

MAY 22, 2013

ITEM E-1

ATTACHMENT D

PRELIMINARY OFFICIAL STATEMENT DATED MAY \_\_, 2013

NEW ISSUE — BOOK-ENTRY ONLY

RATING: S&P “\_\_”  
(See “RATING” herein)

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Bonds, 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 Bond Counsel that under existing law interest on the Bonds, is exempt from personal income taxes of the State of California. See “TAX EXEMPTION” herein.



[\$principal amount]\*

**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER REVENUE REFUNDING BONDS**  
Series 2013A

Dated: Date of Delivery

Due: September 1, as shown on inside cover page

The Nipomo Community Services District Water Revenue Refunding Bonds, Series 2013A (the “Bonds”) are being issued pursuant to an Indenture of Trust, dated as June 1, 2013 (the “Indenture”), by and between the Nipomo Community Services District (the “District”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Principal of, redemption premium, if any, and interest on the Bonds is payable solely from Net Revenues (as more fully described in the Indenture, the “Net Revenues”) as provided in the Indenture, consisting, first, of Ad Valorem Tax Revenues (as defined herein) and, second, primarily from all other income and revenue received by the District from the operation or ownership of the Water 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 BONDS.”

The Bonds are being issued as fully registered bonds in book-entry form only in denominations of \$5,000 or integral multiples thereof. The Bonds will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), as securities depository for the Bonds. 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 Bonds. Interest is payable semiannually each March 1 and September 1 to and including the maturity dates shown on the inside cover page, commencing September 1, 2013, unless the Bonds are earlier redeemed.

The Bonds are subject to optional redemption, without premium, on or after September 1, 2023, and to mandatory sinking account redemption, prior to maturity, as more fully described herein.

The proceeds of the Bonds will be used to (i) currently refund and defease the District’s Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003, (ii) fund a Reserve Fund for the Bonds, and (iii) pay the costs of issuance of the Bonds.

The District may incur additional obligations that have a parity claim on Net Revenues as set forth in the Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Parity Obligations” herein.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT, AND ARE PAYABLE FROM, AND ARE SECURED BY A CHARGE AND LIEN ON, NET REVENUES OF THE ENTERPRISE, INCLUDING, FIRST, FROM AD VALOREM TAX REVENUES AND SECOND FROM OTHER NET REVENUES. BUT 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 BONDS NOR THE PAYMENT OF THE PRINCIPAL OR ANY PART THEREOF NOR ANY INTEREST THEREON CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE BONDS ARE NOT SECURED BY ANY SECURITY INTEREST IN, OR MORTGAGE ON, THE ENTERPRISE.

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 Bonds.

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond 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, and Fulbright & Jaworski L.L.P., Disclosure Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about June \_\_, 2013.

CITIGROUP GLOBAL MARKETS INC. LOGO

Dated: May \_\_, 2013

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary 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 any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

\$[principal amount]\*  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**Water Revenue Refunding Bonds**  
**Series 2013A**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>CUSIP<sup>(1)</sup></u>
--	-------------------------	---------------	--------------	----------------------------

\$ _____	% Term Bond due	_____ 1, 20__	Yield _____	%* CUSIP <sup>(1)</sup> _____
\$ _____	% Term Bond due	_____ 1, 20__	Yield _____	%* CUSIP <sup>(1)</sup> _____

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\* Preliminary, subject to change.

# *NIPOMO COMMUNITY SERVICES DISTRICT*

## **DISTRICT BOARD**

James Harrison, President  
Larry Vierheilig, Vice President  
Dan A. Gaddis, Director  
Bob Blair, Director  
Craig Armstrong, Director

## **DISTRICT**

Michael S. LeBrun, District Manager, Secretary, Treasurer  
Lisa Bognuda, Finance Director  
Peter Sevcik, Director of Engineering and Operations

## **DISTRICT COUNSEL**

Michael W. Seitz, Esq.  
Shipsey & Seitz, Inc.  
San Luis Obispo, California

## **SPECIAL SERVICES**

### **Bond Counsel and Disclosure Counsel**

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

### **Financial Advisor**

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

### **Trustee**

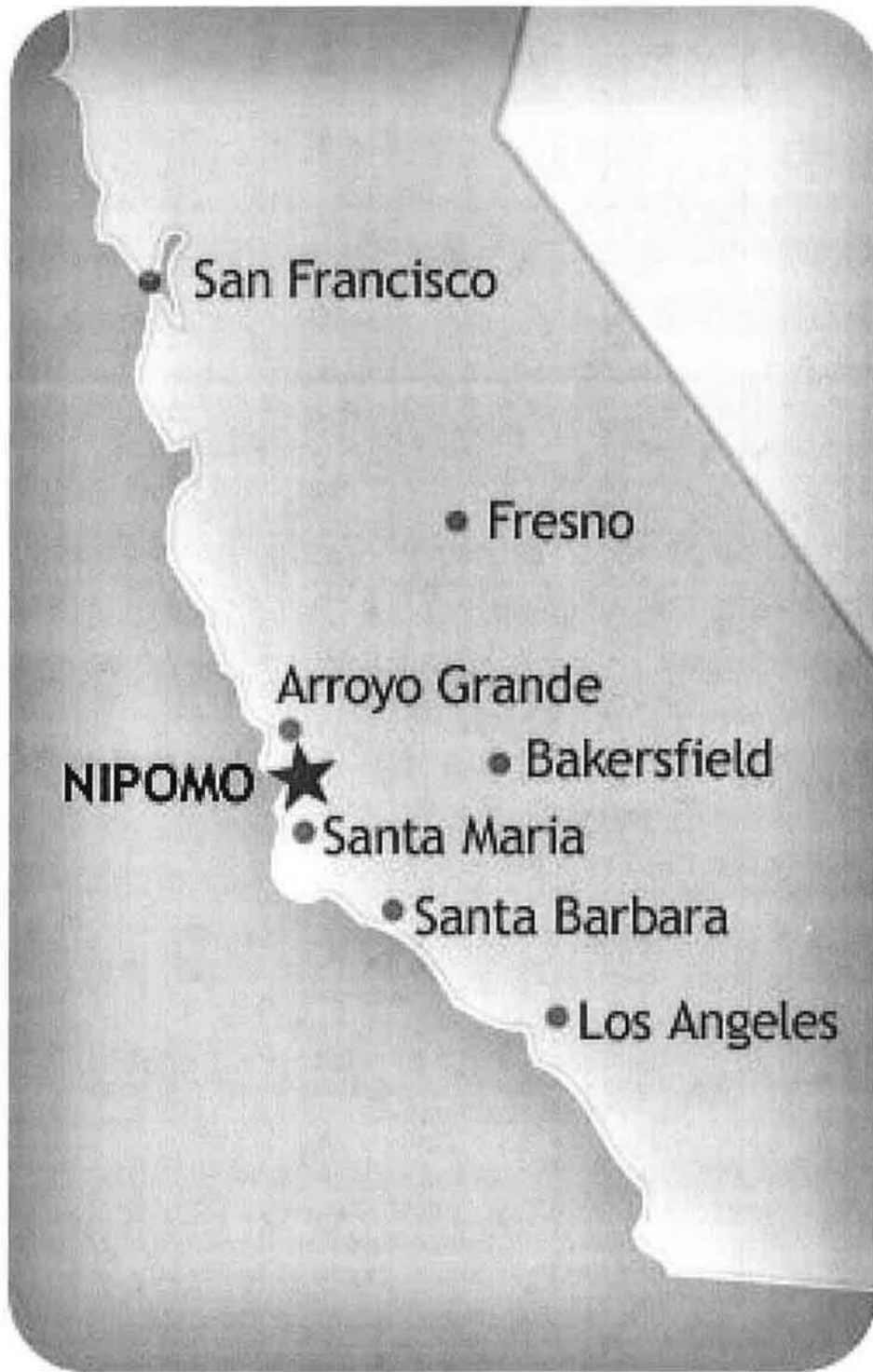
The Bank of New York Mellon Trust Company, N.A.  
Los Angeles, California

### **Verification Agent**

Barthe & Wahrman  
Minneapolis, Minnesota



**NIPOMO COMMUNITY SERVICES DISTRICT  
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 Bonds 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 Bonds 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 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

**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 Indenture 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.

**Bonds are Exempt from Securities Laws Registration.** The execution and delivery of the Bonds 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 Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

**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.

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## OFFICIAL STATEMENT

\$[principal amount]\*  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER REVENUE REFUNDING BONDS**  
**Series 2013A**

### INTRODUCTION

This Official Statement of the Nipomo Community Services District (the "District") sets forth certain information in connection with the sale by the District of \$[principal amount]\* principal amount of Water Revenue Refunding Bonds, Series 2013A (the "Bonds"). This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See "APPENDIX C – SUMMARY OF THE INDENTURE" for a summary of certain of such definitions.

The Bonds are being issued pursuant to and in accordance with Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), and pursuant to an Indenture of Trust, dated as of June 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

The District currently owns and operates its water system (the "Enterprise"). In 2003, the District caused the execution and delivery of its \$4,000,000 Nipomo Community Services District Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003 (the "Series 2003 Certificates") for the purpose of financing certain improvements (the "Prior Improvements") to the Enterprise. The proceeds of the Bonds will be used to (i) prepay installment payments due by the District for the purchase of the Prior Improvements and currently refund and defease the Series 2003 Certificates, (ii) fund a Reserve Fund for the Bonds, and (iii) pay the costs of issuance of the Bonds. See "REFINANCING PLAN."

#### **Security for the Bonds**

The Bonds are special obligations of the District, and are payable from, and are secured by a charge and lien on, Net Revenues (as defined hereinafter) as provided in the Indenture, consisting first, from the *ad valorem* property tax allocated to the District (the "Ad Valorem Tax Revenues") and, second, 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 BONDS" herein. Under no circumstances shall the District be required to advance any moneys derived from any source of income other than the funds described above, nor are any other funds or property of the District liable for the payment of principal of and interest on the Bonds.

The District may incur additional obligations payable from the Net Revenues of the Enterprise on a parity with the Bonds, subject to the terms and conditions of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Parity Obligations."

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\* Preliminary, subject to change.



A Reserve Fund is established under the Indenture as security for the Bonds in an initial amount equal to \$ \_\_\_\_\_ and is to be maintained thereafter in an amount equal to the Reserve Requirement. Except as otherwise described herein, moneys in the Reserve Fund will be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds in the event that no other moneys of the District are available therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS- Reserve Fund."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE DISTRICT, AND ARE PAYABLE FROM, AND ARE SECURED BY A CHARGE AND LIEN ON, NET REVENUES OF THE ENTERPRISE, INCLUDING, FIRST, FROM AD VALOREM TAX REVENUES AND SECOND FROM OTHER NET REVENUES. BUT 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 BONDS NOR THE PAYMENT OF THE PRINCIPAL OR ANY PART THEREOF NOR ANY INTEREST THEREON CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE BONDS ARE NOT SECURED BY ANY SECURITY INTEREST IN, OR MORTGAGE ON, THE ENTERPRISE.

### **Redemption**

The Bonds are subject to optional redemption, without premium, on or after September 1, 2023, and to mandatory sinking account redemption as described herein. See "THE BONDS."

### **Rate Covenant**

The District has covenanted in the Indenture to fix, prescribe and collect rates and charges for the water services furnished by the Enterprise during each Fiscal Year, that are sufficient, along with other Net Revenues, to yield during each Fiscal Year Net Revenues equal to 125% of the Debt Service for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Revenues; Related Covenants."

### **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. See "THE NIPOMO COMMUNITY SERVICES DISTRICT" and APPENDIX A – COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC DATA.

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 water service to approximately 4,300 residential, commercial and industrial connections to the Enterprise.

For certain information regarding the Enterprise, see "THE ENTERPRISE," and "APPENDIX B — AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012."

## Continuing Disclosure

The District has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than the March 1 following the end of the District's Fiscal Year (currently its Fiscal Year ends on the last day of June) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2013, and to provide notices of the occurrence of certain enumerated events, if material. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. See "CONTINUING DISCLOSURE" and "APPENDIX E - FORM OF CONTINUING DISCLOSURE AGREEMENT" attached hereto.

## Professionals Involved in Financing

All proceedings in connection with the issuance of the Bonds are subject to the approval of Fulbright & Jaworski L.L.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 underwriter is contingent upon the issuance and sale of the Bonds.

