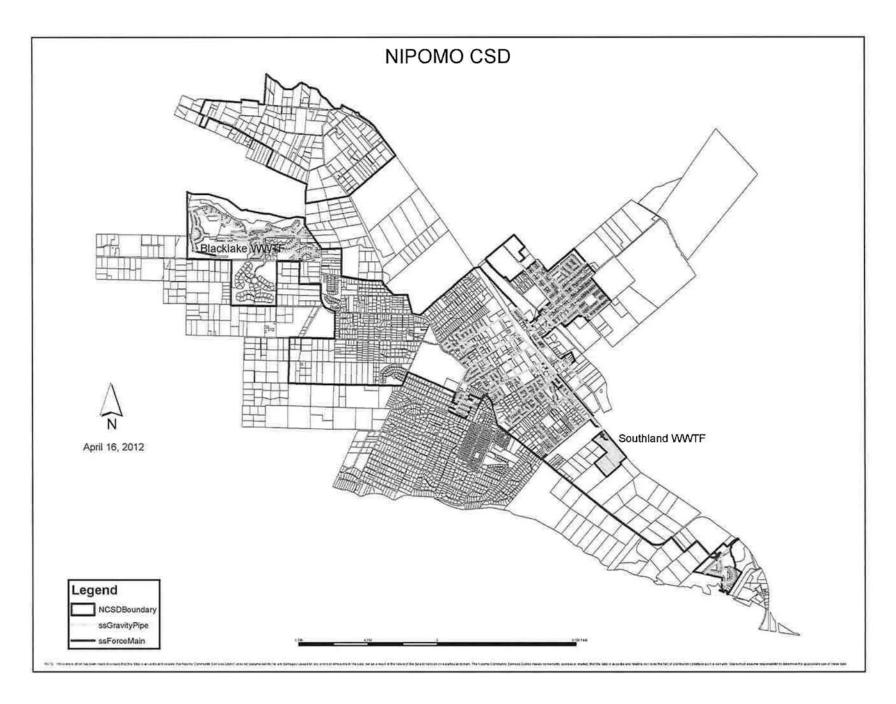
Assignment

Pursuant to the Assignment Agreement, the Corporation has absolutely assigned to the Trustee, for the benefit of the registered owners of the Certificates, certain of its rights under the Installment Sale Agreement, including (a) all of its right, title and interest in and to the Installment Payments payable by the District under the Installment Sale Agreement, and (b) any and all other rights and remedies of the Corporation under the Installment Sale Agreement, other than its right to reimbursement of costs and expenses and to indemnification thereunder.

Investments

Money held by the Trustee in any fund or account under the Trust Agreement will be invested by the Trustee as the Corporation will direct in writing after consultation with the District in Permitted Investments pending application as provided in the Trust Agreement, so long as all investments mature, or are subject to redemption or disposition by the Trustee, not later than the date when the amounts will foreseeably be needed for purposes of the Trust Agreement. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement.

Permitted Investments will be valued at the fair market value of such obligations, exclusive of accrued interest. All funds and accounts will be valued semi-annually.



NIPOMO COMMUNITY SERVICES DISTRICT

General

The District was formed in 1965 and currently provides 11,850 residents of the Nipomo area with one or more services including water, wastewater, street lighting, solid waste disposal or limited drainage services. The District is a California Community Services District organized pursuant to Government Code Sections 61000 et seq. The District is located off of Highway 101 on the central coast of California between San Francisco and Los Angeles, in the rural area of San Luis Obispo County, south of the City of San Luis Obispo and north of the City of Santa Maria. The District's service area overlies the southern portion of the Nipomo area within the unincorporated portion of San Luis Obispo County. The District includes approximately 4,450 acres of land comprising 7 square miles. The District's authority does not include legislative or executive powers over zoning or land use.

The District currently provides Town Division sewer service to approximately 2,914 residential, commercial and industrial connections. Most of the customers reside in single family homes, but service is also provided to multi-family residential homes and commercial and light industrial users.

The District currently includes approximately 4,450 acres of land. The District population is expected to grow from approximately 11,850 to approximately 15,000 people at buildout in 2020. Approximately 4,000 acres of land within the District are currently developed, of which approximately 3,300 acres are residential, 400 acres are commercial, and 300 acres are recreational.

Governance and Management

The District is governed by a 5-member board of directors (the "Board of Directors"), the members of which are elected by the registered voters in the District to staggered 4-year terms. The current Board of Directors members, the expiration dates of their terms and their occupations are set forth below.

The names of the members of the District Board and the dates their terms expire are as follows:

Name	<u>Title</u>	Term Expires (December)	Occupation
James Harrison	President	2014	Retired Fire Division Chief Officer
Larry Vierheilig	Vice President	2014	Retired Aerospace Environmental Engineering Manager
Michael Winn	Director	2012	Educator
Ed Eby	Director	2012	Retired Aerospace Program Manager
Dan Gaddis	Director	2014	Retired Aerospace Manager

Day-to-day management of the District is delegated to the General Manager. Set forth below is a brief resume of the General Manager and principal staff:

Michael S. LeBrun, General Manager. Michael S. LeBrun is the District's General Manager and Secretary to the Board. Mr. LeBrun previously served as the District's General Manager from September 2004 until June 2006. He returned to the District as Interim General Manager in November 2009 and was appointed General Manager in June 2011. Mr. LeBrun is a licensed Civil Engineer with twenty years of experience in water and wastewater regulation and operations. Mr. LeBrun spent twelve years working with the California Regional Water Quality Control Board.

Lisa S. Bognuda, Finance Director. Lisa S. Bognuda has served as Finance Director for the District for more than 19 years. Prior to 1993, she was a Tax Accountant with Glenn, Burdette, Phillips & Bryson, CPA firm for 6 years. Ms. Bognuda became a Certified Public Accountant in 1988. She received a Bachelor of Science degree in Business Administration with a concentration in accounting from California Polytechnic State University, San Luis Obispo in 1985.

Peter V. Sevcik, District Engineer. Peter V. Sevcik, P.E., is the District Engineer and has served in this capacity since September 2007. Mr. Sevcik joined the District with approximately 20 years of experience in wastewater and water including project management, construction management, design, planning and operations & maintenance, most recently serving as the Director of Engineering and Operations for the West Valley Sanitation District in Campbell, California. Mr. Sevcik is responsible for overseeing the planning, design and construction of the District's capital improvement projects. Mr. Sevcik has a Bachelors degree in Civil Engineering from the University of Illinois, Urbana, Illinois, and a Masters degree in Public Administration from Nova Southeastern University, Fort Lauderdale, Florida.

Tina P. Grietens, Utility Superintendent. Tina Grietens was appointed as Utility Superintendent for the District in January 2008. Ms. Grietens directs the daily operations and maintenance of NCSD's water production and distribution system as well as the two wastewater treatment and collections systems. Ms. Grietens comes to the District with a wide range of education and experience. She earned her Bachelor of Science Degree in Environmental and Systematic Biology from Cal Poly at San Luis Obispo, and has subsequently taken courses in legal research, irrigation management, viticulture and utility management. Prior to her work at the District, Ms. Grietens worked for Santa Barbara County's Laguna Wastewater Reclamation Facility in Santa Maria for six years as a shift supervisor. During this time, she also worked at Cachuma Lake County Park, as a relief operator for the water and wastewater facilities. Prior to her work for Santa Barbara County, Ms. Grietens spent three years as a Water and Sewage Plant Supervisor at the California Men's Colony's Surface Water Treatment Plant. Ms. Grietens began her 20+ year career in the water and wastewater industry as a Maintenance Worker for the City of Pismo Beach. During her ten years working for the City of Pismo Beach, she rose through the ranks as she gained experience operating the City's water and wastewater facilities.

Budget Process

Pursuant to Government Code Section 61110, prior to June 30 of each year, the Board of Directors adopts a preliminary budget or final budget that conforms to generally accepted accounting and budgeting procedures for special districts. Prior to June 30, the District adopts a resolution establishing the appropriation's limit, annually provides for audits and annual financial reports. Based on the rates, charges and fees adopted by the District, and other revenue sources of the District, the General Manager prepares a District budget for each fiscal year. The budget for Fiscal Year 2012 was adopted on June 22, 2011.

Employees and Employee Benefits

The District is currently staffed with twelve full-time employees, including a General Manager, Finance Director/Assistant General Manager, District Engineer, Utility Supervisor, Secretary, Billing Clerk, and six maintenance workers. None of the District's employees are presently represented by a union. The District has not experienced any strikes or other labor actions.

Retirement Programs

All regular full-time and part-time employees of the District, unless specifically excluded, are covered under the Public Employees' Retirement System (PERS) of the State of California, a defined benefit plan. Pension costs are funded by monthly contributions from the District. Participants are required to contribute 8% of their annual covered salary. The District makes the contribution required of District employees on their

behalf and for their account for employees hired prior to June 18, 2008. Employees hired on or after June 18, 2008, are required to contribute 8% on their own behalf.

The District is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the fiscal year ended June 30, 2011 was 18.015% of annual covered payroll. Benefit provisions and all other requirements are established by state statute, and the employer contribution rate is established and may be amended by PERS. The District is also required to contribute all remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. contribution to PERS for the fiscal year ending June 30, 2011 was \$202,749, equal to 100% of the required contribution for such fiscal year.

Benefits fully vest after five (5) year of service. Copies of PERS annual financial report may be obtained from their Executive Office - 400 P. Street, Sacramento, California 95814.

Post-Employment Benefits

The District currently provides post-retirement health care benefits through PERS. Employees who retire on or after attaining age 50 and are vested, are eligible for District paid health insurance. Governmental Accounting Standards Board ("GASB") Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)" requires public agencies to plan and account for unfunded OPEB liability. On January 1, 2010, the District conducted an actuarial valuation to determine the required funding for this health benefits program. The actuarial liability for the District's retiree health benefits program as of June 30, 2011, was determined to be \$1,402,420, based on a discount rate of 7.75%. The District's funding policy is to fund 100% of the annual required contribution determined through the California Employers' Retiree Benefit Trust (CERBT). Based on this valuation, the District contributed \$103,000 to an irrevocable trust to meet current obligation of this program and to fully fund the annual liability. Currently five (5) retired employee are receiving 100% paid health care benefits totaling \$4,762 a month as of June 30, 2011.

The following table provides information as of June 30, 2011 of the District's post-employment benefits required disclosure.

Number of active participants	12
Employer's actuarially required contributions	\$102,298
Employer's actual contributions	\$113,000
Actuarial Accrued Liability(AAL)	\$1,157,759
Actuarial Valuation of Assets(AVA)	\$200,164
Unfunded Actuarial Accrued Liability(UAAL)=(AAL less AVL)	\$957,595
Funded Ratio(AVNAAL)	17%
Estimated Payroll	\$638,000
UAAL as a Percentage of Covered Payroll	150%

Deferred Compensation and Compensated Absences

Certain provisions of the Small Business Job Protection Act (the "Act") affected Internal Revenue Code Section 457 plans by eliminating the requirement that Section 457 plan assets legally remain the assets of the sponsoring government. The Act requires that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The District's Section 457 plan have always been held in the CalPERS 457 Trust Plan, and are not considered the assets of the District. The plan permits all District employees to defer the apportionment of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or unforeseeable emergency.

Depending on the length of continuous services, a range of 10-20 vacation and 12 sick leave per year may be accumulated by each employee. The District accrues a liability for compensated absences, which have been earned but not taken, and records it as a liability.

Risk Management

The District is a member of the Special District Risk Management Authority, an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq. In becoming a member of the Special District Risk Management Authority, the District elected to participate in the risk financing programs for the program periods July 1,2011 through June 30, 2012, including general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$500 deductible for property claims, automobile general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$1,000 deductible, public officials and employee errors insurance with coverage of \$10,000,000 per occurrence and workers compensation insurance with statutory coverage and employer's liability insurance with coverage of \$5,000,000 per occurrence. Members are subject to dividends and/or assessments. No such dividends have been declared, nor assessments levied. As of June 30, 2011, there are no known refund or credit due to the District, nor has there been any reduction in insurance coverage from the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

Outstanding Indebtedness.

Revenue Obligations. The District has entered into a loan agreement, dated as of April 30, 1998, by and between the District and the State Water Resources Control Board (the "1998 SWRCB Loan") for the construction of the Southland Wastewater Treatment Plant Expansion - Phase I. The outstanding balance of this loan as of May 1, 2012 was \$[692,367], and is payable over 20 year at zero interest rate with a loan fee of 16.667% paid at closing and annual payments of \$34, 868 commencing May 1, 2000. This loan is payable from Net Revenues on a parity with Installment Payments to be made under the Installment Sale Agreement and constitutes a Revenue Obligation.

The District has entered into a loan agreement, dated as of February 24, 1999, by and between the District and the State Water Resources Control Board (the "1999 SWRCB Loan") for the construction of the Southland Wastewater Treatment Plant Expansion - Phase II. The outstanding balance of this loan as of May 1, 2012 was \$[379,622], and is payable over 20 year at zero interest rate with a loan fee of 16.667% paid at closing and annual payments of \$42,180 starting March 1, 2001. This loan is payable from Net Revenues on a parity with the 1998 SWRCB Loan and Installment Payments to be made under the Installment Sale Agreement and constitutes a Revenue Obligation.

On April 1, 2009, the District entered into an inter-fund loan from the Town Division Sewer Enterprise Fund to the Blacklake Division Sewer Enterprise Fund in the principal amount of \$275,000 at 3.5% interest, of which \$167,298 is outstanding as of June 30, 2011. Bi-monthly surcharges are applied to Blacklake Division customers' sewer utility bills for a period of 10 years to repay the amount. Customers were given the opportunity to prepay their share of the loan and thereby avoid interest costs and the bi-monthly surcharge.

Water Obligations. On May 14, 2003, the District issued \$4,000,000 Revenue Certificates of Participation (the "2003 Water Certificates") for the construction of water pipeline and storage facility costs. The outstanding amount of the 2003 Water Certificates as of June 30, 2011, is \$3,420,000. The 2003 Water Certificates are payable from water revenues and property taxes and not the Revenues.

The District entered into an inter-fund loan for \$277,742 on June 1, 2009 between the Town Division and the Blacklake Division of the Water Enterprise Fund, of which \$182,949 is outstanding as of June 30, 2011. Bi-monthly surcharges are applied to Blacklake Division customers' water utility bills to repay the amount.

Special Assessment Debt. In July, 1994, the District issued its Assessment District No. 93-1 Bonds in the amount of \$1,752,938. The balance outstanding as of June 30, 2011 was \$566,000. These bonds are secured by assessments on certain parcels within the District and not from Net Revenues pledged under the Installment Sale Agreement.

THE ENTERPRISE

History and Management

The District was formed in 1965 and currently provides 11,850 residents of the Nipomo area with one or more services including water, wastewater, street lighting, solid waste disposal or limited drainage services.

The Enterprise serves the District encompassing approximately 7 square miles. The District currently employs twelve people full time, and operates one shift, seven days a week to operate and maintain the Enterprise. The District's Finance Department is responsible for billing and collecting all wastewater utility bills.

The Enterprise consists of the Town Division wastewater system. The District's other wastewater system, the Blacklake Division, is not part of the Enterprise. The Enterprise currently serves 2,914 customers, consisting of 2,468 single family, 367 multi-family, and 79 commercial accounts.