*This Official Statement contains information about the District, the Enterprise, and the Indenture. 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 Underwriter during the period of the initial offering of the Bonds.*

## THE BONDS

### General

The Bonds will be issued in fully registered form without coupons in Authorized Denominations. The Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York ("DTC"), and will be evidenced by one Bond for each of the maturities in the principal amounts shown on the inside cover page of this Official Statement. DTC is the depository for the Bonds, and registered ownership may not thereafter be transferred except as set forth in the Indenture. The Bonds will mature on September 1 in the years and in the amounts shown on the inside cover page of this Official Statement and will bear interest on each Interest Payment Date at the rates shown on the inside cover of this Official Statement.

While the Bonds 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 Bonds, payment may be made as described below.

Interest on the Bonds will be payable semi-annually on each March 1 and September 1, calculated based on a 360-day year of twelve (12) thirty-day months on each Interest Payment Date, commencing September 1, 2013, to the person whose name appears on the registration books of the Trustee as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed by first class mail to the Owner at the address of such Owner as it appears on the registration books; provided, however, that payment of interest or principal may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more who shall furnish written wire instructions to the Trustee prior to the applicable Record Date. Principal of any Bond will be paid by check or wire of the Trustee upon presentation and surrender



thereof at the Trust Office. Principal of and interest on the Bonds will be payable in lawful money of the United States of America.

Each Bond will be dated as of the Delivery Date and will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (b) unless it is authenticated on or before August 15, 2013, in which event it shall bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon

**Redemption**

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

*Optional Redemption.* The Bonds maturing on or after September 1, 2024 are subject to optional redemption prior to maturity upon notice to the Trustee, on September 1, 2023, 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 redemption date, without premium.

*Mandatory Sinking Account Redemption.* The Term Bonds maturing on September 1, 20\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on September 1 in each year, commencing September 1, 20\_\_, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the District with the Trustee.

Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
----------------------------------	---------------------

(maturity)

The Term Bonds maturing on September 1, 20\_\_ are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on September 1 in each year, commencing September 1, 20\_\_, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption shall be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future Sinking Account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000, as shall be designated pursuant to written notice filed by the District with the Trustee.

Schedule of Sinking Account Payments for Term Bonds  
Maturing September 1, 20\_\_

Redemption Date (September 1)	Principal Amount
----------------------------------	---------------------

(maturity)

In lieu of such redemption, the Trustee may apply amounts in the Sinking Account to the purchase of Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Term Bonds, as set forth in a Written Request of the District. The par amount of Term Bonds so purchased by the District in any twelve month period immediately preceding any mandatory Sinking Account payment date in the table above will be credited towards and will reduce the principal amount of Term Bonds required to be redeemed on the succeeding Principal Payment Date.

*Notice of Redemption.* When redemption is authorized or required, the Trustee is required to give written notice of the redemption of Bonds to the Owners of Bonds designated for redemption at their addresses appearing on the bond registration books, to certain Securities Depositories, and to one or more Information Services, all as provided in the Indenture, by first class mail, postage prepaid, no less than thirty (30), nor more than sixty (60) days prior to the date fixed for redemption. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such Bonds or the cessation of accrual of interest on the redemption date.

If at the time of mailing of any notice of optional redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption moneys with the Trustee not later than the opening of business on the redemption date and will be of no effect unless such moneys are so deposited.

The District shall have the right to rescind any notice of optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of such redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default hereunder. The District and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

*Selection of Bonds for Redemption.* Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds or such given portion thereof not previously called for redemption, pro rata by maturity or, at the election of the District set forth in a Written Request of the District, filed with the Trustee, from such maturities as the District shall determine, and by lot within a maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, the Trustee shall treat each Bond as consisting of separate \$5,000 portions and each such portion shall be subject to redemption as if such portion were a separate Bond.

*Effect of Redemption.* Once notice of redemption has been duly given as described above, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portions thereof) so called for redemption are held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

All Bonds redeemed pursuant to the provisions of the Indenture shall be canceled by the Trustee upon surrender thereof and destroyed.

### **Book-Entry Only System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Ultimate purchasers of Bonds will not receive physical certificates representing their interest in the Bonds. Payment of the principal of and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co., by the Trustee so long as DTC or Cede & Co. is the registered owner of the Bonds. Disbursement of such payments to DTC's Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC's Participants and Indirect Participants. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM."

## BOND DEBT SERVICE

The following table sets forth the debt service schedule for the Bonds.

<u>For Bond Year</u> <u>Ending September 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013			
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
<b>TOTAL</b>			

## ESTIMATED SOURCES AND USES OF PROCEEDS

### Sources and Uses of Proceeds

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

#### Estimated Sources of Proceeds

Principal Amount of Bonds	
Plus/Less: Net Original Issue Premium/Discount	
Less: Underwriter's Discount	
Series 2003 Certificates funds and accounts	_____
Total	=====

#### Estimated Uses of Proceeds

Deposit to Escrow Fund	
Deposit to Reserve Fund	
Deposit to Costs Issuance Fund <sup>(1)</sup>	_____
Total	=====

<sup>(1)</sup> Includes fees and expenses of bond and disclosure counsel, trustee fees and expenses, costs of printing the preliminary and final official statement and rating agency fees.

## REFINANCING PLAN

### General

A portion of the proceeds of the Bonds will be used to (i) currently refund and defease the District's Series 2003 Bonds of Participation, (ii) fund a Reserve Fund for the Bonds, and (iii) pay the costs of issuance of the Bonds.

The Series 2003 Certificates were executed and delivered to make improvements to the Enterprise. These facilities included the construction of two water transmission mains and the construction of a one million gallon water storage facility. The Series 2003 Certificates evidenced direct and proportionate interests in installment payments to be made by the District under an Installment Purchase Agreement dated as of May 1, 2003 (the "2003 Installment Purchase Agreement"), between the District and the Nipomo Community Services District Public Facilities Corporation. Proceeds of the Bonds, together with certain funds made available through the defeasance of the Series 2003 Certificates, will be deposited into an escrow fund with the Escrow Agent and used for the purposes of prepaying installment payments due under the 2003 Installment Purchase Agreement and defeasing the Series 2003 Certificates. Amounts so deposited will be held uninvested as cash. Such amounts will be verified by Barthe & Wahrman (the "Verification Agent"), to be sufficient to pay the prepayment price of the Series 2003 Certificates upon their optional prepayment on \_\_\_\_\_, 2013. As a result of the deposit and application of funds as provided in the escrow fund, the Series 2003 Certificates will be defeased and all obligations thereunder discharged, including the Series 2003 Installment Purchase Agreement, assuming the accuracy of the Verification Agent's computations.

### Expected Parity Obligation

*2013 Certificates.* The District anticipates that, simultaneously with the issuance of the Bonds or shortly thereafter following resolution of existing litigation, the District will enter into an installment sale agreement with the Corporation for the purpose of funding a portion of the costs of certain additional capital improvements to the Enterprise. The District expects to cause to be executed and delivered an estimated principal amount of \$\_\_\_\_\_ Certificates of Participation (Supplemental Water Project), Series 2013 (the

“2013 Certificates”), evidencing the direct, undivided fractional interests of the owners thereof in the installment payments (the “Series 2013 Installment Payments”) to be made by the District which will be payable from and secured by a charge and first lien on the Net Revenues on parity basis with the lien of the Bonds on the Net Revenues. The 2013 Certificates are expected to constitute Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT OF THE BONDS – Parity Obligations.”

The proposed improvements to the Enterprise (the “Phase 1 Improvements”) expected to be funded with the 2013 Certificates consist of Phase 1 of the District’s Supplemental Water Project. The Phase 1 Improvements will interconnect the District’s water distribution system with the water distribution system of the City of Santa Maria (the “City”). See “THE ENTERPRISE- Water Supply - Supplemental Water Project.”

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General

Pursuant to the Indenture, the Bonds are payable from Net Revenues held under the Indenture and investment earnings thereon, all as set forth in the Indenture and in the manner described herein.

### Source of Payment for the Bonds; Net Revenues

*Gross Revenues.* The annual Ad Valorem Tax Revenues received by the District from the County of San Luis Obispo are irrevocably pledged as the first source of funds to pay the principal of and interest on the Bonds and will not be used for any other purpose while any of the Bonds remain outstanding except as described below. In the event that Ad Valorem Tax Revenues are not sufficient to pay the principal of and interest on the Bonds when due, any amounts due shall be paid from other Net Revenues.

The term “Net Revenues” are defined as all Gross Revenues less Operation and Maintenance Costs.

The term “Gross Revenues” under the Indenture 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) Ad Valorem Tax Revenues, (b) 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, (c) 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 (d) all receipts derived from the investment of funds held by the District or the Trustee under the Indenture and receipts from the Rate Stabilization Fund, (e) all moneys received by the District from other public entities whose inhabitants are served pursuant to contracts with the District, (f) moneys deposited in the Bond Fund, the Water Enterprise Fund or other fund to secure the Bonds or Parity Obligations or to provide for the payment of the principal of or interest on the Bonds or Parity Obligations, (g) 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 Indenture, 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 and any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds or other 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, 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 other similar costs, and 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



Bonds or of the Indenture or Parity Obligations, but excluding in all cases, depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

The Bonds are not secured by, and the Owners of Bonds have no security interest in or mortgage on the property of the Enterprise, or of the District. Default by the District will not result in loss of any property. Should the District default, the Trustee may declare all unpaid principal, together with accrued interest at the rate or rates specified on the respective outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable, and take whatever action at law or in equity may appear necessary or desirable to accelerate the principal of the Outstanding Bonds, or enforce performance and observance of any obligation, agreement or covenant of the District under the Indenture. See "BONDOWNERS' RISKS – Limited Recourse on Default."

Pursuant to the Indenture, the Ad Valorem Tax Revenues are irrevocably pledged as the first source of repayment of the Bonds and are not to be used for any other purposes while any of the Bonds and obligations incurred on parity with the Bonds (the "Parity Obligations") remain outstanding. In the event that the Ad Valorem Tax Revenues are not sufficient in amount to pay the Debt Service on the Bonds and Parity Obligations when due, any unpaid Debt Service of the Bonds and Parity Obligations is to be paid from other Net Revenues. In furtherance of the foregoing, all Gross Revenues and all amounts on deposit in the Water Enterprise Fund are irrevocably pledged to the payment of the Debt Service on the Bonds and the Parity Obligations and, except for the payment of the Operation and Maintenance Costs, the Gross Revenues are not be used for any other purpose while any of the Bonds or Parity Obligations remain outstanding; provided that out of the Gross Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Indenture. This pledge constitutes a first and exclusive lien on the Ad Valorem Revenues and other Net Revenues, the Water Enterprise Fund and the other funds and accounts created under the Indenture for the payment of the Bonds and all other Parity Obligations in accordance with the terms of the Indenture. Moneys in the Reserve Fund are pledged to the Bonds as provided in the Indenture.

THE BONDS DO NOT 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.

*Allocation of Gross Revenues and Ad Valorem Tax Revenues.* In order to carry out and effectuate the pledge and lien contained in the Indenture, the District agrees and covenants that (i) all Gross Revenues (other than Ad Valorem Tax Revenues) will be received by the District in trust and deposited when and as received in a special fund designated as the "Water Enterprise Fund", and (ii) all Ad Valorem Tax Revenues will be received by the District in trust and deposited when and as received in the "Ad Valorem Tax Account of the Water Enterprise Fund." The District will, from the moneys in the Water Enterprise Fund other than the Ad Valorem Tax Account, 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 moneys in the Ad Valorem Tax Account and all remaining moneys in the Water Enterprise Fund will be used as follows: (a) on the fifth (5th) Business Day prior to March 1 and September 1 of each year, beginning on the fifth (5th) Business Day prior to September 1, 2013, the District will, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting interest on all other Parity Obligations) for deposit in the Bond Fund the amount of the interest becoming due on the Bonds on the next succeeding March 1 or September 1, as the case may be; and (b) on the fifth (5th) Business Day prior to March 1 of each year, beginning on the fifth (5th) Business Day prior to September 1, 2013, the District will, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer to the Trustee (on a parity with the transfers for the payment of the Debt Service constituting principal and scheduled sinking account payments of all other Parity Obligations) for deposit in the Bond Fund the amount of the principal and scheduled sinking

account payments becoming due on the Bonds on the next succeeding September 1; and (c) on March 1 and September 1 of each year, beginning on September 1, 2013, the District will, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, transfer for the replenishment of the Reserve Fund (and all Reserve Funds of Parity Obligations, if any,) one-half (1/2) of the amount necessary prior to the first such transfer to restore such Reserve Fund to its reserve requirement over the next twelve (12) months, except that if the deficiency in any Reserve Fund was occasioned by a reduction in the market valuation thereof (rather than a transfer therefrom), such deposit will be equal to the total amount necessary prior to such transfer to restore such Reserve Fund to its reserve requirement; provided, that no such transfers to and deposits need be made if the amount available and contained in the Bond Fund is at least equal to the interest installment becoming due on the next succeeding March 1 or September 1, as the case may be, plus the principal becoming due on the next succeeding September 1.

On September 1 of each year, beginning on September 1, 2013, all remaining money in the Water Enterprise Fund, after the foregoing withdrawals and deposits have been made, may be withdrawn from the Water Enterprise Fund and deposited by the Treasurer in such fund as the District may determine for expenditure for any lawful purpose of the District.

*Bond Fund Allocation.* On each date on which interest on or principal of the Bonds becomes due and payable, the Trustee will transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Bond Fund) and the Reserve Fund, if necessary, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Net Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority: first, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all Bonds then Outstanding, second, the Trustee will deposit in the Principal Account, the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus, deposit to the Sinking Account, the aggregate amount of the mandatory Sinking Account payment required to be paid for Outstanding Term Bonds on the next succeeding Principal Payment Date, until the balance in said accounts are equal to said respective aggregate amounts of such principal and mandatory Sinking Account payments, third, the Trustee will deposit in the Reserve Fund the amount, if any, required to restore the balance in the Reserve Fund to the Reserve Requirement, fourth, the Trustee will transfer any remaining amounts in the Bond Fund to the District for any lawful use with respect to the Enterprise.

### **Revenues; Related Covenants**

Pursuant to the Indenture 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 Debt Service on the Bonds 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 such Debt Service or interest on any Parity Obligations are payable from proceeds of the Bonds or Parity Obligations deposited for such purpose;
- (c) All amounts, if any, required to restore the balance in the Reserve Fund and any Reserve Funds of Parity Obligations to the full amount of its respective 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 Water Services furnished by the Enterprise during each Fiscal Year, that are sufficient, along with other Net Revenues, to yield during each Fiscal Year 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.

In any Fiscal Year in which the Net Revenues of Enterprise are in excess of the aggregate annual principal and interest requirements of the Bonds and Parity Obligations in such Fiscal Year and other conditions of the Indenture 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 THE INDENTURE."

For information regarding the Enterprise, including financial information, see "NIPOMO COMMUNITY SERVICES DISTRICT" and "APPENDIX B — AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012."

### **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 Net Revenues remaining, after making the allocations provided in the Indenture, 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 Indenture 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 Indenture.

The District has previously funded the Rate Stabilization Fund and, as of April 1, 2013, the amount on deposit in the Rate Stabilization Fund is \$400,160.

### **Reserve Fund**

The Reserve Fund for the Bonds is established pursuant to the Indenture. 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 Bonds; (ii) 125% of average Annual Debt Service on the Bonds for that and all subsequent Bond Years; or (iii) maximum aggregate Annual Debt Service on the Bonds for that or any subsequent Bond Year.

All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account, respectively, are not sufficient for such purpose, (b) paying the redemption price of Term Bonds to be redeemed pursuant to the Indenture in the event that amounts on deposit in the Sinking Account are not sufficient for such purpose, and (c) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds are retired or provision made therefor pursuant to the Indenture, all moneys then on deposit in the Reserve Fund will be withdrawn by the Trustee and paid to the

District for use by the District for any lawful purpose. The Reserve Requirement may be satisfied by crediting to the Reserve Fund moneys or a Reserve Fund Credit Facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement as provided in the Indenture.

### **Investments**

Money held by the Trustee in any fund or account under the Indenture will be invested by the Trustee as the District will direct in writing in Permitted Investments pending application as provided in the Indenture, 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 Indenture. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Indenture.

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.

### **Issuance of Parity Obligations**

The District may at any time incur Parity Obligations provided:

(a) No Event of Default has occurred and is continuing, and the District will 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) The Net Revenues derived from subsections (1) through (4) of the definition of Gross Revenues (excluding development fees and connection fees), 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 ten percent (110%) of the amount of Maximum Annual Debt Service;

(d) There will be established upon the issuance of such Parity Obligation a reserve fund for such Parity Obligation 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 Parity Obligation during any Fiscal Year, or (ii) the maximum amount then permitted under the Code; and

(e) The trustee or fiscal agent for such Parity Obligation shall be the same entity performing the functions of Trustee under the Indenture.

The provisions of subsections (b) and (c) above will not apply to any Parity Obligation if all of the proceeds of such Parity Obligation (other than proceeds applied to pay costs of issuing such Parity Obligation and to make a reserve fund deposit required pursuant to subsection (d) above) shall be deposited in an irrevocable escrow for the purpose of paying the principal of and interest and premium (if any) on any outstanding Parity Obligation.

The District anticipates that, simultaneously with the issuance of the Bonds or shortly thereafter following resolution of existing litigation, the District will cause to be executed and delivered an estimated principal amount of \$ \_\_\_\_\_ of the 2013 Certificates for the purpose of funding a portion of the costs of certain additional capital improvements to the Enterprise constituting the Phase 1 Improvements of the

Supplemental Water Project. The 2013 Certificates are expected to constitute Parity Obligations. See “THE REFINANCING PLAN – Expected Parity Obligation.”



## 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 mid-way 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 community of Nipomo, nine miles south of the City of Arroyo Grande, seven miles north of the City of Santa Maria and twelve miles from Pismo Beach. The Nipomo community is located at the foot of the Temetate Ridge and is on a coastal mesa averaging an elevation of 380 feet above sea level. Appropriately, the name Nipomo is derived from the Chumash Indian word "Nepomah" meaning "foot of the hills." The District includes approximately 4,450 acres of land comprising seven square miles. The District's authority does not include legislative or executive powers over zoning or land use.

The District currently provides water service to approximately 4,300 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 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:

<u>Name</u>	<u>Title</u>	<u>Term Expires (December)</u>	<u>Occupation</u>
James Harrison	President	2014	Retired Fire Division Chief Officer
Larry Vierheilig	Vice President	2014	Retired Aerospace Environmental Engineering Manager
Dan Gaddis	Director	2014	Retired Aerospace Manager
Bob Blair	Director	2016	Retired Pharmacist
Craig Armstrong	Director	2016	Retired Financial Executive

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 20 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, Director of Engineering and Operations.* Peter V. Sevcik, P.E., is the Director of Engineering and Operations 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.

### **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 also adopts a resolution establishing the appropriation's limit for the successive fiscal year and authorizing its annual audit and 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 2013 was adopted on June 13, 2012.

### **Employees and Employee Benefits**

The District is currently staffed with thirteen full-time employees, including a General Manager, Finance Director/Assistant General Manager, Director of Engineering and Operations, Utility Supervisor, Assistant Engineer, 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, 2011. Employees hired on or after June 18, 2011, 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, 2012 was 20.296% 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. The District's contribution to PERS for the fiscal year ending June 30, 2012 was \$215,945, 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, 2012, was determined to be \$1,328,814, based on a discount rate of 7.61%. 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, 2012.

The following table provides information as of June 30, 2012 of the District’s post-employment benefits required disclosure.

Number of active participants	12
Employer’s actuarially required contributions	\$114,406
Employer’s actual contributions	\$103,000
Actuarial Accrued Liability(AAL)	\$1,328,814
Actuarial Valuation of Assets(AVA)	\$415,459
Unfunded Actuarial Accrued Liability(UAAL)=(AAL less AVL)	\$913,355
Funded Ratio(AVNAAL)	31%
Estimated Payroll	\$761,000
UAAL as a Percentage of Covered Payroll	120%

## 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, 2012 through June 30, 2013, 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, 2012, 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.**

*Water Obligations.* Other than the Series 2003 Certificates, there are no other obligations of the Enterprise. However, the District plans to incur debt secured by the Net Revenues on parity with the pledge of Net Revenues securing the Bonds. See "THE REFINANCING PLAN – Expected Parity Obligation" for a description of the proposed 2013 Certificates.

*Sewer 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 June 30, 2012 was \$244,079, and is payable over 20 year at zero interest rate and annual payments of \$34,868 commencing May 1, 2000. This loan is payable from wastewater revenues and not the Net Revenues.

The District has entered into a second 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 June 30, 2012 was \$337,442. The loan is payable over 20 year at zero interest rate and annual payments of \$42,180 starting March 1, 2001. This loan is payable from wastewater revenues and not the Net Revenues.

On April 1, 2009, the District entered into an inter-fund loan from the Property Tax Fund to the Blacklake Division Sewer Enterprise Fund in the principal amount of \$275,000 at 3.5% interest, of which \$148,399 is outstanding as of June 30, 2012. *The inter-fund loan is not secured by Net Revenues.* 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.

On June 21, 2012, the District executed and delivered \$9,795,000 Revenue Certificates of Participation (the "2012 Sewer Certificates") for the construction of the Southland wastewater project costs. The outstanding amount of the 2012 Sewer Certificates as of June 30, 2012, is \$9,795,000. The 2012 Sewer Certificates are payable from wastewater revenues and not the Net Revenues.

*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, 2012 was \$516,000. These bonds are secured by assessments on certain parcels within the District and not from Net Revenues pledged under the Indenture.

## **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, five days a week to operate and maintain the Enterprise. There is 24-hour support provided to the enterprise year round through on-call operational staffing. The District's Finance Department is responsible for billing and collecting all water utility bills.

The Enterprise currently serves 4,268 customers, consisting of 3,587 single family, 492 multi-family, 95 commercial and 94 irrigation accounts.



The Enterprise originally consisted of two divisions including the Town Division and the Blacklake Division which were merged in 2009. Along with normal maintenance, the District has implemented a preventative well maintenance program where a well is taken out of service each year and refurbished. The District anticipates that this will prevent downtime of any of the wells in the Enterprise. The Board of Directors of the District has implemented a funded cost replacement program. Replacements are scheduled as needed and the budgeted replacement program costs are incorporated into the user rates. Even with a cost replacement program, the District has maintained one of the lowest water rates in the County.

### **Existing Facilities**

The Enterprise consists of eight (8) wells with a pumping capacity of approximately 3,300 gallons per minute, and four million gallons of water storage. The District has adequate water storage to provide water during power outages and has the Sundale Well (1,000 gpm) which has a dedicated standby generator available to operate the well totally independent of electrical power supply for operations. The well depths of the Enterprise are monitored continuously in one well and monthly in all others. The entire Enterprise is on the Supervisory Control and Data Acquisition System, a computer software system that monitors and controls the wells, tanks, lift stations and wastewater treatment plant. One half of the District is billed one month and the other half the following month to maintain cash flow for the District.

Wells. The District operates eight (8) production wells, located throughout the distribution system, which produce all of its water supply for the Enterprise.

Storage Facilities. There are five (5) above ground steel storage reservoirs with four million gallons of combined capacity.

Pumping Facilities. Each well has pumping facilities sufficient to pump water into the system and fill the reservoirs.

Distribution System. The District's water distribution system includes approximately ninety (90) miles of water lines varying in size from two (2) inches to eighteen (18) inches. Fifty percent (50%) of the Enterprise water lines are comprised of six- and eight-inch pipeline. The District believes that its distribution system is currently in good repair and operating condition.

### **Water Supply**

*Groundwater.* Groundwater is currently the sole source of water to the District. Groundwater is supplied by eight active wells and pumping stations. The District also had two wells that are on standby, and one of the District's eight active wells is not typically used due to low water quality relative to remainder of supply. The wells have an average depth of 600 feet. The three largest wells are the Eureka Well (900 gpm), Sundale Well (1,000 gpm), and the Via Concha Well (900 gpm). Total maximum daily production from the wells is about 3,300 gpm.

*Groundwater Adjudication.* In prior years, the District was a party to litigation originating in 1997 involving the adjudication of various water rights within the greater Santa Maria Groundwater Basin, which litigation grew to include 900 parties. In 2005, the Court approved a Settlement Stipulation ("Stipulation") that was signed by the District, other water purveyors and landowners that overlie the Santa Maria Groundwater Basin. The Stipulation contains specific provisions with regard to rights to use groundwater, development of groundwater monitoring programs, and development of plans and programs to respond to potentially severe water shortage conditions. The intent of the Stipulation was to impose a physical solution establishing the legal and practical means for ensuring the long-term sustainability of the Santa Maria Groundwater Basin. The Stipulation requires the District to develop additional water supplies to serve current and future customers. The Stipulation has been finally adjudicated, since on February 13, 2013, the Supreme Court denied the petition for review and no further action to contest the Stipulation may be taken.

The Stipulation requires, among other things, that the District is to deliver 2500 AF of supplemental water per year to the Nipomo Mesa Management Area (NMMA) of which the District is a part, and to that end, that the following parties will participate in the District's purchase of the first 2,500 AF of supplemental water per year from the City of Santa Maria in the following percentages: District at 66.68%, Woodlands Mutual Water Company ("Woodlands") at 16.66%, Golden State Water Company ("Golden State") at 8.33% and Rural Water Company ("Rural") at 8.33%.