General Description

The District's Town Division wastewater collection and conveyance systems consists of more than 35 miles of mainline wastewater lines ranging from 6 to 24 inches in diameter, 3 miles of force mains ranging from 4 to 8 inches in diameter, 10 wastewater lift stations and other miscellaneous facilities. The original collection system was constructed in 1985 and consists of PVC pipe. The Southland Wastewater Treatment Plant (the "Southland WWTF") was also constructed in 1985, expanded in 1999 and once again in 2001. The Southland WWTF's process is designed to produce undisinfected secondary effluent. The existing wastewater treatment process consists of a headworks followed by a series of aerated lagoons. Raw wastewater enters the facility at the headworks where it is macerated by two grinders prior to being pumped to aerated lagoons. Treated effluent from the aerated lagoons is then discharged to infiltration basins for disposal.

The District owns and operates the Southland Wastewater Treatment Facility, which is located west of Highway 101 in the southern portion of the County. The Southland WWTF treats a combination of domestic, commercial, and some light industrial wastewater from the unincorporated community of Nipomo, California. The Southland WWTF operates under Waste Discharge Requirements Order No. R3-2012-0003 which specifies a permitted capacity of 900,000 gallons per day (gpd) based on the maximum monthly flow (MMF).

On February 7, 2006, the District received a Notice of Violation from the Regional Water Quality Control Board (RWQCB) for several effluent water quality violations reported during 2005. In response to this notice, the District prepared an Action Plan (dated May, 2006), a Technical Memorandum (dated July, 2006) and a Draft Wastewater Treatment Master Plan (revised February 19, 2007). These research efforts were intended to evaluate existing and future wastewater treatment demands of the Southland WWTF, identify required improvements to meet these demands and develop a capital improvements program to assist the District in planning and financing these facilities. The Southland WWTF Master Plan was finalized in January 2010 and the proposed project would implement Phase 1 of the Master Plan.

Southland WWTF

The Southland WWTF has a current capacity of 900,000 gallons per day providing secondary treatment. The existing Southland Wastewater Treatment Facility (WWTF) treats a combination of residential and commercial wastewater utilizing four aeration ponds and eight on-site percolation basins. It currently has an average annual flow of 571,000 gallons per day (gpd). Average annual flow is the flow rate averaged over the course of one year and is considered to represent the base flow for the Southland WWTF. The existing wastewater treatment facility also has an average wet weather flow (average daily flows in wet weather months) of 570,000 gpd and a maximum monthly flow (average daily flow during the maximum month of the year) of 613,000 gpd. The permitted capacity of 900,000 gpd is based on the maximum monthly flow. The existing wastewater treatment facility also has a peak daily flow rate of 903,000 gpd and a peak hourly rate (as extended over an entire day) of 1,650,000 gpd. Additional facilities at the Southland Wastewater Treatment Plant include unlined sludge dry beds used for drying and storage of biosolids. Dried biosolids are currently disposed of at a landfill.

Specific improvements to the Southland WWTF include: a) replacement of the existing influent lift station; b) provision of headworks improvements in order to enhance effluent screening and grit removal; c) phased reconstruction of two of the four existing treatment ponds with extended aeration capabilities (a Biolac wave oxidation system); d) phased construction of three secondary clarifiers with an RAS/WAS pumping system for the circulation of "return activated sludge" (RAS) and "waste activated sludge" (WAS); e) installation of a sludge thickening system; f) replacement of the two existing unlined sludge drying beds with concrete-lined drying beds and g) provision of associated ancillary equipment, support buildings and facilities, piping, structural, site work, electrical and instrumentation improvements throughout the Southland WWTF property.

Improvements to the wastewater treatment facility are to be accomplished in three phases. Improvements to the WWTF will increase the ultimate treatment capacity to a maximum flow of 1.8 million gallons per day from its current capacity of 0.9 million gallons per day. Phase I improvements are designed to improve water quality but not expand the current 0.9 million gallons per day (mgd) capacity. Phase II improvements will expand plant capacity to 1.28 mgd with Phase III improvements resulting in an increase to the plant's ultimate capacity of 1.80 mgd. This increased treatment capacity is intended to serve both existing and future wastewater treatment demands generated within the Southland WWTF service area of the District. Future capacity requirements are based on buildout demand estimates. Buildout within the Southland WWTF service area is based upon the Land Use and Circulation Elements of the San Luis Obispo County General Plan (revised June 23, 2006). Treatment plant expansion during Phases II and III of the proposed project will be based upon influent flow volumes as required by state regulatory agencies. Following Phase I, the District will expand their treated effluent disposal capabilities in order to accommodate future wastewater flows. These expanded treated effluent disposal facilities involve two elements: the potential provision of two additional percolation ponds at the existing Southland WWTF and construction of one or multiple off-site re-use or percolation facilities. The additional on-site percolation facilities would be constructed on approximately ten acres adjacent to the existing wastewater treatment ponds. These percolation basins will likely be located within the District property southwest of the existing infiltration basins. The basins would be similar in design to the existing basins and would be unlined in order to facilitate the percolation/disposal of treated effluent.

The following is a list of improvements which will be completed in Phase I:

- •....Influent Lift Station Construct lift station wet well to ultimately meet future PHF with 1 pump offline. Install 2 pumps and manifold piping to meet Phase 1 PHF with 1 pump offline and allow room for future 3rd pump and manifold piping.
- •....Mechanical Screen Install 2 in-channel screens and 1 bypass channel. Screens shall remove materials greater than ¼-inch in size. Ultimately, meet future PHF with 1 screen out of service.

- •....Grit Removal System Install 1 grit removal system with capacity equal to 50% of future PHF without decrease in efficiency at lower flows. Install bypass. Allow room for future installation of 2nd grit removal system. Meet future PHF without decrease in efficiency at lower flows.
- •....Aeration Basin Provide volume and aeration to treat Phase 1 PDF and loads. Together with clarifiers, provide treatment to meet BOD5 = 20 mg/L, TSS = 20 mg/L, TN = 10 mg/L. Plan to meet future PDF and effluent quality criteria with 1 basin out of service. Install 1 complete aeration basin, and piping for 2nd aeration basin. Install blowers to meet Phase 2 capacity. Allow space for Phase 3 equipment for 3rd aeration basin.
- •....Secondary Clarifier Provide volume to treat Phase 1 PDF. Together with aeration basins, provide treatment to meet BOD5 = 20 mg/L, TSS = 20 mg/L, TN = 10 mg/L. Install 1 clarifier and bid 2nd clarifier as bid alternate to provide full redundancy. Plan to meet future PDF and effluent quality criteria with 1 clarifier out of service.
-RAS/WAS Pump Station Install 2 pumps per clarifier with capacity for 1.5 times Phase 1 ADF with 1 pump out of service.
- •....Gravity Belt Thickener Provide sufficient capacity to handle a maximum Phase 1 WAS volume of 182,000 gal/week, 5 days/ week, and 8 hours/ day and produce minimum 6% solids thickened sludge. Plan to meet future WAS volume and allow space for second unit.
- •....Sludge Drying Beds Provide sufficient area for Phase 1 projected waste sludge to dry to at least 30% solids with minimum 1 cell available to accept wet sludge. Size each cell to hold at least 20 days of thickened waste sludge at maximum Phase 1 conditions (182,000 gal/wk, 5 days/wk, 8 hr/day). Install 12 cells.
- •....Infiltration Basins Provide two additional infiltration basins to maximize onsite disposal. To be bid as bid alternate should sufficient funding be available.

Future Facilities

Pursuant to the Southland WWTF Master Plan, the District's growth will trigger when Phases II and III of improvements to the Southland WWTF are initiated. Pursuant to the District's Water and Sewer Master Plan, the District is planning additional capital improvements to the Wastewater Collection System over the next five years to repair, replace and improve existing facilities to continue to serve existing customers. Projects expected to be implemented over the next five years include wastewater conveyance system upsizing, lift station pump replacement, control system upgrades and manhole rehabilitation. The aforementioned facility improvements are expected to be financed with capacity charges for new connections and sewer service charges.

Wastewater Rates and Revenues

The District currently recovers the cost of the Enterprise operation, maintenance, renewal and replacement and capital expansion through a user fee system consisting of three major components. The three components of the user fees currently imposed by the District for the Enterprise:

- 1. Wastewater Treatment Rates. Bi-monthly rates and charges based on fixed and variable costs for providing sewer service to existing residential and commercial customer classes.
- 2. Wastewater Capacity Fees. One-time fee imposed on new sewer connections to help pay for existing and/or new wastewater facilities that are a proportional benefit to those being charged.
- 3. Miscellaneous. Charges derived from interest income.

Residential sewer customers are charged a flat amount for sewer service based on the number of equivalent dwelling units. Commercial and industrial sewer customers are charged a fixed bi-monthly service charge based on the size of the water meter and a commodity charge based on water use and strength classification. The District has established a category of users to determine strength of sewer discharge, consisting of low strength, medium strength and high strength. Said categories of uses are for reference only and establish minimum strength standards. The District retains the discretion to assign a higher strength category to individual discharges.

Rate changes are enacted by the Board based upon the recommendations of the General Manager. Beginning in July 1986 monthly sewer charges for the Enterprise were imposed by the Board and subsequent rate increases or modifications were adopted by the Board in May 1989, June 1992, and June 1993. In May 1997 the Board adopted new bi-monthly charges which were subsequently increased in November 2000 and January 2003. The current structure and categories of rates were adopted of Board in June 2005, and have been subsequently increased by Board action adopted in January 2008, reflecting the current rates and charges. To the extent required by law all increases were adopted in compliance with Proposition 218. Prior to 2005, the rate structure consisted of a flat rate with no distinction between single-family versus multifamily or residential versus commercial dwelling unit equivalents.

On January 23, 2008, pursuant to Resolution No. 2008-1062, the Board adopted the current schedule of rates for the Enterprise in accordance with then-existing applicable laws. The District has followed Proposition 218 proceedings in relation to the notice, hearing and protest procedures in connection with recently increased rates and plans to follow such procedures in connection with future rate increases. See "RISK FACTORS – California Constitution Article XIIIC and Article XIIID." Prior to the adoption of Resolution No. 2008-1062, the last increase in rates for the Enterprise occurred in 2005. Future rates for the Enterprise are unknown at this time.

The following table sets forth both components of the Enterprise's past and currently revised rate structure.

TABLE 1 NIPOMO COMMUNITY SERVICES DISTRICT TOWN DIVISION WASTEWATER ENTERPRISE HISTORICAL SEWER RATE STRUCTURE

Bi-Monthly Residential Flat Rate Customer Charge (per Dwelling Unit)

Effective Date	Single Family	Multi-Family
1/1/12	\$88.32	\$67.33
1/1/11	88.32	67.33
1/1/10	88.32	67.33
1/1/09	70.66	53.86
4/1/08	56.63	43.09
7/1/07	45.00	34.80
7/1/06	43.27	33.46
8/1/05	41.60	32.17
7/1/05 ⁽¹⁾	37.60	37.60
7/1/04 ⁽¹⁾	37.22	37.22
7/1/03 ⁽¹⁾	36.86	36.86

Bi-Monthly Non-Residential Flat Rate Customer Charge (Size of Meter)

Effective Date	1" or less	1 ½"	2"	3"	4"	6"	8"
1/1/12	\$34.07	\$98.59	\$156.66	\$292.16	\$485.72	\$969.64	\$1,550.34
1/1/11	34.07	98.59	156.66	292.16	485.72	969.64	1,550.34
1/1/10	34.07	98.59	156.66	292.16	485.72	969.64	1,550.34
1/1/09	27.25	78.87	125.33	233.73	388.58	775.71	1,240.27
4/1/08	21.80	63.10	100.26	186.98	310.86	620.57	992.22
7/1/07	17.39	49.77	78.95	147.09	244.41	487.50	779.32
7/1/06	16.72	47.85	75.91	141.43	235.01	468.75	749.35
8/1/05 ⁽¹⁾	16.08	46.01	72.99	135.99	225.97	450.72	720.53

Bi-Monthly Non-Residential Usage Rate (\$/HCF)

As of June 30	Low Strength	Medium Strength	High Strength				
1/1/12	\$2.89	\$3.20	\$4.14				
1/1/11	2.89	3.20	4.14				
1/1/10	2.89	3.20	4.14				
1/1/09	2.31	2.56	3.31				
4/1/08	1.85	2.05	2.65				
7/1/07	1.32	1.46	1.89				
7/1/06	1.27	1.40	1.82				
8/1/05 ⁽¹⁾	1.22	1.35	1.75				

⁽¹⁾ Prior to August 1, 2005, sewer rates consisted of flat monthly or bi-monthly charges for dwelling unit equivalents regardless of residential or commercial categories.

Source: Nipomo Community Services District.

Table 2 below sets forth a comparison of current effective sewer rates and charges for other communities and service areas in the surrounding region. .

TABLE 2 NIPOMO COMMUNITY SERVICES DISTRICT TOWN DIVISION WASTEWATER ENTERPRISE REGIONAL COMPARISON OF SEWER RATES (monthly charges)

District/Agency	Approximate # of Single Family Residential Customers	Monthly Rate for Single Family Residential User (per DU)
City of Grover Beach	5,100	\$ 9.92 = City <u>\$14.86</u> = Sanitation District \$24.78 Total
Oceano Community Services District	2,091	\$ 8.98 = CSD \$14.86 = Sanitation District \$23.84 Total
City of Pismo Beach	3,676	\$39.49
City of Guadalupe	1,811	\$25.41
Vandenberg Village Community Services District	2,300	\$35.63 = CSD \$30.12 = Regional Upgrade \$65.75 Total
City of Maria	20,000	\$14.47
City of Arroyo Grande	6,243	\$2.30 Flat rate plus \$0.52 per HCF consumed (assume 10 units/mo) \$7.50 = City \$14.86 = Sanitation District \$22.36 Total
Mission Hills Community Services District	1,200	\$6.69 flat rate plus \$2.99 per unit of water based on Winter Average (Dec-Feb) \$36.59 (Assume 10 units/mo winter average) If no Winter Average, flat rate will be \$42.63
Nipomo Community Services District – Town Division	2,468	\$44.16
Nipomo Community Services District — Blacklake Division	482	\$69.29

Source: Nipomo Community Services District.

Capacity Charges

The District currently charges developers or other new customers connecting to the Town sewer system a one-time charge for capacity in the system. Sewer system capacity charges are based on meter size and reflect the potential demand on the sewer system that each new connection could impose. Current capacity charges are based on the system buy-in methodology for both collection and treatment. Commending July 1, 2009, and each fiscal year thereafter, the capacity charge shall be increased to reflect the increase in the costs of the construction

of District facilities. The determination of whether there has been an increase in costs and the amount of the increase in costs shall be determined by the percentage increase in the 20-Cities Construction Cost Index published by the Engineering News Record using the July, 2007 value of seven thousand nine hundred fifty-nine (7,959) as the basis and the Index value for May of each year to calculate the increase. Current and historical capacity charge schedules are summarized below in the table below.

TABLE 3
NIPOMO COMMUNITY SERVICES DISTRICT
TOWN DIVISION WASTEWATER ENTERPRISE
HISTORICAL CAPACITY CHARGES

			•	ity Charge of Meter)		
As of July 1	1" or less	1 ½"	2"	3"	4"	6"
2011	\$7,864	\$23,593	\$37,749	\$70,779	\$117,965	\$235,931
2010	7,625	22,874	36,598	68,621	114,368	207,810
2009	7,462	22,387	35,819	67,160	111,934	223,867
2008	6,927	20,781	33,250	62,343	103,905	228,736
2007	4,314	12,927	20,692	38,823	64,718	129,396

Source: Nipomo Community Services District.

Connections

The following table provides a summary of the accounts and connections for the Enterprise for the most recent six fiscal years.

TABLE 4
NIPOMO COMMUNITY SERVICES DISTRICT
TOWN DIVISION WASTEWATER ENTERPRISE
HISTORIC RESIDENTIAL SEWER CONNECTIONS

Fiscal Year Ended June 30	Number of Accounts	Percent Change	Number of Connections (Dwelling Unit Equivalent)	Percent Change
2011	2,914	0.94%	3,316	0.64%
2010	2,887	0.42	3,295	0.33
2009	2,875	-0.17	3,284	2.37
2008	2,880	1.84	3,208	0.91
2007	2,828	3.25	3,179	4.68
2006	2,739		3,037	

Source: Nipomo Community Service District.

The Enterprise has a relatively stable customer base. During the Fiscal Year 2010-11 the District has continuously billed approximately 2,914 accounts. Table 5 sets forth number of current wastewater accounts and connections for single family residential, multifamily residential and commercial categories.

TABLE 5
NIPOMO COMMUNITY SERVICES DISTRICT
TOWN DIVISION WASTEWATER ENTERPRISE
NUMBER OF ACTIVE ACCOUNT/CONNECTIONS BY CATEGORY
(As of December 31, 2011)

Category	Number of Accounts	Percent of Total	Number of Connections (Dwelling Unit Equivalent)	Percent of Total
Single Family	2,468	84.69%	2,468	74.43%
Multifamily	367	12.59	766	23.10
Commercial	79	2.71	82	2.47
TOTAL	2,914	100.00%	3,316	100.00%

Source: Nipomo Community Service District.

The ten largest customers of the Enterprise as measured by charges for the fiscal year ended June 30, 2011, were responsible for approximately 22% of Enterprise revenue during such period. The majority of the District's customer are residential. The County of San Luis Obispo is the largest customer, generating almost 14% of the bi-monthly revenues of the Enterprise.

TABLE 6 NIPOMO COMMUNITY SERVICES DISTRICT TOWN DIVISION WASTEWATER ENTERPRISE TEN LARGEST CUSTOMERS

Fiscal Year ended June 30, 2011

Account Name	Billed Amount	% of Annual Total	
1. San Luis Obispo County ¹	\$ 243,763	13.85%	
2. San Luis Bay Apartments	49,286	2.80	
3. 750 Grande Assoc Apartments	21,411	1.22	
4. Cidar Village Apartments	16,563	0.94	
5. La Placity Plaza	10,719	0.61	
Nipomo Tefft Associates	8,946	0.51	
SPZ Properties LLC	8,888	0.51	
8. Lucia Mar Unified School	8,275	0.47	
9. Jockos BBQ	7,779	0.44	
10. Safeway	7,630	0.43	
Total Top Ten	\$ 383,260	21.78%	
Total All Others	\$1,376,582	78.22%	
TOTAL	\$1,759,842	100.00%	

Includes collections for 520 residential accounts for parcels that lie outside the District's boundaries which
are billed by the Count. Such collections are then remitted bi-monthly to the District.
 Source: Nipomo Community Services District.

Capital Improvement Program

The District's projected capital improvement plan for the Enterprise for Fiscal Years 2011-12 through Fiscal Year 2014-15 is set forth below.

TABLE 7
NIPOMO COMMUNITY SERVICES DISTRICT WASTEWATER ENTERPRISE
CAPITAL IMPROVEMENT PROGRAM SUMMARY

Capital Improvement Program	2011-12	2012-13	2013-14	2014-15	2015-16
Southland WWTF	\$4,400,000	\$6,597,000	0	0	0
Bio-Solids Disposal	200,000	0	0	0	0
SCADA Upgrades	120,000	20,000	20,000	20,000	20,000
Electrical for Equip. Storage Building	5,500	0	0	0	0
Frontage Rd Sewer Trunk Upgrade (53%)	1,166,000	0	0	0	0
Other planned capital improvements	0	0	440,000	0	0
TOTAL	\$5,891,500	\$6,617,000	\$460,000	\$20,000	\$20,000

Source: Nipomo Community Services District.

The District's capital improvement program is a five-year plan, revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may be undertaken. New capital improvements and upgrades are funded solely from capacity funds. Maintenance of the capital components of the Enterprise are funded from revenues of the Enterprise.

Wastewater Historical Revenues

Table 8 below shows the historical revenues generated by the Enterprise for the past six fiscal years.

TABLE 8
NIPOMO COMMUNITY SERVICES DISTRICT
TOWN DIVISION WASTEWATER ENTERPRISE
HISTORICAL REVENUES

Fiscal Year Ended June 30	Revenues	Percent Increase		
2011	\$1,759,842	12.64%		
2010	1,562,388	26.92		
2009	1,230,959	35.63		
2008	907,559	9.61		
2007	827,964	8.13		
2006	765,735			

Source: Nipomo Community Service District.

Billing and Collection Procedures

The District issues a combined utility bill to each of the customers for fees and charges related to water and wastewater services on a bi-monthly basis. Customers with delinquent accounts are charged an additional fee. Customer accounts become delinquent if unpaid 25 days after due, and if a delinquent account remains unpaid for an additional 15 days water service is terminated.

The District has historically a very low, if any, annual delinquency rate on the collection of its utility charges. Currently, the delinquency rate is 0%. If delinquencies occur, service is discontinued and liens are placed on the parcels and collected on the property tax roll.

Historical Financial Operations

The following tables present historical revenues, expenditures and changes in net assets and for the Enterprise for the past five Fiscal Years.

TABLE 9
NIPOMO COMMUNITY SERVICES DISTRICT
TOWN DIVISION WASTEWATER ENTERPRISE
HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For Fiscal Years Ended June 30

	2006-07	2007-08	2008-09	2009-10	2010-11	3/31/12
OPERATING REVENUES						
Charges for Services	\$827,964	\$907,559	\$1,230,959	\$1,562,388	\$1,759,842	\$1,356,537
Miscellaneous	39,775	49,323	200	300	1,070	3,164
Total Operating Revenues	\$867,739	\$956,882	\$1,231,159	\$1,562,688	\$1,760,912	\$1,359,701
OPERATING EXPENSES						
Personnel	186,206	282,016	301,711	282,116	275,090	213,586
Contractual Services	11,083	187,195	7,341	24,241	29,828	8,738
Utilities	95,547	90,069	107,112	122,866	125,160	90,537
Repairs and Maintenance	119,376	153,045	134,572	128,715	100,298	50,814
Other supplies and expenses	150,440	184,864	112,248	118,224	112,738	92,138
Insurance	6,069	7,021	7,641	11,263	13,381	10,623
Depreciation	365,136	398,315	421,390	446,433	477,345	341,848
Total Operating Expenses	\$933,857	\$1,302,525	\$1,092,015	\$1,133,858	\$1,133,840	808,284
OPERATING INCOME (LOSS)	\$(66,118)	\$ (345,643)	\$ 139,144	\$ 428,830	\$ 627,072	\$551,417
NON-OPERATING						
REVENUES (EXP)	W-W-W-W-W-W-W-W-W-W-W-W-W-W-W-W-W-W-W-					
Interest Income	427,181	378,903	194,810	59,343	46,149	26,274
Property Taxes	(44)		**	**		
Miscellaneous Income	910	(mm)		7,087		(3,265)
Interest Expense	(2,944)	(44)		(2,469)	(9,659)	(4,924)
Total Non Operating Revenues	425,147	378,903	194,810	63,961	36,490	18,085
Income (Loss) before Contrib.	359,029	33,260	333,954	\$ 492,791	\$ 663,562	\$569,502
Transfers (to) from other funds		544):	(84,831)	(89,928)	325,148	(69,126)
Capital Contributions	258,549	1,858,473	503,712	78,245	58,261	62,912
Change in Net Assets	\$ 617,578	\$ 1,891,733	\$ 752,835	\$481,108	\$ 1,046,971	\$563,288
Total Net Assets, Beginning	\$17,743,741	\$18,361,319	\$20,253,052	\$21,005,887	\$21,486,995	\$22,533,966
Total Net Assets, Ending	\$18,361,319	\$20,253,052	\$21,005,887	\$21,486,995	\$22,533,966	\$23,097,254

Source: Nipomo Community Services District.

TABLE 10 NIPOMO COMMUNITY SERVICES DISTRICT TOWN DIVISION WASTEWATER ENTERPRISE COMBINING STATEMENT OF NET ASSETS

For Fiscal Years Ended June 30

	2006-07	2007-08	2008-09	2009-10	2010-11	3/31/12
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 8,539,627	\$ 8,862,082	\$ 9,085,441	\$ 9,253,276	\$ 9,621,813	\$8,188,122
Accounts receivable	35,397	36,057	41,822	55,584	54,221	85,471
Unbilled utility receivable	87,000	125,000	159,000	204,000	202,000	202,000
Accrued interest receivable	110,607	67,856	34,353	12,619	11,545	8,169
Notes receivable	823			102125	-	22
Total current assets	\$ 8,773,454	\$ 9,090,995	\$ 9,320,616	\$ 9,525,459	\$ 9,889,579	\$8,483,762
Noncurrent Assets						
Capital assets:						
Land and construction in						
progress	781,258	1,012,990	1,326,666	1,736,233	2,608,335	3,036,843
Property, plant & equipment, net	9,754,736	11,056,157	11,255,685	11,199,216	11,035,081	12,373,270
Total noncurrent assets	\$10,535,994	\$12,069,147	\$12,582,351	\$12,935,449	\$13,643,416	\$15,410,113
Other Assets						
Loan fees, net accumulated						
amortization	109,460	93,877	79,401	66,063	53,883	53.883
Deposits						3,128
Total Other Assets	\$ 109,460	\$ 93,877	79,401	66,063	53,883	57,011
TOTAL ASSETS	\$19,418,908	\$21,254,019	\$21,982,368	\$22,526,971	\$23,586,878	\$23,950,886
LIABILITIES						
Current Liabilities						
Accounts payable	70,642	89,906	138,382	69,052	194,763	76,772
Accrued liabilities	13,883	15,046	19,133	21,054	23,108	111,991
Current portion long-term debt	77,049	77,049	77,049	95,716	116,644	77,049
Total current liabilities	\$ 161,574	\$ 182,001	\$ 234,564	\$ 185,822	\$ 334,515	\$265,812
Noncurrent Liabilities						
Long-term debt	889,715	812,666	735,617	847,854	712,097	581,520
Deferred revenue	6,300	6,300	6,300	6,300	6,300	6,300
Total noncurrent liabilities	\$ 898,015	\$ 818,966	\$ 741,917	\$ 854,154	\$ 718,397	587,820
TOTAL LIABILITIES	\$ 1,057,589	\$ 1,000,967	\$ 976,481	\$ 1,039,976	\$ 1,052,912	\$853,632
NET ASSETS						
Invested in capital assets, net of						
related debt	\$ 9,676,690	\$11,273,309	\$12,582,351	\$11,991,879	\$12,868,558	14,751,544
Restricted for system expansion						
and replacement	7,938,938	8,451,554	8,519,319	7,916,076	6,993,833	4,878,510
Unrestricted	743,691	528,189	(85,783)	1,579,040	2,671,575	3,467,200
Total Net Assets	\$18,361,319	\$20,253,052	\$21,005,887	\$21,486,995	\$22,533,966	\$23,097,254

Source: Nipomo Community Services District.

Projected Operating Results and Debt Service Coverage

The following table sets forth the projected revenues, expenses and debt service coverage of the Enterprise for the previous and current Fiscal Year and the next five Fiscal Years. The District has prepared the following table of projections of operating results of the Enterprise based on certain assumptions made by the District. To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

TABLE 11
NIPOMO COMMUNITY SERVICES DISTRICT TOWN DIVISION WASTEWATER ENTERPRISE PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
For Fiscal Years Ended June 30

	2010-11 <u>Actual</u>	2011-12 ESTIMATE	2012-13 ESTIMATE	2013-14 ESTIMATE	2014-15 ESTIMATE	2015-16 ESTIMATE
OPERATING REVENUES						
Operating Revenues	\$1,760,842	\$1,778,440	\$1,796,215	\$1,814,167	\$1,832,299	\$1,850,612
Total Operating Revenues	\$1,760,842	\$1,778,440	\$1,796,215	\$1,814,167	\$1,832,299	\$1,850,612
OPERATING EXPENSES						
Wages and Benefits	\$ 133,531	\$ 137,537	\$ 212,537	\$ 218,913	\$ 225,481	\$ 232,245
Utilities	125,160	128,915	115,000	118,450	122,004	125,664
Chemicals	5,523	5,689	8,550	8,807	9,071	9,343
Laboratory Testing	29,840	30,735	31,657	32,607	33,585	34,593
Sludge Removal	-	-	50,000	51,500	53,045	54,636
Supplies	38,540	39,696	40,887	42,114	43,377	44,678
Outside Services	28,258	29,106	29,979	30,878	31,805	32,759
Fees and Permits	5,468	5,632	5,801	5,975	6,154	6,339
Repairs and Maintenance	100,298	103,307	118,506	134,524	151,782	169,955
General Administration	139,761	143,954	148,272	152,7211	157,302	162,021
Depreciation and Amortization	477,345	491,665	506,415	521,608	537,256	553,374
Total Operating Expenses	\$1,083,724	\$1,116,236	\$1,267,605	\$1,318,096	\$1,370,861	\$1,425,606
NET OPERATING REVENUES	\$ 677,118	\$ 662,204	\$ 528,610	\$ 496,071	\$ 461,438	\$ 425,006
NON-OPERATING REVENUES						
Interest Income	\$ 46,149	\$ 46,610	\$ 33,100	\$ 33,431	\$ 33,765	\$34,103
Capital Contributions (Hook-up fees)	58,261	70,776	259,512	259,512	259,512	259,512
Total Non Operating Revenues	\$ 104,410	\$ 117,386	\$ 292,612	\$ 292,943	\$ 293,277	\$ 293,615
Add Back Depreciation TOTAL NET REVENUES AVAILABLE	\$ 477,345	\$ 491,665	\$ 506,415	\$ 521,608	\$ 537,256	\$ 553,377
FOR DEBT SERVICE	\$1,258,873	\$1,271,256	\$1,327,637	\$1,310,621	\$1,291,971	\$1,271,995
Existing Debt Service	W1,200,075	- 1,220	565,000	565,000	565,000	565,000
Series 2012 Bonds*	2	-	565,000	565,000	565,000	565,000
TOTAL DEBT SERVICE	\$ 77,048	\$ 77,048	\$ 642,048	\$ 642,048	\$ 642,048	\$ 642,048
Coverage	1634%	1650%	207%	204%	201%	198%

^{*} Preliminary, subject to change. Assumptions: 1. Capital Contributions assume ten (10) new hooks up each year through 2012 increasing to thirty (30) in 2013.

^{2.} Operating Revenues are increased annually based upon an increase in Hook Ups.

Source: Nipomo Community Services District.

Delinquencies

The District's wastewater has historically accounted for water system revenues on a full accrual basis. The District has developed procedures for handling delinquent accounts. There has not generally been a significant delinquency problem. The threatened suspension of water delivery is normally sufficient incentive to induce customers to make payment of their billings. In addition, the District customers may have tax liens placed on their property when water bills are delinquent.

Enterprise Accounting

The Enterprise is accounted for as an enterprise fund with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Revenues are fully accrued to include unbilled services at year end.

The District uses the accrual basis of accounting for its "proprietary funds," including the Enterprise funds. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. All assets and liabilities for these funds are included on the balance sheet with this measurement focus. Fund equity (net total assets) is segregated into contributed capital and retained earnings components.

The proprietary funds apply all applicable GASB pronouncements as well as applicable pronouncements of the Financial Accounting Standard Board, Accounting Principles Board and any Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2011" for a more complete summary of the District's accounting policies.