*Supplemental Water Project.* For several years, the District has been developing plans for a supplemental water project which would interconnect the District's water distribution system with the water distribution system of the City of Santa Maria (the "Supplemental Water Project"), allowing the District to reduce pumping from existing wells to slow the depletion of groundwater and reduce the potential for seawater intrusion on the Nipomo Mesa as required by the Stipulation. The overall costs to construct the Supplemental Water Project is currently estimated at \$25,500,000. Environmental impact review is complete and bids for Phase 1 have been received but not yet awarded. Phase 1 Improvements, estimated to cost \$17,503,160, will be capable of initially delivering approximately 650 acre-feet per year ("AFY") on average of supplemental water to the District increasing to a potential of approximately 1,000 AFY of supplemental water depending on flow control adjustments. Phase 1 Improvements consist of waterlines, pipe under the Santa Maria River, a flow meter and flow control station, a pump station with two (2) pumps, a chloramination system, a pressure reducing station, and chloramination systems at four (4) existing District production wells. Phase 2 will consist of approximately 5,000 lineal feet of 12 inch diameter waterline, a 500,000 gallon partially buried pre-stressed concrete tank at the pump station, and installation of three (3) larger pumps at the pump station. This additional infrastructure will allow for the delivery on average of a total of 1,600 AFY of supplemental water. Phase 3 will consist of approximately 11,000 lineal feet of 12 inch diameter waterline and installation of one (1) additional pump at the pump station as well as four (4) pressure reducing stations. This additional infrastructure will allow for the delivery on average of a total of 3,000 acre-feet (AFY) of supplemental water. Phase 2 and Phase 3 are each estimated to cost approximately \$4 million.

In 2012, the District undertook to form an assessment district within its jurisdiction and the jurisdictions of the three water purveyors to finance a portion of the Supplemental Water Project. On May 9, 2012, a majority protest existed (approximately 52% of the weighted Proposition 218 ballots) thus defeating the use of assessments to finance the Supplemental Water Project.

On April 24, 2013, and on May 8, 2013, the District adopted and amended a financing plan for the Phase 1 Improvements, which included funding as follows: net proceeds of proposed 2013 Certificates in the amount of \$4,000,000 to \$9,000,000, a \$2,200,000 grant from the California Department of Water Resources, \$2,400,000 in existing funds from the Property Tax Fund, \$1,403,160 in existing funds from the Water Capacity Fund, \$1,500,000 in existing funds from the Water Fund, \$1,000,000 in existing funds from the Supplemental Water Capital Fee Fund, for a total amount of \$17,503,160. The original financing plan included \$4,000,000 in existing funds from the Water Funded Replacement Fund. On May 3, 2013, a complaint for writ of mandate and injunctive relief was filed against the District in County of San Luis Obispo Superior Court alleging improper use of the Water Funded Replacement Fund for Phase 1. The suit seeks to invalidate approval of Phase 1 and the use of moneys in the Water Funded Replacement Fund and for injunctive relief against any action of the District with respect to the Supplemental Water Project. The District believes the adoption of its original financing plan, as well as the amended financing plan, are legal and valid actions of the District and are mandated by the Stipulation, and the District is currently defending such positions in court.

The District anticipates that Phase 2 and Phase 3 improvements for the Supplemental Water Project will be funded on a pay-as-you-go basis from the Supplemental Water Fees derived from future development within the District and the District has no plans to incur any additional bonded indebtedness for these future phases.

*Wholesale Water Agreement.* In order to comply with the Stipulation, the City and the District entered into a wholesale water agreement dated June 5, 2010, and amended May 6, 2013 (the "Wholesale Water Agreement"), in which the City agreed to reserve and sell supplemental water to the District, and the District agreed to purchase such supplemental water, following completion of the Phase 1 Improvements. Following completion of the Phase

1 Improvements, the District is required to purchase the following minimums: 645 AFY of water during year 1, 800 AFY during years 2 through 5, 1,000 AFY during years 6-10, and 2,500 AFY during years 11 through 2035. Under the Wholesale Water Agreement, if the District does not take the minimum amounts, the City may bill the District for the balance. The cost of the water will be the Base Rate of the City's Water Consumption Rates plus an Base Energy Cost equal to \$206.85 per AF. The City and the District expect to enter into a Operation Memorandum of Understanding required by the water agreement for the operation of the interconnect facilities. The District has not yet entered into any water sale agreements with the three water purveyors who are required to purchase supplemental water from the District.

**Historical and Projected Water Supply and Deliveries**

As of February 28, 2013, the District has pumped 1,603 acre-feet for the current fiscal year, down from 1,681 acre-feet for the same period last year. As of February 28, 2013, the District has delivered 1,544 acre-feet of water for the current fiscal year, down slightly from 1,597 acre-feet for the same period last year. Set forth below in Table 1 is a summary of the amount of historical groundwater pumped and deliveries by the District for the last five fiscal years. The amount of pumped water and deliveries is impacted by building activity, rainfall and consumer use. Since 2008, water usage has declined primarily due to decreased construction and development in the region, conservation efforts by the District and the downturn in the economy in general. This trend is anticipated to reverse in the near future as building activity and development expands and new connections increase. See Table 5 for projected connections based on capacity fee information. For purposes of purposes of the District's financial projections, however, the District has conservatively estimated amounts of pumped groundwater for the current and four succeeding fiscal years as set forth in Table 2.

**TABLE 1  
NIPOMO COMMUNITY SERVICES DISTRICT  
WATER ENTERPRISE  
HISTORICAL GROUNDWATER PUMPED AND DELIVERIES  
(IN ACRE-FEET PER YEAR)**

<b>Fiscal Year Ended June 30</b>	<b>Pumped Water</b>	<b>Percent Change</b>	<b>Water Deliveries</b>	<b>Percent Change</b>
2012	2,489	2.8%	2,348	0.2%
2011	2,421	(5.1)	2,297	(3.4)
2010	2,550	(6.6)	2,375	(8.3)
2009	2,729	(4.0)	2,591	(7.0)
2008	2,844	--	2,787	(1.3)

*Source: Nipomo Community Service District.*

**TABLE 2**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**PROJECTED GROUNDWATER PUMPED**  
**(IN ACRE-FEET PER YEAR)**

Fiscal Year Ended June 30	Pumped Water
2013	2,482
2014	2,475
2015	2,468
2016	2,462
2017	2,455

*Source: Nipomo Community Service District.*

**Historical and Projected Water Connections**

As of February 28, 2013, the District has 4,268 connections, an increase of 95 connections from last fiscal year or 2.3%. The following Tables 3 and 4 show the number of water connections to the District's Enterprise for the five most recent fiscal years, as well as the current breakdown between the categories.

**TABLE 3**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**HISTORIC WATER CONNECTIONS**

Fiscal Year Ended June 30	Water Connections	Percent Change
2012	4,173	0.5%
2011	4,153	0.4
2010	4,136	1.1
2009	4,092	0.4
2008	4,077	1.4

*Source: Nipomo Community Service District.*

**TABLE 4**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**NUMBER OF CONNECTIONS BY CATEGORY**  
**(As of February 28, 2013)**

Category	Number of Connections	Percent of Total
Single Family	3,587	84.04%
Multifamily	492	11.53
Commercial	95	2.23
Irrigation	<u>94</u>	<u>2.20</u>
<b>TOTAL</b>	<b>4,268</b>	<b>100.00%</b>

*Source: Nipomo Community Service District.*

Table 5 depicts projected new connections between the fiscal years 2012-13 through 2016-17 based on capacity fees received by the District, and information received by the District at this time regarding the planning stages of such developments, as well as future projected development within the District. In its financial projections the District has conservatively estimated a growth of 28 new connections each year through 2016-17.

**TABLE 5**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**PROJECTED CONNECTIONS**

	2012-13	2013-14	2014-15	2015-16	2016-17
Active Connections (2/28/13)	4,268				
Single Lots <sup>1</sup>		5	5	43	43
Tract 1856 <sup>1</sup>		30	30		
Tract 2734 <sup>1</sup>			6		
Tract 2855 <sup>1</sup>			1		
APN 091-283-014 <sup>2</sup>				2	
Tract 2650 <sup>2</sup>				16	
Tract 2642 <sup>2</sup>					18
CO 06-0225 <sup>2</sup>					<u>20</u>
Projected New Connections		<u>35</u>	<u>42</u>	<u>61</u>	<u>81</u>
Total Projected Connections	4,268	4,303	4,345	4,406	4,487

1. Based on Capacity Fees already paid.

2. Based on projected Capacity Fees.

*Source: Nipomo Community Services District.*

### Historical Water Sale Revenues

As of February 28, 2013, the District has received \$2,273,922 in revenues from water sales, up from the \$2,067,697 in revenues received over the same period last year. Table 6 shows annual water sale revenues from



water sales in the service area for the five most recent fiscal years. The increases in water sales revenues reflect both increased connections as well as rate increases.

**TABLE 6  
NIPOMO COMMUNITY SERVICES DISTRICT  
WATER ENTERPRISE  
HISTORICAL WATER SALES REVENUES**

Fiscal Year Ended June 30	Sales Revenue	Percent Change
2012	\$2,978,557	7.5%
2011	2,771,928	(6.0)
2010	2,938,162	(1.6)
2009	2,987,268	(0.3)
2008	2,979,529	12.4

*Source: Nipomo Community Service District.*

**Ad Valorem Property Taxes**

The District receives a portion of the general ad valorem taxes imposed by San Luis Obispo County (the “County”) and ad valorem assessments imposed by the District. The Ad Valorem Tax Revenues have been pledged as the first source of funds from which Installment Payments will be made. See “SECURITY AND SOURCES FOR THE PAYMENT OF THE BONDS-Pledge of Revenues.”

*Assessed Valuation.* The assessed valuation of the property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Due to changes in assessment required under State Constitution Article XIII A, the County assessment roll no longer purports to be proportional to market value. See “LIMITATIONS ON TAXES AND REVENUES” herein. Generally, property can be reappraised to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the State consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see “LIMITATIONS ON TAXES AND REVENUES” herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. San Luis Obispo County utilizes the Teeter plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest. The District receives approximately 8.3% of its revenues from the 1% property tax levy that the County levies in accordance with Article XIII A of the State Constitution (the “Ad Valorem Property Taxes”). There are no redevelopment agencies within the boundaries of the District to impact positively or negatively the receipt by the District of Ad Valorem Property Taxes.

The County Auditor-Controller has estimated the adjusted assessed valuation for property within the District for fiscal year 2012-13 as \$1,264,043,259 (\$1,267,470,721 for secured, \$13,406,138 for unsecured and \$16,833,600 for homeowners’ exemption), with estimated revenues of \$492,986 (\$468,876 in secured taxes, \$11,788 in unsecured taxes, \$4,135 in homeowners’ exemption revenue and \$8,187 in unitary revenues). Table 7

below sets forth the secured and unsecured assessed valuations for property in the District, along with the ad valorem tax revenues received by the District for the fiscal years 2008 through 2012.

**TABLE 7  
NIPOMO COMMUNITY SERVICES DISTRICT  
HISTORICAL ASSESSED VALUATION & PROPERTY TAX REVENUES**

Fiscal Year Ended June 30	Gross Secured Assessed Valuation	Gross Unsecured Assessed Valuation	Homeowners' Exemption	Adjusted Assessed Valuation	Ad Valorem Property Tax Revenues <sup>(1)</sup>
2012	\$1,301,667,173	\$12,993,551	\$(16,900,800)	\$1,297,759,924	\$492,137.70
2011	1,333,639,941	13,353,669	(16,973,600)	1,330,020,010	500,010.88
2010	1,360,374,058	11,351,617	(16,891,000)	1,354,834,675	478,193.09
2009	1,412,360,063	10,466,326	(16,921,800)	1,405,904,589	468,481.28
2008	1,395,028,513	10,852,525	(16,611,000)	1,389,270,038	462,004.90

(1) Share of 1% General Fund Apportionment.

Source: County of San Luis Obispo Assessor.

*State Legislative Shift of Property Tax Allocation.* Beginning in 1992-93, the State has required that local agencies including special districts remit a portion of property taxes received to augment school funding, shifting approximately 42% of the District's 1% property tax levy away from the District to school districts. These funds are deposited in each county's Education Revenue Augmentation Fund ("ERAF"). These property taxes are permanently excluded from the District's property tax revenues. The estimated ERAF payment to be deducted from the District's property tax revenues for fiscal year 2012-13 is \$346,096. On July 24, 2009, the California legislature approved amendments to the 2009-10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments include borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008-09 property related tax revenues from local agencies tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State must repay with interest within three years. 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.