California Regional Water Quality Control Board

The Southland WWTF operates under Waste Discharge Requirements Order No. R3-2012-0003 (the "Order") of the California Regional Water Quality Control Board (the "RWQCB Board") which established the discharge limits and monitoring requirements for the Southland WWTF. The Order is a license to operate the Enterprise and requires that the District comply with Federal, State, and local laws and regulations. The Order specifies a permitted capacity of 900,000 gallons per day (gpd) based on the maximum monthly flow (MMF) for the Southland WWTF. The primary laws that regulate the Enterprise are found in the Federal Clean Water Act and the State Porter Cologne Water Act. Board Orders are renewed every 5 years to reflect changes in regulatory laws. The District is able to request changes to RWQCB Board Orders to remove outdated procedures and testing.

Generally, RWQCB Board Order compliance costs are stable and do not change significantly from year to year. If the construction of new facilities to the Enterprise are required for compliance with a RWQCB Board Order, a time schedule is usually adopted to allow the District the time to design and build the new facilities. When new Enterprise facilities are completed, compliance costs will generally increase during startup. These increased costs, however, are absorbed into the operational funding of the Enterprise facilities. Rate studies determine how the compliance costs are passed on to the users of the system.

On February 7, 2006, the District received a Notice of Violation from the Regional Water Quality Control Board (RWQCB) for several effluent water quality violations reported during 2005. In response to this notice, the District prepared an Action Plan (dated May, 2006), a Technical Memorandum (dated July, 2006)

and a Draft Wastewater Treatment Master Plan (revised February 19, 2007). These research efforts were intended to evaluate existing and future wastewater treatment demands of the Southland WWTF, identify required improvements to meet these demands and develop a capital improvements program to assist the District in planning and financing these facilities. The proposed project is incorporated into the Waste Discharge Requirements Order No. R3-2012-0003 that was issued to the District in February 2012.

Non-Compliance costs with a RWQCB Board Order can be significant. Most violations of the Order, however, if any, are minor or occasional in occurrence and result in minor fines and or penalties. Over the past five years, the financial impact of fines with respect to Board Orders on the Enterprise has been minimal. Through constant monitoring, testing, and operation, operators are able to correct most issues before they escalate into large fines.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of Certificates. However, the following does not purport to be an exhaustive list of risks and other considerations which may be relevant to investing in the Certificates and there can be no assurance that other risk factors will not become evident at any future time. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Enterprise Demand and Growth

There can be no assurance that the local demand for wastewater service will be maintained at levels described in this Official Statement under "NIPOMO COMMUNITY SERVICES DISTRICT." Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the District's rate covenants in the Installment Sale Agreement. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Installment Sale Agreement — Amount of Rates; Fees and Charges." There can be no assurance that either the District or other administrative agency will not adopt restrictions on annual connection to the Enterprise.

Enterprise Expenses

There can be no assurance that the District's expenses for the Enterprise will be consistent with the historic levels described in this Official Statement. Changes in technology, new State and federal regulatory requirements including environmental regulations, increases in the cost of energy or other expenses could reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreement. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Installment Sale Agreement — Amount of Rates; Fees and Charges." Such rate increases could increase the likelihood of nonpayment.

Voter Initiatives -- State Constitutional Amendment

California's voter initiative process allows measures which qualify for the ballot to be approved or disapproved by voters in a State of California statewide election. Articles XIIIB, XIIIC and XIIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. See "LIMITATIONS ON TAXES AND REVENUE – Article XIIIC and Article XIIID of the California Constitution." From time to time initiative measures could be adopted which adversely affect the ability of the District to generate Net Revenues. Neither the nature and impact of these measures nor the likelihood of qualification for ballot or passage can be anticipated by the District.

Article XIIIC, provides, among other things, that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fee or charge. The District is unable to predict whether any of its existing fees or charges, including its wastewater service charges, will be subjected to the initiative process or the outcome of any initiative proceedings with respect to such fees or charges. If fees or charges charged or collected by the District for its wastewater services are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, the ability of the District to generate Net Revenues sufficient to comply with its covenants under the Installment Sale Agreement may be adversely affected.

Article XIIID prohibits the assessment upon any parcel of property or upon any person "as an incident of property ownership" by a local government of any tax, assessment, fee or charge except voter-approved ad valorem property taxes and special taxes, fees or charges as a condition of property development, and assessments and "fees or charges for property related services" levied or imposed in accordance with the provisions of Article XIIID. Based on existing statutory and case law, the District believes that its wastewater capacity and connection charges are fees or charges as a condition of property development within the meaning of Article XIIID, although there can be no assurance that a future court would not determine otherwise.

Under Article XIIID, revenues derived from a "fee" or "charge" may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "fee" or "charge" may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners." In addition, in order for a "fee" or "charge" to be imposed or increased, Article XIIID provides that, among other things, the parcel upon which a fee or charge is proposed for imposition must be identified, the amount of the fee or charge proposed to be imposed on each such parcel must be calculated, written notice by mail of the proposed fee or charge must be provided to the "record owner" (and the "customer of record" if different than "record owner") of each identified parcel, and a public hearing must be conducted upon the proposed fee or charge. If written protests against the proposed "fee" or "charge" are presented by a majority of owners or customer of record of the identified parcels (only one (1) protest per parcel is counted), the fee or charge may not be imposed. The District is unable to predict whether the imposition or increase of any fee or charge for its wastewater service will be the subject of such a majority protest. If such a majority protest occurs, the ability of the District to generate Net Revenues sufficient to comply with its covenants under the Installment Sale Agreement may be adversely affected.

The District is unable to predict how Article XIIIC and Article XIIID will be further interpreted by the courts and what, if any, further implementing legislation will be enacted. Bond Counsel has advised that there can be no assurance that Article XIIIC and Article XIIID will not further limit the ability of the District to charge and collect fees and charges for its wastewater service sufficient to enable the District to generate Net Revenues sufficient to comply with its covenants under the Installment Sale Agreement. In such event, there can be no assurance that remedies will be available to fully protect the interests of the holders of the Certificates. See "Limitations on Remedies" herein.

Another such initiative, recently approved by the electorate at the November 2, 2010 election, is Proposition 26. The initiative would impose a two-thirds voter approval requirement for the imposition of fees and charges by the State. It would also impose a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. The initiative, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters pursuant to Proposition 13, approved in 1978, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope "a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the [State/local government] of providing the service or product to the payor." The District believes that the initiative is not intended to and would not

apply to fees for utility services charged by special districts such as the District. The District, however, is unable to predict whether Proposition 26 will be interpreted by the courts to apply to the provision of utility services by local governments such as the District.

Constitutional Limitations on Appropriations

Under Article XIIIB of the California Constitution, state and local government entities have an annual "appropriations limit" which limits their ability to spend certain moneys called "appropriations subject to limitation." Such appropriations consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the "appropriations limit" is to be based on certain fiscal year 1978-79 expenditures, and is to be adjusted annually to reflect changes to the consumer price index, population and services provided by these entities. Among other provisions of Article XIIIB, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. The District's current "appropriations limit" for fiscal year 2011-12 is \$4,642,228 and its "appropriations subject to limitation" for fiscal year 2011-12 is \$246,895.

Limitations on Remedies Available

The enforceability of the rights and remedies of the owners and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Limited Obligations

No fund, other than the fund comprised of the net revenues of the Enterprise (as defined herein) is liable for the payment of the Certificates or their interest or premium, if any, nor is the credit or taxing power of the District pledged for the payment of the Certificate or their interest or premium, if any. The Owners of the Certificates shall not compel the exercise of the taxing power by the District or the forfeiture of any of its property. The principal of and interest on the Certificates and any premiums upon the redemption of any thereof are not a debt of the District nor a legal or equitable pledge, charge, lien, or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues, except the Net Revenues which are, under the terms of the Installment Sale Agreement, pledged to the payment of the Certificates and interest. The District may (but is not legally obligated to) advance funds for the payment of interest or principal or for the performance of any covenants, provided that such funds are derived from a source legally available for such purpose and may be used by the District for such purpose without incurring indebtedness.

Loss of Tax-Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the District has covenanted in the Trust Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986. The interest with respect to the Certificates, could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates, as a result of acts or omissions of the District in violation of covenants in the Trust Agreement. Should such an event of taxability occur, the Certificates are not

subject to acceleration, redemption or any increase in interest rates and will remain Outstanding until maturity or until redeemed under one of the redemption provisions contained in the Trust Agreement. See "TAX EXEMPTION" herein.

Forecasts

Although the District believes that the projections herein of future operating results of the Enterprise are reasonable, there can be no assurance that operating results will match the projections due to changes in general economic conditions and similar factors. In addition, the Enterprise and economic development within the service area of the District are subject to federal, State and local regulations. There can be no assurance that the Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the District.

Environmental Laws and Regulations

The Enterprise is subject to a wide variety of local, State, and federal health and environmental laws. Among the types of regulatory requirements faced by such facilities are air and water quality control requirements. Such regulations, as they may be from time to time amended or subsequently enacted could affect the Net Revenues available to make the Installment Payments.

Casualty Risk; Earthquakes

Any natural disaster or other physical calamity, including earthquake, may have the effect of reducing Net Revenues through damage to the Enterprise and/or adversely affecting the economy of the surrounding area. The Installment Sale Agreement require the District to maintain insurance or self-insurance, but only if and to the extent available at reasonable cost from reputable insurers, and the District is not expressly required to provide earthquake insurance. The State of California, including the San Luis Obispo County area, is a seismically active region. In the event of total loss of the Enterprise, there can be no assurance that insurance proceeds will be adequate to redeem all outstanding Certificates or that losses in excess of the insured amount will not occur.

Secondary Market

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

LIMITATIONS ON TAXES AND REVENUES

Article XIIIA of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIIIA approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Legislation enacted by the State Legislature to implement Article XIIIA provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices,

populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

"Appropriations subject to limitation" are authorizations to spend "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service," but "proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIIIB limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the District in each year is based on the District's limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the District's option, either (1) the percentage change in State per capita personal income, or (2) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111. Change in population is to be measured either within the jurisdiction of the District or the County as a whole.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by a District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the District's appropriations limit was based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the District's appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect. The District does not anticipate that any such appropriations limitations will impair its ability to make Installment Payments as required by the Installment Sale Agreement.

Proposition 1A

Proposition 1A ("Proposition 1A"), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004-05 and 2005-06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any ten-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the vehicle license fee ("VLF") rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The District bonded its share of Proposition 1A receivables in November 2009 utilizing the California Statewide Communities Development Authority Proposition 1A Securitization program for upfront payments in January 2010 and May 2010 totaling \$43,882.

Article XIIIC and Article XIIID of the California Constitution

Proposition 218, a State ballot initiative known as the "Right to Vote on Taxes Act," was approved by the voters on November 5, 1996. The initiative added Articles XIIIC and XIIID to the California Constitution, creating additional requirements for the imposition by most local governments of "general taxes," "special taxes," "assessments," "fees," and "charges." Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (i.e., "general taxes") imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIIID imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIIID includes any levy, other than an ad valorem tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIIID prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in Richmond v. Shasta Community Services District, 32 Cal.4th 409 (2004) ("Richmond"), and Bighorn-Desert View Water Agency v. Verjil, 39 Cal.4th 205 (2006) ("Bighorn") have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIIID to service fees and charges. In Richmond, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both Richmond and Bighorn, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIIID, rejecting, in Bighorn, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

Article XIIID also provides that "standby charges" are considered "assessments" and must follow the procedures required for "assessments" under Article XIIID and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that "majority protest" exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity "separate the general benefits from the special benefits conferred on a parcel" of land. Article XIIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIIID provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and "imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water" are exempted from some of the provisions of Article XIIID applicable to assessments.

Article XIIIC extends the people's initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIIC local voters by initiative may reduce a public agency's water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate's initiative power is subject to the public agency's statutory obligation to set water service charges at a level that will "pay the operating expenses of the agency, . . . provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due."

Rate increases or modifications for the Enterprise have been adopted by the Board in May 1989, June 1992, June 1993, May 1997, November 2000, January 2003, June 2005 and January 2008, and to the extent required by law were in compliance with Proposition 218.

Pursuant to the Installment Sale Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services of the Enterprise which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year, and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Installment Sale Agreement. In the event that service charges are determined to be subject to Article XIIID, and proposed increased service charges cannot be imposed as a result of a majority protest, such circumstances may adversely affect the ability of the District to generate revenues in the amounts required by the Trust Agreement, and to make Installment Payments as provided in the Installment Sale Agreement. No assurance may be given that Articles XIIIC and XIIID will not have a material adverse impact on Net Revenues.

Other Initiative Measures

Articles XIIIA, XIIIB, XIIIC and XIIID were adopted pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the District to increase revenues.

THE CORPORATION

The Nipomo Community Services District Public Facilities Corporation is a California nonprofit public benefit corporation, formed in March, 2003 for the purpose of providing assistance to public agencies in acquiring capital improvements. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed.

The Corporation is a separate legal entity from the District. It is governed by a five member Board of Directors. The Corporation has no employees. All staff work is performed by employees of the District. The

members of the Corporation's Board of Directors are the Board of Directors of the District. The District's General Manager and other District employees are available to provide staff support to the Corporation.

FORWARD-LOOKING STATEMENTS

This Official Statement contains certain "forward-looking statements" concerning the Enterprise and the operations, performance and financial condition of the District, including their future economic performance, plans and objectives and the likelihood of success in developing and expanding. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the District. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. Results may differ materially from those expressed or implied by these forward-looking statements.

ABSENCE OF LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their offices or seeking to restrain or to enjoin the sale or delivery of the Certificates, the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Certificates, the Trust Agreement, the Assignment Agreement, the Installment Sale Agreement or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement, or contesting the powers of the District or its authority with respect to the Certificates or any action of the District contemplated by any of said documents, nor, to the knowledge of the District is there any basis therefor.

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District's ability to make Installment Payments.

TAX EXEMPTION

The Internal Revenue Code of 1986 (the "Code"), imposes certain requirements that must be met subsequent to the execution and delivery of the Certificates for the interest component of each Installment Payment (the "Interest Component"), and the allocable portion thereof distributable in respect of each Certificate (the "Certificate Interest Distribution"), to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in gross income for federal income tax purposes retroactive to the date of delivery of the Installment Sale Agreement and the Certificates. The District and the Corporation have covenanted to maintain the exclusion of the Interest Components and the Certificate Interest Distributions from the gross income of the owners thereof for federal income tax purposes. In rendering its opinions with respect to the Interest Components and Certificate Interest Distributions as described below, Special Counsel will rely upon representations and covenants of the District and the Corporation (including such covenant noted above, and the covenants and representations described below) made in connection with the execution and delivery of the Certificates, and will assume that all such representations are true and correct and that the District and the Corporation will comply with all such covenants.

Upon the execution and delivery of the Installment Sale Agreement, Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, will deliver its opinion that under existing law, and assuming compliance

with the covenants referred to herein, each Interest Component, and each of the Certificate Interest Distributions in respect of a Certificate, is excluded pursuant to section 103(a) of the Code from the gross income of the owner of the Certificate for federal income tax purposes. Further, on that same day Special Counsel will render its opinion, based solely on the foregoing, and upon existing provisions of the laws of California, that each Interest Component, and each of the Certificate Interest Distributions in respect of a Certificate, are exempt from personal income taxes of the State of California under present state law. Special Counsel will render its further opinion that, under existing statutes, regulations, rulings and court decisions, the Installment Sale Agreement will not constitute a "specified private activity bond" within the meaning of section 57(a)(5) of the Code and, therefore, that each Interest Component, and each of the Certificate Interest Distributions in respect of a Certificate, will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of an Interest Component allocable to or Certificate Interest Distribution in respect of a Certificate owned by, a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis upon which the alternative minimum tax imposed by section 55 of the Code is computed.

Pursuant to the Trust Agreement and in the Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986, to be delivered by the District and the Corporation in connection with the issuance of the Certificates, the District and the Corporation will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Certificates from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described above, Special Counsel will assume the accuracy of such representations and the present and future compliance by the District and the Corporation with such covenants. Further, except as stated above, Special Counsel will express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the Certificates.

A copy of the proposed form of opinion of Special Counsel relating to the Certificates is included in Appendix F.

Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Installment Sale Agreement and the Certificates may affect the tax status of the Interest Components or the Certificate Interest Distributions. No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of such amounts from personal income taxation by the State of California or of the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes. Furthermore, Special Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Installment Sale Agreement, the Certificates, the Interest Components or Certificate Interest Distributions, if any action is taken with respect to the Installment Sale Agreement, the Certificates or the proceeds thereof, or the Trust Agreement predicated or permitted upon the advice or approval of other counsel.

To the extent that a purchaser of a Certificate acquires that Certificate at a price that exceeds the aggregate amount of scheduled distributions (other than distributions of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the Certificate (determined, in the case of a prepayable Certificate, under the assumption described below) (the "Stated Redemption Price at Maturity"), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Certificate that is subject to prepayment, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the Certificate will be prepaid on the permitted date that would minimize the purchaser's yield on the Certificate (or that the Certificate will not be prepaid prior to the stated maturity date in respect of that Certificate if that would minimize the purchaser's yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner

realizing a taxable gain when a Certificate owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Certificate to the owner.

The excess, if any, of the Stated Redemption Price at Maturity of a Certificate of a maturity over the initial offering price to the public of the Certificate of that maturity set forth on the inside cover page of this Official Statement is "original issue discount". Such original issue discount accruing in respect of a Certificate is treated for federal income tax and California personal income tax purposes as additional interest in respect of that Certificate and is excluded from the gross income of the owner thereof for federal income tax purposes and exempt from the California personal income tax. Original issue discount accruing in respect of any Certificate purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term to the stated maturity date in respect of the Certificate on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount in respect of such a Certificate accruing during each period is added to the adjusted basis of such Certificate to determine taxable gain upon disposition (including upon sale, prepayment or payment on maturity) of such Certificate. The Code includes certain provisions relating to the accrual of original issue discount in the case of a purchaser of a Certificate who purchases that Certificate other than at the initial offering price and pursuant to the initial offering of that Certificate.

Any person considering purchasing a Certificate at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, prepayment or other disposition of the Certificate. Any person considering purchasing a Certificate of a maturity in respect of which there is original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of such Certificate, including the treatment of a purchaser who does not purchase in the original offering and at the original offering price of that Certificate, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount in respect of such Certificate under federal individual and corporate alternative minimum taxes.

Although Special Counsel is of the opinion that Interest Component, and Certificate Interest Distributions in respect of a Certificate, are exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Certificates. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Certificates should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Certificates and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Certificates), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including Interest Component and Certificate Interest Distributions in respect of the Certificates, (iii) Interest Component and Certificate Interest Distributions accrued in respect of Certificates owned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including Interest Component and Certificate Interest Distributions accrued in respect of Certificates, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, Interest Distributions and Certificate Interest Distributions accrued in respect of Certificates owned by such recipients for federal income tax purposes, and (vi) under section 32(i) of the Code, receipt of investment income, including Interest Components and Certificate Interest Distributions accrued in respect of Certificates, may disqualify the recipient thereof from obtaining the earned income credit. Special Counsel has expressed no opinion regarding any such other tax consequences.

Special Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District and the Corporation described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Special Counsel, and Special Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures the Service is likely to treat the District as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the Interest Component and Certificate Interest Distributions accrued in respect of the Certificates Obligations, the District may have different or conflicting interest from the owners. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Interest Components and Certificate Interest Distributions accrued in respect of the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

UNDERWRITING

______ (the "Initial Purchaser") has purchased the Certificates from the District at a competitive sale for a purchase price of \$______ (representing the aggregate principal amount of the Certificates, plus a net premium of \$_____, and less an Initial Purchaser's discount of \$_____). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell Certificates to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

RATING

Standard & Poor's has assigned a rating of "AA" – Stable Outlook to the Certificates. A rating reflects only the views of the rating agency assigning such rating at the time such rating is issued and an explanation of the significance of such rating may be obtained from the rating agency furnishing the same. The rating is not a recommendation to buy, sell or hold the Certificates; and there is no assurance that such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates. Neither the District nor the Underwriters has undertaken any responsibility to maintain such rating, to bring to the attention of the registered owners as the Beneficial Owners of the Certificates any proposed change in or withdrawal of such rating or to oppose any such revision or withdrawal.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and beneficial owners of the Certificates (a) to provide certain financial information and operating data (the "Annual Report") relating to the District and the property in the District not later than eight months after the end of the District's Fiscal Year (which currently would be March 1), commencing with the report for the 2011-12 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Trustee on behalf of the District, with the Municipal Securities Rulemaking Board. The notices of enumerated events will be filed by the Trustee on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in the

Continuing Disclosure Agreement. See APPENDIX D - "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12 (the "Rule"). During the past five years, the District has never failed to comply in all material respects with any previous undertaking with respect to the Rule to provide annual reports or notices of enumerated events.

LEGAL MATTERS

Legal matters incident to the authorization, execution, delivery and sale of the Certificates are subject to approval by Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, whose opinion is expected to be delivered in substantially the form set forth in Appendix D hereto. Certain legal matters will be passed upon for the District and the Corporation by Shipsey & Seitz, Inc., San Luis Obispo, California, District Attorney and Fulbright & Jaworski L.L.P., Disclosure Counsel.

FINANCIAL ADVISOR

C.M. de Crinis & Co., Inc., Glendale, California, an independent financial consulting firm, has served as Financial Advisor to the District with respect to the sale of the Certificates. The Financial Advisor has advised the District as to the financial structure and certain other financial matters relating to the Certificates and has assisted the District in the review of this Official Statement. The information set forth herein has been obtained by the District from sources which are believed to be reliable, but such information is not guaranteed by the Financial Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Financial Advisor are contingent upon the sale and delivery of the Certificates.

FINANCIAL STATEMENTS

The general purpose financial statements of the District for the fiscal year ended June 30, 2011 included in Appendix B to this Official Statement, have been included in reliance upon the report of Crosby Company, Certified Public Accountant (the "Auditor"), San Luis Obispo, California, independent certified public accountant, and upon the authority of such as an expert in accounting and auditing. The Auditor was not requested to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact and no representation is made that any such estimates will be realized. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the District.

By:		
Dy		_

District Manager

APPENDIX A

COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC DATA

A-1

95530912.5

Copy of document found at www.NoNewWipTax.com

APPENDIX A

COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION

Introduction

The County of San Luis Obispo (the "County") was formed in 1850 as a general law county, pursuant to the established general laws of the State of California. A five-member Board of Supervisors, elected for four-year terms in district nonpartisan elections, governs the County. The seven incorporated cities in the County are Paso Robles, Atascadero, Morro Bay, San Luis Obispo, Pismo Beach, Arroyo Grande, and Grover Beach which comprise approximately 56% of the total population in the County.

Population

According to the Department of Finance estimates, the population in the County grew by approximately 1.9% between 2007 and 2011.

Table A-1
Population of San Luis Obispo County
and Incorporated Cities
(As of January 1)

Area	2007	2008	2009	2010	2011
Arroyo Grande	16,818	16,968	17,110	17,252	17,365
Atascadero	27,872	28,477	28,488	28,310	28,662
El Paso de Robles	29,618	29,813	30,004	29,793	30,022
Grover Beach	13,131	13,159	13,278	13,156	13,244
Morro Bay	10,474	10,506	10,576	10,234	10,329
Pismo Beach	8,573	8,568	8,677	7,655	7,708
San Luis Obispo (city)	44,389	44,521	44,829	45,119	45,418
SUBTOTAL	150,875	152,012	152,962	118,118	118,218
Unincorporated	114,911	116,278	117,939	151,519	152,748
TOTAL	265,786	268,290	270,901	269,637	270,966

Sources: State of California, Department of Finance; Table 2: E-4 Population Estimates for Cities, Counties and State, 2007-2010 with 2000 DRU Benchmark and Table 1 - Total Population 2000 and 2010 - Incorporated Cities by County in California.

Industry and Employment

The following Table A-2 compares estimates of the labor force, civilian employment and unemployment for County residents, State residents and United States residents between 2007 through 2011.

Table A-2 County of San Luis Obispo Civilian Labor Force, Employment and Unemployment Annual Average for Years 2007 Through 2011

Year and Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate
2011 [†]				
County	138,700	125,800	12,900	9.3%
State	18,384,900	16,226,600	2,158,300	11.7
United States	154,395,000	141,637,000	12,758,000	8.3
2010				
County	136,100	122,300	13,800	10.2%
State	18,176,200	15,916,300	2,259,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2009	.SE.	to Uts	1/53 1/53	
County	137,600	125,300	12,300	9.0
State	18,204,200	16,141,500	2,062,700	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2008				
County	138,100	130,200	7,900	5.7
State	18,191,000	16,883,400	1,307,600	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2007				
County	135,400	129,600	5,800	4.3
State	17,928,700	16,970,200	958,500	5.3
United States	153,124,000	146,047,000	7,078,000	4.6
2006			5 5 4 5 5 7 5 5 5 5 5 6 5 5 5 5 5 5 5 5 5 5 5	
County	133,886	128,582	5,304	4.0
State	17,686,700	16,821,300	865,400	4.9
United States	151,428,000	144,427,000	7,001,000	4.6

[†] Preliminary. Data is seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

Source: State Employment Development Department, Labor Market Information Division, and U.S. Bureau of Labor Statistics.

The largest industries in the County, in terms of the percentage of employment in each respective industry, are estimated by the State Employment Development Department as follows:

Table A-3 County of San Luis Obispo Employment by Industry Group Annual Averages

Industry Employment(1)	2007	2008	2009	2010	2011(2)
Agriculture	4,500	4,300	3,900	4,700	5,000
Natural Resources Mining and Construction	7,600	6,500	5,300	4,900	5,100
Manufacturing	6,100	6,200	5,500	5,800	5,600
Trade, Transportation, Warehousing/Utilities	20,900	20,400	19,000	19,100	19,300
Information	1,400	1,400	1,300	1,200	1,200
Finance, Insurance, and Real Estate	4,600	4,200	4,000	4,900	2,300
Professional and Business Services	9,800	9,800	8,900	9,800	10,300
Education and Services Health	11,100	11,400	11,300	11,500	11,400
Leisure and Hospitality	15,700	15,500	14,900	14,800	14,700
Other Services	4,500	4,500	4,500	4,600	4,400
Government	22,300	23,200	23,600	20,900	20,400
TOTAL ⁽³⁾	108,500	107,400	102,200	101,200	101,600

⁽¹⁾ Based on place of work.

Source: State of California, Employment Development Department.

Agriculture

The County is comprised of approximately 2,126,240 acres, of which approximately 1,389,350 acres (representing 65.3%) are zoned for agricultural uses. The value of agricultural production since 2005 is set forth in Table A-4 below.

⁽²⁾ Most recent annual estimated data available.

^{(3) &}quot;Total" may not be precise due to independent rounding.

Table A-4 County of San Luis Obispo Value of Agricultural Production Calendar Years 2005 Through 2009(1)

(In Thousands)

	2007	2008	2009	2010	2011 ⁽¹⁾
Strawberries	\$55,493	\$65,481	\$73,198	\$123,542	\$179,012
Wine Grapes	141,674	124,126	166,378	173,558	129,738
Cattle and Calves	55,272	50,050	51,992	53,374	66,825
Broccoli	77,991	70,404	60,162	55,830	46,217
Vegetable Transplants	34,679	35,682	33,207	33,460	34,825
Indoor Decoratives	24,340	21,011	18,430	23,289	25,079
Cut Flowers(Greenhouse)	28,555	25,203	25,026	23,313	23,771
Head Lettuce	31,862	23,810	27,721	18,454	20,386
Avocadoes, Hass	-		(-	35,862	17,320
Rangeland Grazed	-	-	(in)	_	10,250
Napa Cabbage	=	_	-	14,064	-
Cauliflower	17,426	-	13,618	-	-
Leaf Lettuce	-	5 1	12,313	-	-
Carrots	22,505	19,623	-	-	-
Bedding Plants	-	-	-	_	-
Oriental Vegetables		13,090	-	-	-
Top Ten Crops Subtotal	\$489,797	\$435,399	\$482,045	\$554,736	\$553,423
All Other Crops	148,298	167,593	141,050	158,072	182,785
TOTAL	\$638,095	\$602,992	\$623,095	\$712,808	\$736,208
Percent Change	3.69%	(5.82%)	3.33%	14.40%	3.28%

⁽¹⁾ Most recent annual data available

Source: San Luis Obispo County Department of Agriculture/Weights and Measures.

Major Employers

The following Table A-5 provides a listing of major employers headquartered or located in the County and their estimated full-time equivalent (FTE) employment levels.

Table A-5
County of San Luis Obispo
Major Employers
(Calendar Year 2011)

Firm	Product or Service	Estimated FTE Employment
California Polytechnic State University, SLO	Education	2,601
County of San Luis Obispo	Government	2,426
Atascadero State Hospital	Health Services	2,200
California Men's Colony	Correction Institution	1,768
Pacific Gas and Electric Company	Utility	1,719
Tenent Healthcare	Health Services	1,409
Lucia Mar Unified School District	Education	1,100
Kings Ventures	Real Estate	850
Paseo Robles Public Schools	Education	831
San Luis Coastal Unified District School	Education	828

Sources: Pacific Coast Business Times and County Budget Report and County of San Luis Obispo.

Personal Income

The United State Department of Commerce, Bureau of Economic Analysis (the "BEA") produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the national economy.

The BEA defines "personal income" as income received by persons from all sources, including income received from participation in production as well as from government and business transfer payments. Personal income represents the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita personal income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table A-6 below presents the latest available total personal income and per capita personal income for the County, the State and the nation for the calendar years 2005 through 2009.

Table A-6 County of San Luis Obispo, State of California and United States Personal Income⁽¹⁾ Calendar Years 2005 Through 2009⁽²⁾

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income(dollars)
2009(2)		
County	\$10,706	\$40,103
State	1,566,999	42,395
United States	12,168,161	39,635
2008(1)	the source of the source	2012/C30# (Mustable 1997)
County	10,896	41,094
State	1,604,155	43,853
United States 2007 ⁽¹⁾	12,380,225	40,674
County	10,652	40,704
State	1,566,400	43,240
United States	11,900,562	39,461
2006 ⁽¹⁾	15: 15:	
County	10,000	38,556
State	1,495,533	41,567
United States	11,256,516	37,698
2005 ⁽¹⁾	(5) (3)	*
County	9,170	35,601
State	1,387,661	38,767
United States	10,476,669	35,424

⁽¹⁾ Revised. Estimates incorporate the results of the comprehensive revision to the national income and product accounts released in July 2009 and of the comprehensive revision to the State income accounts released in October 2009. Additionally, population was revised back to the year 2000.

Assessed Value, Tax Levy and Delinquencies

County tax levies and delinquencies as of June 30 for the past 10 Fiscal Years and the assessed valuation and secured property tax levy for Fiscal Year 2008-09 are shown in Table A-7.