It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the Ad Valorem Property Taxes paid to the District. Given the recent shortfalls that exist in the State's budget, it is possible that the State will again look to shift property taxes away from certain local agencies in an effort to arrive at a balanced budget. Proposition 1A, however, 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. See "LIMITATIONS ON TAXES AND REVENUES – Proposition 1A." Additionally, the Ad Valorem Property Taxes are specifically pledged to payment of Installment Payments which may limit the ability of the State to reduce or eliminate such revenues.

*Assessed Valuation Appeals.* [to follow]

*Tax Levies and Delinquencies.* In accordance with the California Revenue and Taxation Code, the County tax collector collects secured tax levies for each Fiscal Year. Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment and interest accrues at 18% per

annum from and after the July 1 following the delinquency date. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one- and one-half (1-1/2) percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of January 1 lien date and become delinquent, if unpaid, on August 31. A ten percent (10%) penalty attaches to delinquent taxes on property on the unsecured roll and an additional penalty of one- and one-half (1-1/2) percent per month begins to accrue on November 1.

The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the taxpayer.

San Luis Obispo County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the County retaining all penalties and interest. There is no assurance that the County will continue to utilize the Teeter Plan or that the County's Teeter Plan will not be amended to exclude the Ad Valorem Property Taxes.

Table 8 below sets forth the property tax rates for the District for the fiscal years 2008 through 2012. The information in the table below has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified the information in the table below and do not guarantee its accuracy.

**TABLE 8**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**PROPERTY TAX RATES**  
**Typical Total Tax Rates (TRA52-98)**

	2007-08	2008-09	2009-10	2010-11	2011-12
General	1.00000	1.00000	1.00000	1.00000	1.00000
State Water Project	0.00220	0.00220	0.00290	0.00300	0.00400
Lucia Mar Unified School District	<u>0.02854</u>	<u>0.02854</u>	<u>0.02914</u>	<u>0.02984</u>	<u>0.03954</u>
Total	1.03074	1.03074	1.03204	1.03284	1.04354

*Source: California Municipal Statistics, Inc.*

Table 9 below sets forth the direct and overlapping debt statement for the District as of May 1, 2013. The information in the table below has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified the information in the table below and do not guarantee its accuracy.



**TABLE 9  
NIPOMO COMMUNITY SERVICES DISTRICT  
DIRECT AND OVERLAPPING DEBT STATEMENT  
May 1, 2013**

2012-13 Assessed Valuation: \$1,297,710,459

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/13</u>	
Lucia Mar Unified School District	11.995%	\$3,983,809	
Nipomo Community Services District, Reassessment District No. 93-1R	100.	<u>508,000</u>	
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$4,491,809</b>	
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
San Luis Obispo County Certificates of Participation	3.310%	\$1,025,604	
San Luis Obispo County Pension Obligations	3.310	3,827,168	
San Luis Obispo County Community College District Certificates of Participation	3.297	670,940	
Lucia Mar Unified School District Certificates of Participation	11.995	1,099,942	
<b>Nipomo Community Services District</b>	<b>100.</b>	<u>-</u>	(1)
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$6,623,654</b>	
<b>COMBINED TOTAL DEBT</b>		<b>\$11,115,463</b>	(2)

(1) Excludes bonds to be sold.

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

Ratios to 2012-13 Assessed Valuation:

<b>Combined Direct Debt.....</b>	<b>- %</b>
Total Direct and Overlapping Tax and Assessment Debt.....	0.35%
Combined Total Debt .....	0.86%

The 20 largest taxpayers in the District as shown on the 2012-13 secured tax roll and the percentage of the District's total assessed valuation attributable to each are shown in Table 10 below. The information in the table below has been provided by California Municipal Statistics, Inc. Neither the District nor the Underwriter has independently verified the information in the table below and do not guarantee its accuracy.

**TABLE 10**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**TWENTY PRINCIPAL TAXPAYERS**  
**April 2013**

	Property Owner	Primary Land Use	2012-13 Secured Assessed Valuation <sup>(1)</sup>	Percentage of Total
1.	Nipomo Real Estate Group LLC	Residential Properties	\$ 9,260,800	0.72%
2.	Vons Companies Inc.	Shopping Center	8,025,590	0.62
3.	Village At Nipomo LLC	Shopping Center	7,927,330	0.62
4.	Nipomo Group	Commercial	5,976,901	0.47
5.	Tefft Center 1 LLC	Shopping Center	5,829,998	0.45
6.	Longs Drug Stores Ca Inc.	Commercial	5,331,272	0.42
7.	Nipomo Self Storage LLC	Mini Storage	5,132,609	0.40
8.	Garfield Beach CVS LLC	Commercial	4,479,988	0.35
9.	Nipomo Partners LLC	Mini Storage	3,844,694	0.30
10.	Craig H. Mally	Commercial	3,692,400	0.29
11.	SPZ Properties LLC	Apartments	3,484,666	0.27
12.	Andy Y. & Ophelia J. Castellanos	Shopping Center	3,163,343	0.25
13.	Geihs Enterprises Inc.	Residential Properties	3,134,406	0.24
14.	RES-CA MV Estates LLC	Residential Properties	3,000,000	0.23
15.	Elevation 77 Opportunity Fund LLC	Recreational	2,860,598	0.22
16.	Brent M. & Carol J. Gross	Commercial	2,621,077	0.20
17.	Bank of New York Mellon	Residential Properties	2,478,000	0.19
18.	Blacklake Golf Resort LLC	Golf Course	2,418,907	0.19
19.	Cal Coast Investment LP	Residential Properties	2,400,000	0.19
20.	Peggy Miller	Apartments	<u>2,021,434</u>	<u>0.16</u>
			<u>\$87,084,013</u>	<u>6.78%</u>

(1) 2012-13 Local Secured Assessed Valuation: \$1,284,304,321

*Source: California Municipal Statistics, Inc.*

### Largest Customers

The following Table 11 sets forth the District's ten largest customers in the service area as of June 30, 2012 as determined by annual payments.

**TABLE 11  
NIPOMO COMMUNITY SERVICES DISTRICT  
WATER ENTERPRISE  
TEN LARGEST ENTERPRISE CUSTOMERS BASED ON PAYMENT  
FISCAL YEAR ENDED JUNE 30, 2012**

Account Name	Annual Payment	Percent of Total Water Revenue
Lucia Mar Unified School District	\$ 67,035	2.25%
Nipomo Regional Park	37,974	1.27
San Luis Bay Apartments	35,013	1.18
Blacklake Village Association	31,950	1.07
Brassica Nursery	15,710	0.53
Fairways	12,579	0.42
Crown Pointe Blacklake	12,523	0.42
La Placita Market	11,161	0.37
Tourney Hills Association	10,068	0.34
Cider Village	<u>9,909</u>	<u>0.33</u>
Subtotal of Top Ten	\$ 243,922	8.19%
Total	\$2,978,557	100.00%

*Source: Nipomo Community Service District.*

These ten largest customers of the Enterprise as measured by charges for the fiscal year ended June 30, 2012, were responsible for approximately 8% of Enterprise revenue during such period. The majority of the District's customers are residential.

### **Water Rates and Charges**

*General.* District rates and charges for water service in the District's service area are set by the Board of Directors and are not subject by statute to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The District staff annually determines the adequacy of the water charge structure for its water service in the service area after full consideration of expected operations, maintenance and capital costs of the Enterprise. The Board of Directors currently sets water charges to pay the costs of water pumping and to recover operating expenses for the Enterprise. Capital improvements and debt service payments for the Enterprise are funded from capital facilities fees and property tax revenues. Beginning in 2009, the District's two water service areas merged.

*Water Service Rates.* The District requires meters for all its customers. The existing water service rates and approved increases were adopted pursuant to Resolution No. 2011-1235, became effective on November 1, 2011 and are presented in Table 13. The revised rates reflect an overall revenue goal of 9.5% increase annually through fiscal year 2015-16. 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 "LIMITATIONS ON TAXES AND REVENUES –Article XIIC and Article XIID of the California Constitution." Prior to the adoption of Resolution No. 2011-1235, the last increase in rates for the Enterprise occurred in 2009.

The structure consists of a bi-monthly fixed charge by meter size and a consumption charge consisting of a four-block volume charge for residential customers and separate volume charges for commercial, irrigation and

agriculture customers. Residential rate blocks were established recognizing the average bi-monthly consumption. A separate buy-in charge for residents of the Blacklake area is not included in the charts below.

In response to the Phase 1 Improvements and the proposed Supplemental Water Project, the District has begun the process to obtain a new rate study for both its water rates and capacity charges. The District anticipates that procedures to increase the water rates and the Supplemental Water Capacity Fee will commence shortly following the review of the rate study, with the new Supplemental Water Capacity Fee effective immediately thereafter and the revised water rates passing through the higher cost of the supplemental water effective following the completion of the Phase 1 Improvements.

The chart below sets forth the current rate structure for the Enterprise.

**TABLE 12  
NIPOMO COMMUNITY SERVICES DISTRICT  
WATER ENTERPRISE  
CURRENT RATE STRUCTURE**

**BI-MONTHLY AVAILABILITY CHARGES**  
(Effective November 1 of each Fiscal Year)

<u>METER SIZE</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
1 inch and less	\$ 26.85	\$ 29.40	\$ 32.19	\$ 35.25	\$ 38.60
1 1/2 inch	76.22	83.46	91.39	100.07	109.58
2 inch	120.72	132.19	144.75	158.50	173.56
3 inch	224.64	245.98	269.35	294.94	322.96
4 inch	373.04	408.48	447.29	489.78	536.31
6 inch	743.75	814.41	891.78	976.50	1,069.27
8 inch	1,188.76	1,301.69	1,425.35	1,560.76	1,709.03

**WATER COMMODITY RATES**  
(Effective November 1 of each Fiscal Year)

**Residential Water Commodity Rates**  
(per Unit<sup>1</sup>)

<u>Single-Family</u>	<u>Multi-Family</u> (per dwelling unit)	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
0 to 24 units	0 to 8 units	\$1.64	\$1.80	\$1.97	\$2.16	\$2.37
25 to 40 units	9 to 12 units	\$2.05	\$2.25	\$2.46	\$2.69	\$2.95
41 to 100 units	13 to 25 units	\$2.88	\$3.15	\$3.45	\$3.78	\$4.14
Over 100 units	Over 25 units	\$4.93	\$5.40	\$5.91	\$6.47	\$7.08

1. One unit = 100 cubic feet = 748 gallons.

**Nonresidential Water Commodity Rates**

Varies and is dependent on meter size

*Source: Nipomo Community Service District.*

The above referenced bi-monthly availability charge does not include a separate litigation charge currently in place. This litigation charge is to offset the District's financial obligations related to the lawsuit titled *Santa Maria Valley Water Conservation District v. The City of Santa Maria, the Nipomo Community Services District, et al.* This case has been finally adjudicated as discussed in "THE ENTERPRISE – Water Supply," and the District's financial obligations regarding this lawsuit have been or will soon be satisfied. It is expected that the District will terminate this litigation charge in the near future, therefore, the litigation charge rate schedule has not been presented nor has the revenue from the litigation charge been included in any revenue projections for the District.

Table 13 below sets forth a comparison of current effective water rates for other communities and service areas in the surrounding region. A bi-monthly bill comparison was prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison shown in Table 15 was prepared by applying the District's average single-family water consumption of 40 Ccf to each of the water purveyor's single-family water rate schedules for water rates in effect as of April 1, 2013. The table indicates that the District's bi-monthly bill at 40 Ccf, with the November 1, 2012 rates excluding Litigation Charges, is in the lower half of the agencies listed.

**TABLE 13**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**REGIONAL COMPARISON OF WATER RATES**  
**(Bi-monthly charges)**

<b>District /Agency</b>	<b>Bi-Monthly Rate for Single Family Residence (40 Ccf)</b>
Avila Beach Community Services District	\$336.00
City of San Luis Obispo	297.10
Cambria Community Services District	236.57
Los Osos Community Services District	232.71
City of Santa Maria	207.24
City of Arroyo Grande	178.12
City of Pismo Beach	177.03
Heritage Ranch Community Services District	139.32
Oceano Community Services District	131.42
City of Grover Beach	130.72
City of Paso Robles	128.00
<b>Nipomo Community Services District</b>	<b>108.60</b>
Golden State Water	99.10
San Miguel Community Services District	96.88
Templeton Community Services District	96.80

*Source: Nipomo Community Services District.*



## Capacity Charges

Pursuant to Resolution 2008-1102, the District currently charges developers or other new customers connecting to the Enterprise two separate one-time charges for capacity in the system. The Water Capacity Fee can be used for all capital projects, and the Supplemental Water Capacity Fee can be used only for the Supplemental Water Project. Only the Water Capacity Fees are available for making Debt Service payments and are described herein. Water capacity charges are based on meter size and reflect the potential demand on the Enterprise that each new connection could impose. Capacity charges are paid at the time of a Will Serve letter, which is prior to the issuance of building permits by the County. There may be a significant lag time between the collection of these charges and the generation of new connections for the District.