⁽²⁾ Most recent year for which annual data for the County, the State and the nation is available. Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table A-7
County of San Luis Obispo
Summary of Assessed Valuations and Delinquencies
Fiscal Years 2000-01 through 2009-10

Fiscal Year (June 30)	Gross Assessed Valuation	Secured Property Tax Levies	Current Tax Delinquencies (June 30) [†]	% Levy Delinquent (June 30)
2000-01	\$210,048,887	\$207,392,423	\$2,656,464	1.26%
2001-02	224,426,275	221,377,339	3,048,936	1.36
2002-03	243,985,100	240,501,981	3,483,119	1.43
2003-04	265,009,066	261,421,793	3,587,273	1.35
2004-05	290,692,797	286,937,155	3,755,642	1.29
2005-06	324,547,130	319,214,673	5,332,457	1.64
2006-07	362,429,105	354,117,728	8,311,377	2.29
2007-08	394,779,683	380,943,586	13,836,097	3.50
2008-09	416,262,450	400,120,501	16,141,949	3.88
2009-10	412,698,021	398,651,720	13,746,301	3.33

[†] Property taxes are due in two installments and become delinquent on December 10, with respect to the installment due on November 1 and on April 10, with respect to the installment due on February 1.

Source: County Auditor-Controller.

Under California law in effect at this time, these tax collections are allocated approximately 23% to the County, 7% to cities, 6% to special districts, 63% to schools and 1% to redevelopment agencies within the County.

Table A-8
County of San Luis Obispo
Assessed Valuations
Fiscal Years 2001-02 Through 2010-11
(\$ in thousands)

Fiscal	Carrier Control		- Charles and the Arthress	Net Assessed
Year	Secured	Unsecured	Exemptions	Valuation
2001-02	\$23,038,553	\$834,800	(\$603,887)	\$23,269,466
2002-03	25,052,023	875,457	(634,019)	25,293,461
2003-04	27,194,503	859,296	(658, 326)	27,395,473
2004-05	29,738,552	836,182	(627,983)	29,946,751
2005-06	32,984,334	933,186	(701,194)	33,216,326
2006-07	36,890,449	1,000,874	(781,070)	37,110,253
2007-08	40,252,998	1,035,444	(835,357)	40,453,075
2008-09	42,348,044	1,132,435	(891,907)	42,588,572
2009-10	42,185,285	1,148,662	(914,310)	42,419,638
2010-11	41,846,720	1,118,383	(927,194)	42,037,912

Source: County of San Luis Obispo Auditor-Controller's Office, Property Tax Division.

Principal Taxpayers

Assessed values for the principal taxpayers totaled approximately \$3.1 billion, or 7.58% of the County's 2010-11 Net Assessed Valuations. The principal largest taxpayers in the County, as shown on the Fiscal Year 2010-11 secured tax roll, and the approximate amounts of their assessed values within the County are shown in Table A-9 below.

Table A-9 County of San Luis Obispo Principal Taxpayers Fiscal Year 2010-11

Company	Type of Business	2010-11 Assessed Value (\$ in thousands) [†]	% of Total
Pacific Gas and Electric	Utility	\$2,504,614	5.96%
Tosco Corp A NV Corp	Oil & Constr.	162,407	0.39
CSHV Mustang Village LLC	Real Estate	74,801	0.18
Plains Exploration& Prod Co	Petroleum& Gas	67,993	0.16
Pacific Bell	Utility	67,597	0.16
Beringer Wine Estates Co.	Agriculture	73,502	0.17
Southern California Gas Company	Utility	62,345	0.15
Martin Hotel Management Co LLC	Hotel	60,804	0.14
Sierra Vista Hospital	Health Care	57,514	0.14
Twin Cities Community Hospital, Inc	Health Care	55,192	0.13
Subtotal		3,186,767	7.58
Remaining taxpayers		38,851,143	92.42
TOTAL		\$42,037,910	100.00%

[†] Excludes exempt publicly owned property, State assessed property and property subject to special taxes. Source: County of San Luis Obispo Auditor-Controller's Office.

Commercial Activity

Commercial activity is an important contributor to San Luis Obispo County's economy. The following Table A-10 estimates the County's commercial activity between calendar years 2006 through 2010.

Table A-10 County of San Luis Obispo Trade Outlets and Taxable Sales for Calendar Years 2006-2010⁽¹⁾

(\$ in Thousands)

Taxable Retail Sales	2006	2007	2008	2009	2010(1)
Clothing & Cl. Acc. Stores	\$127,207	\$137,311	\$146,917	\$150,848	\$186,385
General Merchandise	420,366	423,948	413,317	320,635	320,145
Specialty Stores	360,273	_(2)	_(2)	_(2)	_(2)
Food and Beverage Stores	183,701	189,069	192,096	219,822	219,590
Food Services & Drinking Places	435,487	459,757	457,219	441,333	437,460
Gasoline Stations	94	_	_	331,194	392,463
Household Group	133,146	132,874	124,362	_(3)	_(3)
Health and Personal Care	-	-	1=	74,401	76,589
Electronic and Appliances	_	_	7=1	70,572	69,918
Sporting Goods, Hobby, Books and Music	=	-		94,647	95,790
Motor Vehicles and Parts		_		298,014	327,376
Building Materials, Garden Equipment and Supplies	409,719	364,601	280,015	256,282	251,071
Automobile	835,974	856,868	799,598	(3)	_(3)
Other Retail	212,615	480,825	430,091	209,876	219,706
SUBTOTAL	3,128,592	3,054,859	2,827,545	2,495,350	2,595,493
Business & Personal Services	147,929	146,840	133,372	_(3)	_(3)
All Other Outlets	943,915	1,065,940	1,013,310	947,081	1,218,862
TOTAL ALL OUTLETS	\$4,220,436	\$4,267,639	\$3,974,226	\$3,442,431	\$3,614,355
Percent Change	7.2%	1.1%	(6.9%)	(13.4%)	5.0%

⁽¹⁾ Most recent annual data available.

⁽²⁾ The taxable retail sales for "Specialty Stores" is now included under the total for "Other Retail."

⁽³⁾ Category eliminated.

Source: Taxable Sales in California (Sales and Use Tax) Annual Reports, California State Board of Equalization.

Construction Activity

The total valuation of building permits issued in the County as estimated by the Construction Industry Research Board was approximately \$257.5 million for calendar year 2010. The following Table A-11 provides an estimated building permit valuation summary for calendar years 2005 through 2010.

Table A-11 County of San Luis Obispo Building Permit Valuation for Calendar Years 2005 - 2010 (\$ In Thousands)

	Reside	ential		Nonresidential	
Year	Single Family	Multifamily	Valuation ⁽¹⁾	Valuation	Total ⁽²⁾
2005	1,624	321	\$420,272.7	\$124,193.6	\$544,466.3
2006	1,282	313	353,371.5	136,265.4	489,636.9
2007	731	293	236,380.7	126,042.0	362,422.7
2008	446	151	164,987.3	102,863.3	267,850.6
2009	310	63	131,405.5	100,151.6	231,555.1
2010	287	142	138,201.8	119,329.3	257,531.1

⁽¹⁾ Includes the value of residential alterations and additions.

Source: Construction Industry Research Board.

Unincorporated Areas Growth Management Ordinance

On October 23, 1990, the Board of Supervisors enacted Ordinance No. 2477, which has since been amended (the "Ordinance"), the general effect of which was to limit the number of construction permits for residential dwelling units (including the placement of mobile homes and the conversion of non-residential structures) in the unincorporated areas of the County, which currently affects approximately 43% of the population within the County. Subject to certain exemptions specified in the Ordinance, the annual increase in the number of residential dwelling units may not exceed 2.3% (the "Maximum Annual Allocation") of the number of existing residential dwelling units in the unincorporated areas of the County each Fiscal Year. In any year in which the Maximum Annual Allocation is not allocated, the unused allocations for that Fiscal Year may be carried forward to the succeeding Fiscal Year at the discretion of the Board of Supervisors, provided that the number of units carried forward does not exceed 10% of the Maximum Annual Allocation available for the current Fiscal Year. The Ordinance may be amended at any time by action of the Board of Supervisors. The Ordinance does not proscribe or limit growth in commercial, retail, or manufacturing projects.

Based on the current number of existing residential dwelling units, the Maximum Annual Allocation for the last five Fiscal Years is set forth below. Assessed valuation in the County has continued to grow since enactment of the Ordinance because the Ordinance affects only the unincorporated areas of the County.

⁽²⁾ Total represents the sum of residential and nonresidential building permit valuations. Columns may not total due to independent rounding.

Table A-12
County of San Luis Obispo
Unincorporated Areas Growth Management Ordinance
Maximum Annual Allocation
(Fiscal Years)

Fiscal Year	Maximum Annual Allocation
2006-07	1,288
2007-08	1,099
2008-09	1,100
2009-10	1,101
2010-11	1,102

Source: Construction Industry Research Board.

APPENDIX B

AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011

B-1

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

95530912.5 C-1

APPENDIX D

PROPOSED FORM OF SPECIAL COUNSEL OPINION

[Closing Date]

Nipomo Comi [address]	munity Services District
Nipomo Comi [address]	munity Services District Public Facilities Corporation
The Bank of N [address]	New York Mellon Trust Company, N.A.
Re:	Nipomo Community Services District Revenue Certificates of Participation (Southland Wastewater Project) Series 2012

Ladies and Gentlemen:

We have acted as Special Counsel to the Nipomo Community Services District (the "District") in connection with the execution and delivery of the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates"), representing and evidencing undivided interests in installment payments (the "Installment Payments") relating to the Installment Sale Agreement, dated as of June 1, 2012 (the "Installment Sale Agreement"), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the "Corporation"). The Certificate is being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), by and among the District, the Corporation and The Bank of New York Mellon Trust Company, N.A. as trustee (the "Trustee"), and pursuant to the authorizing resolutions of the District and the Corporation. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Trust Agreement and the Installment Sale Agreement, as applicable.

As Special Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District and the Corporation in connection with the execution and delivery of the Certificate. We have also examined such certificates of officers of the District and the Corporation and others as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

- 1. The Trust Agreement has been duly and validly authorized, executed and delivered by the District and the Corporation, and assuming the Trust Agreement constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the District and the Corporation, enforceable against the District and the Corporation in accordance with its terms, and the Certificate is entitled to the benefits of the Trust Agreement.
- 2. The Installment Sale Agreement has been duly and validly authorized, executed and delivered by the District and the Corporation, and constitutes the legally valid and binding obligation of the District and the Corporation, enforceable against the District and the Corporation in accordance with its terms.

- 3. The Assignment Agreement has been duly and validly authorized, executed and delivered by the Corporation, and assuming the Assignment Agreement constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.
- 4. The Internal Revenue Code of 1986 (the "Code") provides that certain requirements must be met subsequent to the execution and delivery of the Installment Sale Agreement for the component of each Installment Payment designated as interest in the Installment Sale Agreement (the "Payment Interest"), and the allocable portion thereof distributable in respect of the Certificate (the "Certificate Interest Distribution"), to be and remain excluded from the gross income of the owner thereof for federal income tax purposes. Noncompliance with such requirements could cause such amounts to be included in the gross income of such owner for federal income tax purposes retroactive to the date of delivery of the Certificates. The District and the Corporation have covenanted in the Trust Agreement to maintain the exclusion pursuant to section 103(a) of the Code of the Payment Interest from the gross income of the owner thereof for federal income tax purposes.

In our opinion, under existing law, Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificate is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, such Payment Interest and Certificate Interest Distributions are excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Installment Sale Agreement is not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, neither the Payment Interest nor any Certificate Interest Distribution will be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of Payment Interest allocable to and Certificate Interest Distributions in respect of the Certificate owned by a corporation may affect the computation of the alternative minimum taxable income, upon which the alternative minimum tax is imposed, to the extent that such interest is taken into account in determining the adjusted current earnings of that corporation (75% of the excess, if any, of such adjusted current earnings over the alternative minimum taxable income being an adjustment to alternative minimum taxable income (determined without regard to such adjustment or to the alternative tax net operating loss deduction)).

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Certificate. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Installment Sale Agreement, the Payment Interest allocable thereto or Certificate Interest Distributions in respect thereof, if any action is taken with respect to the Installment Sale Agreement or the proceeds thereof predicated or permitted upon the advice or approval of counsel other than Fulbright & Jaworski L.L.P.

The opinions expressed in paragraphs 1 through 3 above are qualified to the extent the enforceability of the Certificate, the Trust Agreement, the Installment Sale Agreement and the Assignment Agreements may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Certificate, the Trust Agreement, the Installment Sale Agreement and the Assignment Agreement is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless

95530912.5 D-2

of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

95530912.5 D-3

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

95530912.5 D-4

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 2012 and executed and delivered by the Nipomo Community Services District (the "District") and The Bank of New York Mellon Trust Company, N.A., in its capacities as Trustee and as Dissemination Agent (the "Trustee" and "Dissemination Agent") in connection with the sale and delivery of _______ Revenue Certificates of Participation (Southland Wastewater Project) Series 2012 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of June 1, 2012 (the "Trust Agreement") among the District, the Nipomo Community Services District Public Facilities Corporation (the "Corporation") and the Trustee. The District, the Dissemination Agent and the Trustee covenant and agree as follows:

Section 1. <u>Purpose of the Disclosure Agreement</u>. This Disclosure Agreement is executed and delivered by the District, the Dissemination Agent and the Trustee for the benefit of the holders of the Certificates and in order to assist the Participating Underwriter (as defined below) in complying with the Rule (as defined below).

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

"Annual Report" means any Annual Report of the District provided by the District pursuant to, and as described in, sections 3 and 4 of this Disclosure Agreement.

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

"Disclosure Representative" shall mean the General Manager or Finance Director of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system located at http://www.emma.msrb.org, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule.

"Listed Events" means any of the events listed in section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board.

"Participating Underwriters" means ______, the original purchasers of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Rule" means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" means the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

- (a) The District shall, or shall cause the Dissemination Agent to, not later than March ____ of each year, commencing with the report for the District's Fiscal Year ended June 30, 2012, provide to the MSRB, via EMMA, in an electronic format accompanied by identifying information a prescribed by the MSRB, an Annual Report of the District which is consistent with the requirements of Section 4 of this Disclosure Agreement and in a form required by the Rule. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of such Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the District's Fiscal Year changes, the District shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).
- (b) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).
- (c) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB, via EMMA, in substantially the form attached as Exhibit A.
- (d) The Dissemination Agent (if other than the District) shall, if and to the extent, the District has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the District certifying that the Annual Report has been provided to the MSRB, via EMMA, pursuant to this Disclosure Agreement, and stating the date it was provided.
- **Section 4.** Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:
- (a) The audited financial statements of the District for the Fiscal Year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Cities." If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a) of this Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Certificates, and the audited financial statements shall be filed in the same manner as the Annual Report when it becomes available.
- (b) To the extent not included in the financial statements, the following updates to the information contained in the tables with the headings in the Official Statement for the Fiscal Year as specified:

(i)	Table:	
(ii)	Table:	;
(iii)	Table:	;
(iv)	Table:	;
	T1 0	

(v)

[An update of the financial and operating data contained under the headings "DISTRICT FINANCIAL INFORMATION-Retirement Program."]

Any or all of the items listed above may be included by specific reference to other documents, including official statements or other disclosure documents of debt issues of the District or related public entities, available to the public on the MSRB's Internet Web site or filed with the SEC. The District shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District; <u>provided</u>, that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

- (a) P Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates (in each case to the extent applicable) in a timely manner not more than ten business days after the occurrence of the event::
 - (i) principal and interest payment delinquencies;
 - (ii) non-payment related defaults;
 - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (iv) adverse tax opinions or events affecting the tax status of the Certificates;
 - (v) modifications to the rights of Owners of the Certificates;
 - (vi) bond calls other than mandatory sinking fund redemptions;
 - (vii) defeasances;
 - (viii) release, substitution, or sale of property, if any, securing repayment of the Certificates; and
 - (ix) rating changes.
- (b) The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) of this Section.
- (c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable Federal securities law.

95530912.5

- (d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section.
- (e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable Federal securities law, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).
- (f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB and each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) of subsection (a) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.
- Section 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB as Repository in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.
- Section 7. <u>Termination of Reporting Obligation</u>. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).
- Section 8. <u>Dissemination Agent</u>. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 60 days' written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement.
- **Section 9.** <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:
- (a) If the amendment or waiver relates to the provisions of subsection 3(a), section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;
- (b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) The amendment or waiver either (i) is approved by the Owners of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners of the Certificates, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates.

(d) The Dissemination Agent's written approval shall be required for any amendment which modifies or increases the Dissemination Agent's duties or obligations hereunder.

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

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, including the information then contained in the District's official statements or other disclosure documents relating to debt issuances, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have an obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. <u>Default</u>. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement with respect to the Certificates, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

Section 12. <u>Duties, Immunities and Liabilities of Dissemination Agent</u>. Article V of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination hereunder without the execution or filing of any paper or any further act. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for

filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repositories

Section 13. <u>Beneficiaries</u>. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, the Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. <u>Notices.</u> Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:

Nipomo Community Services District P.O. Box 326 Nipomo, CA 93444-0326 Attention: General Manager

To the Dissemination Agent:

Same as the Trustee so long as the Trustee is the Dissemination Agent

To Trustee:

The Bank of New York Mellon Trust Company, N.A. [address]
Attention: Corporate Trust Department

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts; each of which shall be an original and all of which shall constitute but one and the same instrument.

	District Manager
THE BANK OF N	IEW YORK MELLON TRUST
COMPANY, N.A. as Trustee and as I	, Dissemination Agent

Authorized Signatory

NIPOMO COMMUNITY SERVICES DISTRICT

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of District:	Nipomo Community Services District
Name of Issue:	Revenue Certificates of Participation (Southland Wastewater Project) Series 2012
Date of Issuance:	June, 2012
not provided an Ann the Continuing Discl York Mellon Trust	HEREBY GIVEN that the Nipomo Community Services District (the "District") has ual Report with respect to the above-named Certificates as required by Section 3 of osure Agreement dated as of June 1, 2012 between the District and The Bank of New Company, N.A. [The District anticipates that the Annual Report will be filed by
Dated:	
	The Bank of New York Mellon Trust Company, N.A., as Trustee and Dissemination Agent on behalf of the District
cc: District	

APPENDIX F

BOOK-ENTRY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the each issue of the Certificates, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates: DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 well 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Principal, premium, if any, interest payments and redemption proceeds on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the 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 District or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the 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 Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

OFFICIAL NOTICE OF SALE

E1- 6

\$[Principal Amount]* NIPOMO COMMUNITY SERVICES DISTRICT (SAN LUIS OBISPO COUNTY, CALIFORNIA) REVENUE CERTIFICATES OF PARTICIPATION (Southland Wastewater Project) Series 2012

NOTICE IS HEREBY GIVEN by the Nipomo Community Services District (the "District") that electronic bids will be received by a representative of the District for the purchase of \$[Principal Amount]* principal amount represented by Certificates designated the "Nipomo Community Services District Revenue Certificates of Participation (Southland Wastewater Project) Series 2012" (the "Certificates"). No hand delivered bids will be accepted. The bids will be received in the manner and up to the time and date specified below, provided, however, that the District reserves the right to postpone or change the sale date upon notice delivered via Thompson Municipal News as provided in this Official Notice of Sale:

DATE AND TIME:

10 A.M. California Time on ______, June ____, 2012, and so long as a proposal has not theretofore been accepted by the District, on any date thereafter without further advertising, as provided in this Official Notice of Sale.

ELECTRONIC BIDS:

Bid proposals may be submitted electronically via PARITY in accordance with this Notice of Sale, until 10 A.M. Pacific Time, but no bid will be received after the time for receiving bids specified above. To the extent any instruction or directions set forth in PARITY conflict with the Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact the financial advisor to the District or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, NY 10018 telephone (212) 849-5021. See "TERMS OF SALE - Warnings Regarding Electronic Bids."

Please note that the District reserves the right to cancel or reschedule the sale of the Certificates upon notice given through Thompson Municipal News by 1:30 P.M., California time the day prior to the day bids are scheduled to be received, and if the sale is rescheduled, notice of the new sale date and time, if any, will be given through Thompson Municipal News at least 20 hours prior to the new day bids are to be received, and bids will be received in the manner set forth above at the rescheduled date and time as the District shall determine Bids must be received by 10 A.M., California time, on such date of sale.

^{*} Preliminary, subject to change.

DESCRIPTION OF THE CERTIFICATES

DATE; FORM; DENOMINATION: The Certificates will be dated the date of original delivery, and will be executed and delivered in non-negotiable, fully registered form, without coupons, in denominations of \$5,000 each or any integral multiple thereof. The Certificates will be delivered in a book-entry only system with no physical distribution of the Certificates to the public. The Depository Trust Company, New York, New York ("DTC") will act as depository for the Certificates. The Certificates will be registered in the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Certificates. The Certificates are being executed and delivered pursuant to a resolution of the District adopted on May 23, 2012, and a Trust Agreement, dated as of June 1, 2012 (the "Trust Agreement"), among the District, the Nipomo Community Services District Public Facilities Corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Certificates evidence proportionate interests of the registered owners thereof in installment payments (the "Installment Payments") to be made by the District, pursuant to an Installment Sale Agreement, dated as of June 1, 2012 (the "Installment Sale Agreement"), between District, as purchaser, and the Corporation, as seller. Pursuant to the Installment Sale Agreement, the District's obligation to make Installment Payments is payable from and secured by Net Revenues of the District's Town Division wastewater system (the "Enterprise").

MATURITIES: The Certificates will mature on June 1 in each of the years, and in the approximate amounts, in accordance with the following schedule.

Year (June 1)	Principal Amount	Year (June 1)	Principal Amount
2013		2028	
2014		2029	
2015		2030	
2016		2031	
2017		2032	
2018		2033	
2019		2034	
2020		2035	
2021		2036	
2022		2037	
2023		2038	
2024		2039	
2025		2040	
2026		2041	
2027		2042	

MANDATORY PREPAYMENT; BIDDER'S RIGHT TO DESIGNATE TERM CERTIFICATES: Bidders may designate two or more consecutive maturities of the Certificates as term Certificates, subject to the following limitations: (1) the final maturity date for the Certificates, including any term Certificate, shall be June 1, 2042; (2) each term Certificate shall bear a single rate of interest; and (3) the term Certificate(s) shall be subject to mandatory prepayment by lot on June 1 of each year, commencing with the year following the final serial Certificate maturity (or, if there is more than one term Certificate, the maturity date of any term Certificate having an earlier maturity, as the case may be), with the aggregate principal amount to be prepaid in each such year to be the

same as the aggregate principal amount set forth in the above maturity table and with each such prepayment to be at a price equal to 100% of the principal amount to be prepaid plus accrued and unpaid interest thereon to the date fixed for prepayment but without premium. If no term Certificates are designated in the winning bid, the Certificates will mature serially as shown in the preceding schedule.

INTEREST: Interest represented by the Certificates will be payable from their dated date at such rate or rates to be fixed upon the sale thereof, payable semiannually on June 1 and December 1 of each year (each, an "Interest Payment Date"), commencing December 1, 2012.

PAYMENT: The Certificates and interest with respect thereto are payable in lawful money of the United States of America, interest being payable by check mailed on each Interest Payment Date to the registered owners thereof at the address shown on the Certificate registration books maintained by the Trustee on the 15th day of the month preceding an interest payment date. Principal will be payable upon surrender at the principal corporate trust office of the Trustee in Los Angeles, California.

PREPAYMENT: Optional Prepayment. Certificates maturing on or before June 1, 2022 will not be subject to prepayment before their respective stated maturities. Certificates maturing on or after June 1, 2023 will be subject to prepayment, in whole or in part, in any order deemed reasonable by the District, and by lot within any one maturity if less than all of the Certificates of a single maturity are to be prepaid, prior to their respective maturity dates, at the option of the District, on any date on or after June 1, 2022, from prepayments of Installment Payments made at the option of the District pursuant to the Installment Sale Agreement, , at a prepayment price equal to the principal amount thereof to be prepaid together with accrued interest to the prepayment date, without a premium.

Mandatory Prepayment from Net Proceeds. The Certificates are subject to special mandatory prepayment as a whole or in part, on any date, from Net Proceeds, upon the terms and conditions of, and as provided for in the Trust Agreement and the Installment Purchase Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid plus interest accrued with respect thereto to the date fixed for prepayment, without premium.

Mandatory Sinking Account Prepayment of Certificates. The Certificates shall be subject to mandatory sinking account prepayment in part, by lot, from mandatory sinking account payments, at a prepayment price equal to the principal amount thereof to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, in the aggregate respective principal amounts set forth in the accepted bid for the Certificates; provided, however, that if some but not all of such Certificates have been prepaid pursuant to optional prepayment, the total amount of all future sinking account payments shall be reduced by the aggregate principal amount of such Certificates so prepaid, to be allocated among such sinking account payments on a pro rata basis as determined by the District.

PURPOSE: The proceeds of the Certificates will be used to fund a portion of the costs of certain capital improvements to the Enterprise, fund a Reserve Fund for the Certificates, and pay the costs of issuance relating to the execution and delivery of the Certificates.

SECURITY: The Certificates evidence proportionate interests of the registered owners thereof in the Installment Payments to be made by the District pursuant to the Installment Sale Agreement. The Certificates are being executed and delivered pursuant to a resolution adopted by the District, and pursuant to the Trust Agreement. Pursuant to the Assignment Agreement, the Corporation will assign and

transfer in trust to the Trustee substantially all of its rights under the Installment Sale Agreement, including the right to receive the Installment Payments. The Installment Payments due under the Installment Sale Agreement are structured to be at least sufficient in both time and aggregate amount to pay, when due, the principal of, and interest with respect to the Certificates. The Installment Payments are special limited obligations of the District payable solely from, and secured by, a pledge of and first lien on the Net Revenues of the Enterprise, and are secured on a parity basis with existing loan payments relating to two (2) loans to the District from the State Water Resources Control Board (the "SWRCB Loans"). The District may incur additional obligations payable from the Net Revenues on a parity with the Installment Payments, subject to the terms and conditions of the Installment Sale Agreement. The Installment Payments will also be secured by all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Trust Agreement and the investment earnings thereon.

The District has covenanted in the Installment Sale Agreement to collect rates and charges for the services and facilities of the Enterprise so that in each fiscal year Net Revenues shall equal at least one hundred twenty-five percent (125%) of all Installment Payments, payments under the SWRCB Loans, and payments of principal of and interest on any parity obligations as they become due and payable during such fiscal year. The District may incur Parity Debt (as defined in the Trust Agreement) secured on parity with the Installment Payments and the SWRCB Loan payments, subject to the terms and conditions of the Trust Agreement and the Installment Sale Agreement.

Reference is made to the Trust Agreement and the Preliminary Official Statement for a more exact and complete description of the security for the Certificates.

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE DISTRICT NOR ITS OFFICERS OR DIRECTORS ARE LIABLE FOR PAYMENT WITH RESPECT TO THE CERTIFICATES.

TAX-EXEMPT STATUS: In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, subject, however to certain qualifications, under existing law, interest with respect to the Certificates received by the owners thereof is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed under section 55(a) of the Code. It is also the opinion of Special Counsel that under existing law such interest is exempt from personal income taxes of the State of California.

In the event that, prior to the delivery of the Certificates (a) the interest on other obligations of the same type and character as the Certificates shall be declared to be subject to taxation (either at the time of such declaration or at any future date) under any federal income tax laws, either by the terms of such laws or by ruling of a federal income tax authority or official which is followed by the Internal Revenue Service, or by decision of any federal court, or (b) any federal income tax law is enacted which will have a substantial adverse effect upon the owners of the Certificates as such, the successful bidder may, at its option, prior to the tender of the Certificates, be relieved of its obligation to purchase the Certificates, and in such case the deposit accompanying its bid will be returned.

LEGAL OPINION: The legal opinion of Fulbright and Jaworski L.L.P., Los Angeles, California, Special Counsel, approving the validity of the Trust Agreement and the Certificates will be furnished to the successful bidder without cost. A copy of the legal opinion, certified by the official in whose office the original is filed, will be attached to each Certificate without charge to the successful bidder.

RESERVE ACCOUNT: A reserve account (the "Reserve Account") is established by the Trust Agreement and is required to be funded in an amount equal to the lesser of (i) 100% of Maximum Annual Debt Service on the Certificates, (2) 125% of Average Annual Debt Service on the Certificates or (3) 10% of the principal amount represented by the Certificates. The Reserve Account will be funded by the District with cash at closing.

.RATING: Standard & Poor's, a division of McGraw-Hill ("S&P"), will assign the Certificates ratings of "."

FURTHER INFORMATION: A copy of the Preliminary Official Statement, dated May __, 2012, describing the Certificates (the "Preliminary Official Statement"), and any other information concerning the proposed financing, will be furnished upon request to the District's Financial Advisor, C.M. de Crinis & Co., Inc. (the "Financial Advisor"), at curt@cmdecrinis.com. A copy of the Preliminary Official Statement can also be downloaded without charge from the Parity website at www.newissue.i-deal.com.

TERMS OF SALE

FORM OF BID; MAXIMUM DISCOUNT: All bids must be for not less than all of the Certificates hereby offered for sale and for not less than ninety nine percent (99%) of the aggregate par value thereof. The amount of any discount specified in any bid shall not exceed one percent (1.00%) of the aggregate principal amount of the Certificates.

Bidders may submit only one bid, and such bid shall be submitted electronically through PARITY. All bids must comply with the requirement for a good faith deposit. See "GOOD FAITH DEPOSIT" herein.

Electronic Bids. Electronic bids must conform with the procedures established by PARITY. Solely as an accommodation to bidders, electronic bids will be received exclusively through PARITY in accordance with this Official Notice of Sale until 10 A.M. California time on the date set for receipt of bids, but no bid will be received after the time specified for receiving bids. To the extent any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about PARITY, potential bidders may contact the Authority's Financial Advisor.

THE DISTRICT RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE AND COMPLETE. THE DISTRICT TAKES NO RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ITS BID IS INCOMPLETE, ILLEGIBLE OR NOT RECEIVED.

WARNING REGARDING ELECTRONIC BIDS: THE DISTRICT WILL ACCEPT BIDS IN ELECTRONIC FORM SOLELY THROUGH PARITY ON THE OFFICIAL BID FORM CREATED FOR SUCH PURPOSE. EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH PARITY, THAT THE DISTRICT NEITHER ENDORSES NOR EXPLICITLY ENCOURAGES

THE USE OF PARITY, AND THAT PARITY IS NOT ACTING AS AN AGENT OF THE DISTRICT. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM PARITY, AND THE DISTRICT ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF PARITY. THE DISTRICT SHALL ASSUME THAT ANY BID RECEIVED THROUGH PARITY HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE DISTRICT WILL MAKE ITS BEST EFFORTS TO ACCOMMODATE ELECTRONIC BIDS; HOWEVER THE DISTRICT, THE FINANCIAL ADVISOR AND SPECIAL COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR OPENED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE DISTRICT AT THE PLACE OF BID OPENING, AND THE DISTRICT SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY PARITY AS THE OFFICIAL TIME.