Commencing July 1, 2009, and each fiscal year thereafter, the capacity charges 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, 2008, value of 8,293 as the basis and the Index value for May of each year to calculate the increase. The Index value for May 2011 is 9,290. Water Capacity Fees are deposited into Water Capacity Fund of the Enterprise. Current and historical Water Capacity Fee revenues are summarized in the tables below. The current Water Capacity Fee effective July 1, 2012 is \$3,385 for 1 inch meter.

The table below shows the historical revenues generated by the Water Capacity and Supplemental Water Fees for the past five fiscal years.

**TABLE 14**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**HISTORICAL WATER CAPACITY FEES**

<b>Fiscal Year Ended June 30</b>	<b>Water Capacity Fee Revenues</b>
2012	\$ 3,293
2011	31,913
2010	41,469
2009	744,817
2008	1,595,013

*Source: Nipomo Community Service District.*

The following table depicts the projected revenue derived from current and future Water Capacity Fees for the fiscal years 2012-13 through 2016-17 based on Intent-to-Serve letters processed by the District and information received by the District at this time regarding the planning stages of identified future developments within the District. In its financial projections the District has discounted this projected revenue by 50%.

**TABLE 15**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**PROJECTED WATER CAPACITY FEES**  
[need to delete Supplemental Water Capacity Fees]

PROJECT	2012-13	2013-14	2014-15	2015-16	2016-17
Tract 2734 (6 SF)	\$110,400				
Tract 2855 (1 SF)	18,400				
Ashland (1 SF)	15,015				
APN 091-283-014 (2 SF)		\$ 36,800			
Tract 2650 (16 SF)		294,400			
Tract 2642 (18 SF)			\$331,200		
C O 06-0225 (20 MFR/1 IRR)				\$ 640,313	
Tract 2441 (38 SF)				699,200	
Tract 2634 (2 SF)				36,800	
Tract 2689 (38 SF/Mixed Use)			460,000		
Tract 2906 (15 SF)					\$276,000
Estimated Total	\$143,815	\$331,200	\$791,200	\$1,376,313	\$276,000
Estimated Projected Revenue (based on 50% discount)	\$143,815	\$165,600	\$395,600	\$ 688,156	\$138,000

*Source: Nipomo Community Services District.*

## Capital Improvement Program

The District's projected capital improvement plan for the Enterprise for Fiscal Years 2012-13 through Fiscal Year 2016-17, as well as the estimated source of revenue for such improvements, is set forth below.

**TABLE 16**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**CAPITAL IMPROVEMENT PROGRAM SUMMARY**

Project	Source of Funds	2012-13	2013-14	2014-15	2015-16	2016-17
Supplemental Water	Supp Water Fund		1,000,000			
	Prop Tax Fund		2,400,000			
	Grant		2,200,000			
	2013 Cert Proceeds		9,000,000			
	[Replace Fund]		[4,000,000]			
	Cap Fund		1,384,000			
	Water Fund		1,500,000			
New Tank Site	Cap Fund			400,000	1,200,000	400,000
Willow Road Water Line	Cap Fund	100,000				
SCADA Upgrades	Cap Fund	140,000	50,000			
Standpipe Mixing	Cap Fund		250,000			
Water Master Plan	Cap Fund			200,000		
Standpipe Upgrade & Rehab	Replace Fund		150,000			
Fire Hydrant Replacement	Replace Fund	72,600	72,600	72,600	72,600	72,600
Valve Replacements	Replace Fund	184,000	184,000	184,000	184,000	184,000
Air Vac Replacements	Replace Fund	16,500	16,500	16,500	16,500	16,500
Well Refurb. - BL No. 4	Replace Fund	200,000	200,000			
TOTAL (uninflated)		\$713,100	\$18,407,100	\$873,100	\$1,473,100	\$673,100
TOTAL (with 3.5% inflation)		\$713,100	\$18,439,500	\$935,300	\$1,633,300	\$772,300

*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. The planned proceeds of the proposed 2013 Certificates have been incorporated into the above table for the Phase 1 Improvements. New capital improvements and upgrades, other than the Phase 1 Improvements, are funded solely from capacity funds, surplus property tax revenues not utilized for payment of Debt Service, and replacement reserves. Maintenance of the capital components of the Enterprise are funded from revenues of the Enterprise.

### 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.

### **Water Treatment**

The District disinfects all groundwater at the well site prior to entering the system.

### **Water Quality**

The District tested its drinking water over 350 times last year for regulated and non-regulated contaminants. The District routinely monitors for regulated and non-regulated constituents both at the source and in the system. Monitoring frequencies vary from weekly, monthly, quarterly, and annually, to once every three years depending on the constituent. The District is in compliance with all applicable federal and state water quality laws.

### **Conservation**

The District adopted its Water Conservation Program in February 2008 with the primary goal of reducing water use by 15% through core and non-core measures. Core measures include public outreach and education, advertising, technical assistance (leak detection and water audits) and conservation-based, multi-tiered water rate structure. Example of non-core measures include plumbing retrofits, high efficiency clothes washers, removal of lawn, and installation of 'smart' irrigation controllers.

In 2004, water use per person per day within the District peaked at 257 gallons. In 2007, the year prior to District adoption of its Conservation Program, per capita water use stood at 226 gallons per day. In 2011, District per capita use was 182 gallons per day – a near 20% decrease since 2007 and a near 30% decrease from the 2004 peak usage rate. The District has maintained compliance with the ever-evolving California Urban Water Conservation Council requirements and Best Management Practice recommendations. In 2013, a five-year review of the District's Water Conservation Program will be undertaken. The California Urban Water Conservation Council requires a formal review of District compliance with its recommended Best Management Practices be provided by April 2013. This review of Management Practices will provide the basis for comprehensive program review.

## 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 17**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For Fiscal Years Ended June 30\***

	Audited 2007-08	Audited 2008-09	Audited 2009-10	Audited 2010-11	Audited 2011-12	Unaudited 2/28/13
<b>OPERATING REVENUES</b>						
Charges for Services	\$2,979,529	\$2,987,268	\$2,938,162	\$2,771,928	\$2,978,557	\$2,273,923
Miscellaneous	425,193	62,188	63,061	106,766	91,602	253,934
Total Operating Revenues	<u>\$3,404,722</u>	<u>\$3,049,456</u>	<u>\$3,001,223</u>	<u>\$2,878,694</u>	<u>\$3,070,159</u>	<u>\$2,527,857</u>
<b>OPERATING EXPENSES</b>						
Personnel	792,399	907,853	1,046,070	1,083,144	1,020,748	539,604
Contractual Services	762,191	531,066	388,118	486,370	265,436	98,463
Utilities	414,915	369,968	434,266	369,512	459,011	267,214
Repairs and Maintenance	174,024	231,441	157,748	199,784	125,572	110,450
Other supplies and expenses	617,830	328,514	404,506	444,996	386,764	371,035
Insurance	26,479	28,011	41,816	61,596	59,217	29,442
Depreciation	537,255	540,180	546,982	551,761	505,492	336,995
Total Operating Expenses	<u>\$3,325,093</u>	<u>\$2,937,033</u>	<u>\$3,019,506</u>	<u>\$3,197,163</u>	<u>\$2,822,240</u>	<u>\$1,753,203</u>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 79,629</b>	<b>\$ 112,423</b>	<b>\$ (18,283)</b>	<b>\$(318,469)</b>	<b>\$ 247,919</b>	<b>\$ 774,654</b>
<b>NON-OPERATING REV (EXP)</b>						
Interest Income	499,501	289,302	87,010	61,450	45,773	18,334
Cell Site	29,889	30,907	31,702	32,838	33,824	20,863
Gain on disposal of equipment	0	0	101,982	0	0	0
Miscellaneous Income	0	0	110,511	44,642	371	0
Miscellaneous Expense	(7,537)	(15,217)	0	0	0	0
Abandoned Project	0	0	0	0	(1,671,990) <sup>1</sup>	0
Interest Expense	(6,450)	(6,000)	(11,927)	(10,489)	(6,173)	0
Total Non Operating Revenues	<u>515,403</u>	<u>298,992</u>	<u>319,278</u>	<u>128,441</u>	<u>(1,598,195)</u>	<u>39,197</u>
<b>Income (Loss) before Contrib.</b>	<b>\$ 595,032</b>	<b>\$ 411,415</b>	<b>\$ 300,995</b>	<b>\$(190,028)</b>	<b>\$(1,350,276)</b>	<b>\$ 813,851</b>
Transfers (to) from other funds	0	118,026	138,980	139,286	143,248	79,306
Capital Contributions	<u>3,255,023</u>	<u>758,567</u>	<u>90,227</u>	<u>168,201</u>	<u>17,898</u>	<u>144,655</u>
Change in Net Assets	3,850,055	1,288,008	530,202	117,459	(1,189,130)	1,037,812
Total Net Assets, Beginning	<u>\$21,267,119</u>	<u>\$25,117,174</u>	<u>\$26,405,182</u>	<u>\$26,935,384</u>	<u>\$27,052,843</u>	<u>\$25,863,713</u>
Total Net Assets, Ending	<u>\$25,117,174</u>	<u>\$26,405,182</u>	<u>\$26,935,384</u>	<u>\$27,052,843</u>	<u>\$25,863,713</u>	<u>\$26,901,525</u>

\* Other than Fiscal Year 2012-13 which consists of unaudited numbers for eight months.

1. Includes project and financing costs associated with initially pursued larger supplemental water project and assessment district proceedings.

Source: Nipomo Community Services District.



**TABLE 18**  
**NIPOMO COMMUNITY SERVICES DISTRICT**  
**WATER ENTERPRISE**  
**COMBINING STATEMENT OF NET ASSETS**  
**(as of June 30\*)**

	Audited 2007-08	Audited 2008-09	Audited 2009-10	Audited 2010-11	Audited 2011-12	Unaudited 2/28/13
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and cash equivalents	\$13,188,194	\$12,919,450	\$11,854,002	\$11,386,758	\$11,178,522	\$12,116,986
Accounts receivable	125,283	139,011	206,447	117,415	120,019	83,309
Unbilled utility receivable	507,000	454,500	489,000	443,000	518,000	518,000
Accrued interest receivable	83,364	43,588	15,920	11,893	9,093	34
Notes receivable	0	39,203	56,758	39,507	1,843	0
Prepaid expenses	0	0	19,941	20,546	21,170	21,170
<b>Total current assets</b>	<b>\$13,903,841</b>	<b>\$13,595,752</b>	<b>\$12,642,068</b>	<b>\$12,019,119</b>	<b>\$11,848,647</b>	<b>\$12,739,499</b>
<i>Noncurrent Assets</i>						
Capital assets:						
Land and construction in progress	1,475,820	2,728,931	4,115,243	4,845,697	4,219,972	4,318,067
Property, plant & equipment, net	10,219,658	10,818,177	10,724,644	10,639,018	10,177,080	10,088,716
<b>Total noncurrent assets</b>	<b>\$11,695,478</b>	<b>\$13,547,108</b>	<b>\$14,839,887</b>	<b>\$15,484,715</b>	<b>\$14,397,052</b>	<b>\$14,406,783</b>
<i>Other Assets</i>						
Deposits	37,704	0	0	0	37,500	51,929
Notes Receivable	0	0	183,570	162,403	141,233	141,233
<b>Total Other Assets</b>	<b>37,704</b>	<b>0</b>	<b>183,570</b>	<b>162,403</b>	<b>178,733</b>	<b>193,162</b>
<b>TOTAL ASSETS</b>	<b>\$25,637,023</b>	<b>\$27,142,860</b>	<b>\$27,665,525</b>	<b>\$27,666,237</b>	<b>\$26,424,432</b>	<b>\$27,339,444</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts payable	234,172	474,052	263,571	191,632	205,056	52,233
Accrued liabilities	63,663	44,002	79,209	75,173	74,311	35,963
Deposits	102,014	109,624	83,849	87,640	118,949	187,320
Current portion long-term debt	10,000	10,000	30,584	31,546	21,170	21,170
<b>Total current liabilities</b>	<b>\$ 409,849</b>	<b>\$ 637,678</b>	<b>\$ 457,213</b>	<b>\$ 385,991</b>	<b>\$ 419,486</b>	<b>\$ 296,686</b>
<i>Noncurrent Liabilities</i>						
Long-term debt	110,000	100,000	272,928	227,403	141,233	141,233
<b>TOTAL LIABILITIES</b>	<b>\$ 519,849</b>	<b>\$ 737,678</b>	<b>\$ 730,141</b>	<b>\$ 613,394</b>	<b>\$ 560,719</b>	<b>\$ 437,919</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	\$11,575,478	\$13,547,108	\$14,536,375	\$15,225,766	\$14,234,649	\$14,244,380
Restricted for system expansion and replacement	7,468,246	7,670,766	7,438,636	7,372,957	7,876,061	8,114,323
Unrestricted	6,073,450	5,187,308	4,960,373	4,454,120	3,753,003	4,542,822
<b>Total Net Assets</b>	<b>\$25,117,174</b>	<b>\$26,405,182</b>	<b>\$26,935,384</b>	<b>\$27,052,843</b>	<b>\$25,863,713</b>	<b>\$26,901,525</b>

\* Other than Fiscal Year 2012-13, which consists of unaudited numbers as of 2/28/13.