IN THE EVENT OF A MALFUNCTION IN THE ELECTRONIC BIDDING PROCESS, BIDDERS SHOULD SUBMIT THEIR BIDS ON THE OFFICIAL BID FORM ATTACHED HERETO BY FACSIMILE TO: (818) 385-4904.

INTEREST RATE: Bidders must specify the rate or rates of interest which shall be payable on the Certificates. Interest with respect to the Certificates is payable from the date of delivery (expected to be June __, 2012), semiannually on each June 1 and December 1, commencing June 1, 2012. Bidders will be permitted to bid different rates of interest but (a) each interest rate specified in any bid must be in a multiple of one-twentieth (1/20) or one-eighth (1/8) of one percent; (b) interest with respect to each Certificate shall be computed from the date of delivery thereof, to its stated maturity date at the interest rate specified in the bid, payable semiannually as set forth above; (c) interest with respect to all Certificates maturing at any one time shall be payable at the same rate of interest; (d) the difference between the lowest interest rate and the highest interest rate to be borne by a maturity of Certificates shall not exceed four percent (4%); (e) any premium must be paid as part of the purchase price; and (f) no bid will be accepted which contemplates the waiver of any interest or other concession by the bidder as a substitute for payment in full of the purchase price.

BEST BID: The Certificates will be awarded to the best responsible bidder therefor, considering the interest rate or rates specified and the premium offered, if any, or discount taken, if any, and the best bid will be determined on the basis of the lowest true interest cost. The true interest cost will be that nominal annual discount rate which, when discounted semiannually and when used to discount all payments of principal and interest with respect to the Certificates at the rate or rates specified in the bid to the date of delivery (expected to be June ___, 2012) of the Certificates results in the amount equal to the purchase price, which is the principal amount of the Certificates plus the amount of any premium, less the amount of any discount. In the event two or more bids setting forth identical interest rates are received, the District reserves the right to allow its authorized representative to exercise his or her own discretion and judgment in making the award and may award the Certificates on a pro rata basis in such denominations as he or she shall determine

ADJUSTMENT OF PRINCIPAL AMOUNTS: The District reserves the right to increase or to decrease the principal amount of any maturity of the Certificates as the District deems advisable, based on the actual rates of interest with respect to the Certificates. Any such increase or decrease shall be allocated among the various maturities of the Certificates on such basis as the District deems advisable, and shall result in a proportionate increase or decrease (as the case may be) in the amount of any premium or discount bid. Notice of such increase or decrease shall be given to the successful

bidder as soon as practicable following the notification of award, as described below. No such adjustment will have the effect of altering the basis upon which the best bid is determined.

RIGHT OF CANCELLATION OF SALE BY THE DISTRICT: The District reserves the right, in its sole discretion, at any time to cancel the public sale of the Certificates. In such event, the District shall cause notice of cancellation of this invitation for bids and the public sale of the Certificates to be communicated through Thompson Municipal News as promptly as practicable. However, no failure to publish such notice or any defect or omission therein shall affect the cancellation of the public sale of the Certificates.

RIGHT TO MODIFY OR AMEND: The District reserves the right, in its sole discretion, to modify or amend this Official Notice of Sale including, but not limited to, the right to adjust and change the principal amount and principal amortization schedule of the Certificates being offered; however, such modifications or amendments shall be made not later than 1:30 P.M., California time, on the business day prior to the bid opening and communicated through Thompson Municipal News.

RIGHT OF POSTPONEMENT BY DISTRICT: The District reserves the right, in its sole discretion, to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be communicated through Thompson Municipal News not later than 1:30 P.M., California time, on the business day prior to any announced date for receipt of bids. If any date is postponed, any alternative sale date will be announced via Thompson Municipal News at least 20 hours prior to such alternative sale date. On any such alternative sale date, any bidder may submit a bid for the purchase of the Certificates in conformity in all respects with the provisions of this Official Notice of Sale, except for the date of sale and except for the changes announced by Thompson Municipal News at the time the sale date and time are announced.

RIGHT OF REJECTION: The District reserves the right, in its sole discretion, to reject any and all bids, for any reason deemed appropriate by the District, and to waive any irregularity or informality in any bid, except that no bids will be accepted later than 10 A.M. California time on the date set for receipt of bids.

PROMPT AWARD: An authorized representative of the District will take action awarding the sale of the Certificates or reject all bids not later than twenty-six (26) hours after the expiration of time herein prescribed for the receipt of bids and until such expiration of time all bids received shall be irrevocable. Unless such time of award is waived by the successful bidder, the award may be made after the expiration of the specified time if the bidder shall not have given to the District notice in writing of the withdrawal of such proposal. Notice of the award will be given promptly to the successful bidder.

DELIVERY AND PAYMENT: Delivery of the Certificates will be made to the successful bidder in New York, New York, as soon as the Certificates can be prepared, which is estimated to be June ___, 2012. The Certificates will be delivered in full book-entry form through the facilities of The Depository Trust Company. Payment for the Certificates must be made in immediately available funds to the Trustee. Any expense in providing immediately available funds shall be borne by the purchaser.

RIGHT OF CANCELLATION: The successful bidder shall have the right, at its option, to cancel its purchase of the Certificates if the Authority shall fail to cause the execution and delivery of the Certificates and tender the same for delivery within 30 days from the date of sale thereof, and in such event the successful bidder shall be entitled to the return of the deposit accompanying its bid.

GOOD FAITH DEPOSIT: Upon acceptance of its bid, the successful bidder shall be required to make a good faith deposit (the "Deposit") of \$100,000 using one of the alternatives described in (a) and (b) below:

- (a) <u>Cash Deposit</u>. The Deposit shall be made by wire transfer in immediately available funds in the amount of \$100,000 not later than 12:00 p.m. California time on the next business day following the award, payable to the order of The Bank of New York Mellon Trust Company, N.A.., Trustee, with respect to the Certificates (as instructed by the Authority or the Financial Advisor).
- (b) Financial Surety Certificate. The Deposit shall be in the form of a Financial Surety Bond in the amount of \$100,000 payable to the order of the Trustee. The Financial Surety Bond must be from an insurance company licensed to issue such bond in the State of California, and such bond must be submitted to the Financial Advisor prior to the opening of the bids. The Financial Surety Bond must identify each bidder whose Deposit is guaranteed by such Financial Surety Bond. When the Certificates are awarded to a bidder, then such bidder must submit its Deposit to the Trustee in the form of a cashier's check (or wire transfer such amount as instructed by the District or such Financial Advisor) not later than 12:00 P.M. California time on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn on by the District to satisfy the Deposit requirement.

No interest will be paid upon the Deposit made by any bidder. The Deposit of the successful bidder will, immediately upon acceptance of its bid, become the property of the District to be held and invested for the exclusive benefit of the District. The principal amount represented by such Deposit shall be applied to the purchase price of the Certificates at the time of delivery thereof. If the purchase price is not paid in full upon tender of the Certificates, the successful bidder shall have no right in or to the Certificates or to the recovery of its Deposit, or to any allowance or credit by reason of such Deposit, unless it shall appear that the Certificates would not be validly issued if delivered to the successful bidder in the form and manner proposed. In the event of nonpayment by the successful bidder, the amount of the Deposit shall be retained by the District as and for liquidated damages for such failure by the successful bidder, and such retention shall constitute a full release and discharge of all claims by the District against the successful bidder arising from such failure. The District's actual damages in such event may be greater or may be less than the amount of the Deposit. Each bidder waives any right to claim that the District's actual damages are less than such amount.

ESTIMATE OF TRUE INTEREST COST: Each bidder is requested, but not required, to state in its bid the true interest cost, as described under the caption "BEST BID" herein, which shall be considered as informative only and not binding on either the bidder or the District.

CERTIFICATION OF REOFFERING PRICE: The successful bidder shall be required, as a condition to the delivery of the Certificates, to certify to the District in writing that, as of the date of award, the Certificates were expected to be reoffered in a bona fide public offering, and the prices at which the Certificates were expected to be sold to the public, in form and substance satisfactory to the District and to Special Counsel. A form of the certificate is available upon request from the Financial Advisor.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION: The District has duly notified the California Debt and Investment Advisory Commission of the proposed sale of the Certificates. Payment of all fees to the California Debt and Investment Advisory Commission in connection with the execution, sale and delivery of the Certificates shall be the responsibility of the successful bidder.

NO LITIGATION: There is no litigation pending concerning the validity of the Certificates, the existence of the District or the entitlement of the officers thereof to their respective offices, and the successful bidder will be furnished a no-litigation certificate certifying to the foregoing as of and at the time of delivery of the Certificates.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be printed on the Certificates, but neither the failure to print such numbers on any Certificates nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Certificates in accordance with the terms hereof. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid for by the District; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the successful bidder.

OFFICIAL STATEMENT: The District will approve an Official Statement relating to the Certificates. Copies of the Preliminary Official Statement will be distributed to the Bidder prior to the sale in a form "deemed final" by the District for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") and approved for distribution by resolution of the District. Within seven business days from the sale date, the District will deliver to the purchaser 100 copies of the final Official Statement, executed by an authorized representative of the District and dated the date of delivery thereof to the purchaser, in sufficient number to allow the purchaser to comply with paragraph (b)(4) of the Rule and to satisfy the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32 or any other rules adopted by the MSRB, which shall include information permitted to be omitted by paragraph (b)(1) of the Rule and such other amendments or supplements as shall have been approved by the Authority (the "Final Official Statement"). The successful bidder agrees to supply the District all pricing information necessary to complete the Final Official Statement within 24 hours after the award of the Certificates. The purchaser agrees that it will not confirm the sale of any Certificates unless the confirmation of sale is accompanied or preceded by the delivery of a copy of the final Official Statement.

By making a bid for the Certificates, the successful bidders agree (1) to disseminate to all members of the underwriting syndicate copies of the final Official Statement, including any supplements prepared by the District, (2) to promptly file a copy of the final Official Statement, including any supplements prepared by the District, with a Nationally Recognized Municipal Securities Information Repository, and (3) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Certificates and the Official Statement to ultimate purchasers.

DISCLOSURE COUNSEL OPINION. The Purchaser shall receive an opinion, dated the date of the closing addressed to the Purchaser, of Fulbright and Jaworski L.L.P., Disclosure Counsel, to the effect that based on such counsel's participation in conferences with representatives of the District, the Corporation, the Trustee, their respective counsel, the Financial Advisor, and others, during which conferences the contents of the Official Statement and related matters were discussed (but with no inquiry made of other attorneys in such counsel's firm not working directly on the issuance of the Certificates who may have information material to the issue), and in reliance thereon and on the records, documents, certificates and opinions described therein, such counsel advises the Purchaser, as a matter of fact and not opinion, that, during the course of its engagement as disclosure counsel no facts came to the attention of such counsel's attorneys rendering legal services in connection with such representation which caused such counsel to believe that the Official Statement as of its date (except for any CUSIP numbers, financial, statistical, economic or demographic data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, any information about valuation, real estate or environmental matters, or any information about litigation, certain appendices thereto, book-entry or DTC, included or referred to therein, as to which such counsel will express no opinion or view) contained any untrue

statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE: In order to assist bidders in complying with S.E.C. Rule 15c2-12(b)(5), the District has committed to undertake, pursuant to the Installment Sale Agreement and a Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement. Such Continuing Disclosure Agreement will be a document required to be delivered at closing by the District, and the failure by the District to deliver such document in form and substance acceptable to Special Counsel and the successful bidder will relieve the successful bidder of its obligation to purchase the Certificates. The District is currently in compliance in all material respects with any previous undertaking with respect to said Rule.

Dated: May,	2012
-------------	------

NIPOMO	COMMUNITY	SERVICES
DISTRIC	Γ	

By:	/s/	
	General Manager	

OFFICIAL BID FORM

BID FOR THE PURCHASE OF

NIPOMO COMMUNITY SERVICES DISTRICT (SAN LUIS OBISPO COUNTY, CALIFORNIA) REVENUE CERTIFICATES OF PARTICIPATION (SOUTHLAND WASTEWATER PROJECT) SERIES 2012

June __, 2012

Nipomo Community Services District c/o C.M. de Crinis & Co., Inc. 100 N. Brand Blvd., Suite 605 Glendale, CA 91203 Phone (818) 385-4900 FAX (818) 385-4904

Ladies and Gentlemen:

We offer to purchase the, dated as of the date of delivery, expected to be June __, 2012, and in the principal amounts, in such denominations, maturing on June 1 in the years and bearing interest as follows:

Maturity Date (June 1)	Principal Amount	Serial <u>Maturity</u>	Sinking Account Prepayment (check)	Interest Rate	Maturity Date (June 1)	Principal Amount	Serial Maturity	Sinking Account <u>Prepayment</u> (check)	Interest Rate
2013					2028				
2014					2029				
2015					2030				
2016				-	2031				
2017					2032				
2018					2033				
2019					2034				
2020					2035				
2021				2	2036				
2022					2037				
2023					2038				
2024					2039				
2025					2040				
2026					2041				
2027					2042				

Bid Form - i

and to pay therefor the principal amount thereof, plus a premium of \$ on the aggregate principal amount (making an aggregate principal amount (making an aggregate principal).
This bid is made subject to all the terms and conditions of the Official Notice of Santed as of May, 2012, for said Certificates, all of which terms and conditions are made a patereof as fully as though set forth in full in this bid.
This proposal is subject to acceptance, in whole or in part, within twenty-six (26) hourter the expiration of the time for the receipt of proposals, as specified in said Official Notice ale.
This bid is secured by a Financial Surety Certificate (as defined in the Official Notice (ale) or cash deposit, and we certify that evidence thereof has heretofore been provided to C.N. e Crinis & Co., Inc., as financial advisor to the District.
We hereby request that (not to exceed 100) printed copies of the Offici tatement pertaining to the Certificates be furnished us in accordance with the terms of satisficial Notice of Sale.
The following is our computation made as provided in the Official Notice of Sale, but nonstituting any part of the foregoing, of the true interest cost under the foregoing proposal:
Total Interest \$
True Interest Cost%
ollowing is a list of the members of our account on whose behalf this bid is made.
espectfully submitted,
ame of Firm:
y:
ddress:
ity: State: Zin:

NOTICE OF INTENTION TO SELL BONDS

(Approximate)
NIPOMO COMMUNITY SERVICES DISTRICT
(San Luis Obispo County, California)
REVENUE CERTIFICATES OF PARTICIPATION
(Southland Wastewater Project), Series 2012

NOTICE IS HEREBY GIVEN that bids will be received by representatives of the Nipomo Community Services District (the "District"), electronically via PARITY, on

, June, 2012
at 10.00 A.M. (Pacific time), for the purchase of \$ (approximate) aggregation
principal amount of Nipomo Community Services District, Revenue Certificates of
Participation (Southland Wastewater Project), Series 2012 (the "Certificates"). Bids for less that
all of the Certificates will not be accepted. The Certificates will be dated as of date of closing
and shall be payable as to interest from their date at the rate or rates to be fixed upon the sa
thereof. The District has caused to be prepared an Official Notice of Sale and a Preliminar
Official Statement for the Certificates, copies of which will be furnished on request made to the
financial advisor to the District, C.M. de Crinis & Co., Inc., 100 N. Brand Blvd., Suite 60
Glendale, CA 91203, Telephone (818) 385-4900. The District may postpone the date or change
the time of sale to any subsequent date or any other time by providing notification through
Thomson's Municipal News, 24 hours prior to the scheduled date.

/s/ Michael S. LeBrun General Manager Nipomo Community Services District

Dated: May ___, 2012