Source: Nipomo Community Services District.

**Projected Operating Results and Debt Service Coverage**

The following table sets forth the historical debt service coverage of the Enterprise for the previous five fiscal years.

**TABLE 19  
NIPOMO COMMUNITY SERVICES DISTRICT  
WATER ENTERPRISE  
HISTORICAL DEBT SERVICE COVERAGE  
For Fiscal Years Ended June 30\***

	2007-08	2008-09	2009-10	2010-11	2011-12
<b>REVENUES</b>					
Water Sales and Service Charges	\$2,979,529	\$2,987,268	\$2,938,162	\$2,771,928	\$2,978,557
Ad Valorem Property Tax	532,589	540,429	506,745	494,347	488,333
Connection Fees	392,316	725	61,937	168,201	17,898
Interest Income	499,501	289,302	87,010	61,450	45,773
Other	425,193	62,188	63,061	106,766	91,602
<b>Total Revenues</b>	<b>\$4,829,128</b>	<b>\$3,879,912</b>	<b>\$3,656,915</b>	<b>\$3,602,692</b>	<b>\$3,622,163</b>
<b>OPERATING AND MAINTENANCE EXPENSE</b>					
Water Treatment	21,086	23,241	24,432	32,713	39,313
Transmission and Distribution	1,653,733	1,816,948	1,434,596	1,208,621	1,321,782
Administrative and General	1,113,019	1,096,844	1,013,497	1,404,068	955,653
<b>Total Operating and Maintenance Expense</b>	<b>\$2,787,838</b>	<b>\$2,937,033</b>	<b>\$2,472,524</b>	<b>\$2,645,402</b>	<b>\$2,316,748</b>
<b>NET REVENUES</b>	<b>\$2,041,290</b>	<b>\$ 942,879</b>	<b>\$1,184,391</b>	<b>\$ 957,290</b>	<b>\$1,305,415</b>
1978 Revenue Bonds Debt Service	15,450	16,000	15,500	15,000	0
2003 Certificates Debt Service	248,133	246,199	243,989	246,425	243,545
<b>DEBT SERVICE COVERAGE</b>	<b>774%</b>	<b>360%</b>	<b>456%</b>	<b>366%</b>	<b>536%</b>

*Source: Nipomo Community Services District.*

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 based on the assumptions listed following the table, including the assumption that the District has not incurred any debt for the Supplemental Water Project.

**TABLE 20**  
**NIPOMO COMMUNITY SERVICES DISTRICT WATER ENTERPRISE**  
**PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE**  
**For Fiscal Years Ended June 30**

	2011-12 <u>Actual</u>	2012-13 <u>ESTIMATE</u>	2013-14 <u>ESTIMATE</u>	2014-15 <u>ESTIMATE</u>	2015-16 <u>ESTIMATE</u>	2016-17 <u>ESTIMATE</u>
<b>OPERATING REVENUES</b>						
Charges for Services	\$2,978,557	\$3,310,800	\$3,623,500	\$3,965,400	\$4,340,100	\$4,500,300
Miscellaneous	47,259	47,200	50,900	54,100	54,300	54,500
Total Operating Revenues	\$3,025,816	\$3,358,000	\$3,674,400	\$4,019,500	\$4,394,400	\$4,554,800
<b>OPERATING EXPENSES</b>						
Salaries and Benefits	\$ 789,387	\$ 825,000	\$1,131,800	\$1,178,800	\$1,228,000	\$1,279,500
Utilities	440,880	450,000	455,000	484,100	502,200	520,800
Chemicals	17,171	20,000	21,500	21,100	21,700	22,300
Lab Testing	22,142	22,000	45,000	47,300	49,700	52,200
Supplies	35,438	30,000	31,000	32,600	34,200	35,900
Fees and Permits	12,402	13,000	14,000	14,700	15,400	16,200
Repairs and Maintenance	96,815	135,000	135,000	141,800	148,900	156,300
Outside Services	51,549	85,000	90,000	94,500	99,200	104,200
General And Administration	572,560	586,200	654,000	606,100	636,400	668,300
Other Expenses	118,699	211,900	155,900	163,900	172,100	180,800
Total Operating Expenses	\$2,157,043	\$2,378,100	\$2,733,200	\$2,784,900	\$2,907,800	\$3,036,500
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 868,773</b>	<b>\$ 979,900</b>	<b>\$ 941,200</b>	<b>\$1,234,600</b>	<b>\$1,486,600</b>	<b>\$1,518,300</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>						
Interest Income	\$ 45,773	\$ 41,800	\$ 41,600	\$ 38,700	\$ 40,600	\$ 43,000
Water Capacity Charges	3,293	23,700	30,500	72,800	126,500	25,400
Supplemental Water Capacity Charges	14,605	120,100	135,100	322,800	561,600	112,600
Cell Site	36,809	37,700	38,000	38,800	39,600	40,400
Total Non-Operating Revenue (Expense)	\$ 100,480	\$ 223,300	\$ 245,200	\$ 473,100	\$ 768,300	\$ 221,400
Pledge of Property Tax Revenue	488,300	493,000	502,900	513,000	523,300	533,800
<b>TOTAL NET REVENUES AVAILABLE FOR DEBT SERVICE</b>	<b>\$1,457,553</b>	<b>\$1,697,200</b>	<b>\$1,689,300</b>	<b>\$2,220,700</b>	<b>\$2,778,200</b>	<b>\$2,273,500</b>
Series 2003 Debt Service	\$ 246,000					
Series 2013A Debt Service *		\$ 235,000	\$ 235,000	\$ 235,000	\$ 235,000	\$ 235,000
<b>COVERAGE</b>	<b>593%</b>	<b>722%</b>	<b>719%</b>	<b>945%</b>	<b>1182%</b>	<b>967%</b>
<b>Beginning Combined Fund Balances</b>		\$11,691,000	\$12,090,200	\$10,709,800	\$11,366,600	\$11,868,100
<b>Ending Combined Fund Balances</b>		\$12,090,200	\$10,709,800	\$11,366,600	\$11,868,100	\$12,710,700

\* Preliminary, subject to change..

Source: Nipomo Community Services District.

Tuckfield & Associates, independent consultant to the District (the "Independent Consultant"), has prepared the previous table of projections of operating results of the Enterprise based on certain assumptions made by the District. These assumptions include the following:

- Fiscal year 2012-13 figures are based on budget amounts.
- Projected revenues are based on the current existing rate structure and 28 new connections each year. The last approved rate increase is Nov 1, 2015, with no assumed rate increase in fiscal year 2016-17, and without regard to the intention of the District to conduct a rate study and

increase rates and capacity fees prior to such date. See “THE ENTERPRISE – Water Rates and Charges” and “RISK FACTORS – State Constitutional Amendment.”

- Phase 1 of the Supplemental Water Project is not undertaken.
- Water Capacity Charge projections are based on Table 15, including assumptions made in Table 5, without regard to the intention of the District to conduct a rate study to increase rates and capacity fees. See LIMITATIONS ON TAXES AND REVENUES – Article XIII C and Article XIII D of the California Constitution.”
- Cell Site lease revenue increases at two percent (2%) annually.
- Interest income is based on an interest rate of 0.35% on the average fund balances.
- Property Tax Revenue of \$493,000 in fiscal year 2012-13 are based on County estimates, and are inflated at two percent (2%) in future years.
- Operation and Maintenance expenses are inflated at the following annual rates: Salaries - 3.0%; Benefits - 6%; Chemicals (per Ccf) - 3%, and Electricity (per Ccf) - 4%. All other expenses are inflated at 5% annually.
- Transfers to the Replacement Fund for annual capital replacement are based on District Policy.
- District policy is to maintain an estimated 180 days of operation and maintenance expense as an operating reserve.

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.

The Independent Consultant has also prepared the following table as if the Parity Obligation, the 2013 Certificates, have been sold and the Phase 1 Improvements are built, assuming the factors listed above, except for the following:

- Water sales to purveyors equals 15% of supplemental water sold to District, increasing to 33% in fiscal year 2016-17.
- Capacity Charges projections include Supplemental Water Capacity Charge.
- Operation and Maintenance expenses includes the District’s purchase of Supplemental Water beginning in November 2014.
- The District will purchase Supplemental Water in the amount of 645 ac-ft beginning November 1, 2014 (430 ac-ft for the fiscal year), increased to 800 ac-ft in fiscal year 2015-16, and 1,000 ac-ft in fiscal year 2016-17 (Wholesale Water Agreement sets minimum for 2016-17 at 800 AFY).
- Cost of purchase of Supplemental Water for District from the City of Santa Maria increases at approximately 4.5% annually.
- Transfers to the Replacement Fund includes an additional \$350,000 beginning in November 2014 for replacement related to the Phase 1 Improvements.

**TABLE 21**  
**NIPOMO COMMUNITY SERVICES DISTRICT WATER ENTERPRISE**  
**PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE**  
**(assuming issuance of Parity Obligation 2013 Certificates)**  
**For Fiscal Years Ended June 30**

	2011-12 <u>Actual</u>	2012-13 <u>ESTIMATE</u>	2013-14 <u>ESTIMATE</u>	2014-15 <u>ESTIMATE</u>	2015-16 <u>ESTIMATE</u>	2016-17 <u>ESTIMATE</u>
<b>OPERATING REVENUES</b>						
Charges for Services	\$2,978,557	\$3,310,800	\$3,623,500	\$3,965,400	\$4,340,100	\$4,500,300
Supplemental Water Sales Revenue	-	-	-	231,000	398,700	1,029,800
Miscellaneous	47,259	47,200	50,900	54,100	54,300	54,500
Total Operating Revenues	\$3,025,816	\$3,358,000	\$3,674,400	\$4,250,500	\$4,793,100	\$5,584,600
<b>OPERATING EXPENSES</b>						
Water Purchases	-	-	-	\$ 781,800	\$1,519,400	\$1,984,100
Salaries and Benefits	\$ 789,387	\$ 825,000	\$1,131,800	1,178,800	1,228,000	1,279,500
Utilities	440,880	450,000	455,000	412,400	363,500	378,700
Chemicals	17,171	20,000	21,500	18,000	15,700	16,200
Lab Testing	22,142	22,000	45,000	47,300	49,700	52,200
Supplies	35,438	30,000	31,000	32,600	34,200	35,900
Fees and Permits	12,402	13,000	14,000	14,700	15,400	16,200
Repairs and Maintenance	96,815	135,000	135,000	141,800	148,900	156,300
Outside Services	51,549	85,000	90,000	94,500	99,200	104,200
General And Administration	572,560	586,200	654,000	606,100	636,400	668,300
Other Expenses	118,699	211,900	155,900	163,900	172,100	180,800
Total Operating Expenses	\$2,157,043	\$2,378,100	\$2,733,200	\$3,491,900	\$4,282,500	\$4,872,400
<b>OPERATING INCOME (LOSS)</b>	\$ 868,773	\$ 979,900	\$ 941,200	\$ 758,600	\$ 510,600	\$ 712,200
<b>NON-OPERATING REVENUE (EXPENSES)</b>						
Interest Income	\$ 45,773	\$ 42,700	\$ 40,300	\$ 16,100	\$ 15,400	\$ 16,100
Water Capacity Charges	3,293	23,700	30,500	72,800	126,500	25,400
Supplemental Water Capacity Charges	14,605	120,100	135,100	322,800	561,600	112,600
Cell Site	36,809	37,700	38,000	38,800	39,600	40,400
Total Non-Operating Revenue (Expense)	\$ 100,480	\$ 224,200	\$ 243,900	\$ 450,500	\$ 743,100	\$ 194,500
Pledge of Property Tax Revenue	488,300	493,000	502,900	513,000	523,300	533,800
<b>TOTAL NET REVENUES AVAILABLE FOR DEBT SERVICE</b>	\$1,457,553	\$1,697,100	\$1,688,000	\$1,722,100	\$1,777,000	\$1,440,500
Series 2003 Debt Service	\$ 246,000					
Series 2013A Debt Service *		\$ 502,000	\$ 502,000	\$ 502,000	\$ 502,000	\$ 502,000
<b>COVERAGE</b>	<b>593%</b>	<b>338%</b>	<b>336%</b>	<b>343%</b>	<b>354%</b>	<b>287%</b>
<b>Beginning Combined Fund Balances</b>		\$11,691,000	\$12,090,200	\$4,324,500	\$4,482,700	\$3,983,000
<b>Ending Combined Fund Balances</b>		\$12,090,200	\$ 4,324,500	\$4,482,700	\$3,983,000	\$3,992,600

\* Preliminary, subject to change.

Source: Nipomo Community Services 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.

### 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, unless they conflict with or contradict GASB pronouncements.

See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR ENDED JUNE 30, 2012" for a more complete summary of the District's accounting policies.

### **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 Bonds. However, the following does not purport to be an exhaustive list of risks and other considerations which may be relevant to investing in the Bonds 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 water 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 by the District in order to produce Net Revenues sufficient to comply with the District's rate covenants in the Indenture. See "APPENDIX C — SUMMARY OF THE INDENTURE — 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 connections 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, and it is expected that upon completion of the Phase 1 Improvements, the District's expenses for the Enterprise shall increase. Further, 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 Indenture. See "APPENDIX C — SUMMARY OF THE INDENTURE — 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 XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. See "LIMITATIONS ON TAXES AND REVENUE – Article XIII C and Article XIII D 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 XIII C, 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 water 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 water 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 Indenture may be adversely affected.

Article XIII D 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 XIII D. Based on existing statutory and case law, the District believes that its water capacity and connection charges are fees or charges as a condition of property development within the meaning of Article XIII D, although there can be no assurance that a future court would not determine otherwise.

Under Article XIII D, 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 XIII D 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 water 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 Indenture may be adversely affected.

The District is unable to predict how Article XIII C and Article XIII D 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 XIII C and Article XIII D will not further limit the ability of the District to charge and collect fees and charges for its water service sufficient to enable the District to generate Net Revenues sufficient to comply with its covenants under the Indenture. In such event, there can be no assurance that remedies will be available to fully protect the interests of the holders of the Bonds. 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 XIII B 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 XIII B, 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 Ad Valorem Tax Revenues and the fund comprised of the net revenues of the Enterprise (as defined herein) is liable for the payment of the Bonds or their interest or premium, if any, nor is the credit or taxing power of the District pledged for the payment of principal of, or interest on the Bonds. The Owners of the Bonds 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 Bonds 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 Indenture, pledged to the payment of principal of and interest on the Bonds. 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 Bonds, the District has covenanted in the Indenture 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 Bonds, could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Bonds, as a result of acts or omissions of the District in violation of covenants in the Indenture. Should such an event of taxability occur, the Bonds 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 Indenture. 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. The District has not awarded bids for the construction of the Phase 1 Improvements or authorized the execution and delivery of the proposed 2013 Certificates. The District has not yet entered into any water sale agreements relating to the supplemental water with the three water purveyors which are required to purchase supplemental water. 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 pay Debt Service on the Bonds.

### **Loss of Ad Valorem Property Taxes**

The State has previously altered the method of allocating the 1% property tax levy to local agencies. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the Ad Valorem Property Taxes paid to the District. Proposition 1A, however, 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. See "LIMITATIONS ON TAXES AND REVENUES – Proposition 1A." The Ad Valorem Property Taxes are specially pledged to the Bonds and if such property taxes are reallocated or reapportioned, Net Revenues available to pay Debt Service on the Bonds may be adversely affected.

### **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 Indenture Agreement requires the District to maintain insurance or self-insurance for the Enterprise, 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 Bonds 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 Bonds, or, if a secondary market exists, that such Bonds 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 XIII A of the California Constitution**

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). Article XIII A, 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 XIII A 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 XIII A 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 XIII A 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 XIII A**

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. 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 XIII B 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 XIII B to the State Constitution ("Article XIII B"). Under Article XIII B, 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 XIII B 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 XIII B, 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 XIII B 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 Debt Service payments on the Bonds as required by the Indenture.

### **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 XIII C and Article XIII D 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 XIII C and XIII D 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 XIII D 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 XIII D 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 XIII D 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 XIII D 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 XIII D 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 XIII D, 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 XIID also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIID 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 XIID also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIID 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 XIID applicable to assessments.

Article XIIC 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 XIIC 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 XIIC 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 Indenture, the District will, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the Water Services furnished by the Enterprise during each Fiscal Year, that are sufficient, along with other Net Revenues, to yield during each Fiscal Year Net Revenues that are at least equal to one hundred twenty-five percent (125%) of all Debt Service 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. 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 Gross Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Indenture. In the event that service charges are determined to be subject to Article XIID, 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 Indenture, and to make Debt Service payments. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Net Revenues.

### **Other Initiative Measures**

Articles XIII A, XIII B, XIIC and XIID 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.



## **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**

At the time of issuance of and payment for the Bonds, the District will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the District, at law or in equity before or by any court, government agency, public board or body, pending against the District, affecting the existence of the District or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Net Revenues pursuant to the Indenture, or contesting or affecting as to the District the validity or enforceability of the Bond Law, the Bonds, or the Indenture, or contesting the tax-exempt status of interest on the Bonds, or contesting the completeness or accuracy of this Official Statement, or contesting the powers of the District for the issuance of the Bonds, or the execution and delivery or adoption by the District of the Indenture, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the Bond Law, as to the District, or the authorization, execution, delivery or performance by the District of the Bonds or the Indenture.

## **VERIFICATION OF MATHEMATICAL ACCURACY**

Barthe & Wahrman, PA, an independent accounting firm, has verified from the information provided to them the mathematical accuracy of the computations contained in the provided schedules to determine that the cash deposits, to be held in escrow, will be sufficient to pay, when due, the principal, interest and redemption premium requirements, if any, of the 2003 Bonds. Barthe & Wahrman, PA will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

## **TAX EXEMPTION**

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon 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 the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds 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 interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A

corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the {Indenture} 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 in connection with the issuance of the Bonds, the District will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the District with such covenants.

Except as stated in this section above, Bond 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 Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

Bond 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 described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond 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 Bonds 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 on the Bonds, the District may have different or conflicting interest from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds 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 exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX D.

To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), 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 over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); 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. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. 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 its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.



The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is "original issue discount." Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond 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 on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering

Persons considering the purchase of Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Although interest on the Bonds may be 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 Bonds. 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 Bonds 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 Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (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 on the Bonds, (iii) interest on the Bonds earned 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 on the Bonds, 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, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequences.

## UNDERWRITING

Citigroup Global Markets Inc. (the "Underwriter") has purchased the Bonds from the District at a purchase price of \$ \_\_\_\_\_ (representing the aggregate principal amount of the Bonds, plus a net premium of \$ \_\_\_\_\_, and less an Underwriter's discount of \$ \_\_\_\_\_) pursuant to a bond purchase agreement between the District and the Underwriter (the "Purchase Agreement"). The Purchase Agreement provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase, if made, being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters and certain other conditions.

The Underwriter may offer and sell Bonds to certain dealers and others at a price other than the offering price. The offering price may be changed from time to time by the Underwriter.

## **RATING**

Standard & Poor's has assigned a rating of "\_\_\_" to the Bonds. 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 Bonds; 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 Bonds. Neither the District nor the Underwriter has undertaken any responsibility to maintain such rating, to bring to the attention of the registered owners as the Beneficial Owners of the Bonds 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 Bonds (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 2012-13 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 E – "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 Bonds are subject to approval by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond 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 Counsel 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 Bonds. The Financial Advisor has advised the District as to the financial structure and certain other financial matters relating to the Bonds 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 Bonds.

## **FINANCIAL STATEMENTS**

The general purpose financial statements of the District for the fiscal year ended June 30, 2012 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 Bonds.

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

By: \_\_\_\_\_  
District Manager

## APPENDIX A

### COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION [to be further updated]

#### 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 1.2% between 2008 and 2012.

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

Area	2008	2009	2010	2011	2012
Arroyo Grande	16,968	17,110	17,252	17,306	17,291
Atascadero	28,477	28,488	28,310	28,601	28,477
El Paso de Robles	29,813	30,004	29,793	29,918	30,225
Grover Beach	13,159	13,278	13,156	13,199	13,162
Morro Bay	10,506	10,576	10,234	10,294	10,274
Pismo Beach	8,568	8,677	7,655	7,682	7,675
San Luis Obispo (city)	44,521	44,829	45,119	45,269	45,308
SUBTOTAL	152,012	152,962	151,519	152,269	152,412
Unincorporated	116,278	117,939	118,118	118,036	119,071
TOTAL	268,290	270,901	269,637	270,305	271,483

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. E-1 Cities, Counties and State Population Estimates with Annual Change for 2011 and 2012.

#### 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 2008 through 2012.

**Table A-2**  
**County of San Luis Obispo**  
**Civilian Labor Force, Employment and Unemployment**  
**Annual Average for Years 2008 Through 2012**

Year and Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate
<b>2012</b>				
County	143,100	131,500	11,500	8.1%
State	18,494,900	16,560,300	1,934,500	10.5
United States				
<b>2011</b>				
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
<b>2010</b>				
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
<b>2009</b>				
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
<b>2008</b>				
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

† 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 <sup>(1)</sup>	2007	2008	2009	2010	2011 <sup>(2)</sup>
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 Health Services	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 <sup>(3)</sup>	108,500	107,400	102,200	101,200	101,600

(1) Based on place of work.

(2) Most recent annual estimated data available.

(3) "Total" may not be precise due to independent rounding.

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 2007 is set forth in Table A-4 below.

**Table A-4**  
**County of San Luis Obispo**  
**Value of Agricultural Production**  
**Calendar Years 2007 Through 2011<sup>(1)</sup>**  
(In Thousands)

	2007	2008	2009	2010	2011 <sup>(1)</sup>
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
Avocados, Hass	—	—	—	35,862	17,320
Rangeland Grazed	—	—	—	—	10,250
Napa Cabbage	—	—	—	14,064	—
Cauliflower	17,426	—	13,618	—	—
Leaf Lettuce	—	—	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
<b>TOTAL</b>	<b>\$638,095</b>	<b>\$602,992</b>	<b>\$623,095</b>	<b>\$712,808</b>	<b>\$736,208</b>
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)**

<b>Firm</b>	<b>Product or Service</b>	<b>Estimated FTE Employment</b>
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 2006 through 2010.

**Table A-6**  
**County of San Luis Obispo, State of California and United States**  
**Personal Income<sup>(1)</sup>**  
**Calendar Years 2006 Through 2010<sup>(2)</sup>**

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income(dollars)
<b>2010<sup>(2)</sup></b>		
County	\$10,533	\$38,984
State	1,587,404	42,514
United States	12,353,577	39,937
<b>2009<sup>(1)</sup></b>		
County	\$10,706	\$40,103
State	1,566,999	42,395
United States	12,168,161	39,635
<b>2008<sup>(1)</sup></b>		
County	10,896	41,094
State	1,604,155	43,853
United States	12,380,225	40,674
<b>2007<sup>(1)</sup></b>		
County	10,652	40,704
State	1,566,400	43,240
United States	11,900,562	39,461
<b>2006<sup>(1)</sup></b>		
County	10,000	38,556
State	1,495,533	41,567
United States	11,256,516	37,698

(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.

(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.

### 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 2011-12 are shown in Table A-7.

**Table A-7**  
**County of San Luis Obispo**  
**Summary of Assessed Valuations and Delinquencies**  
**Fiscal Years 2002-03 through 2011-12**

<b>Fiscal Year (June 30)</b>	<b>Gross Assessed Valuation</b>	<b>Secured Property Tax Levies</b>	<b>Current Tax Delinquencies (June 30)<sup>†</sup></b>	<b>% Levy Delinquent (June 30)</b>
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
2010-11	408,623,254	397,830,256	10,792,998	2.64
2011-12*	403,620,485			

<sup>†</sup> 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 2003-04 Through 2012-13**  
(\$ in thousands)

<b>Fiscal Year</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Exemptions</b>	<b>Net Assessed Valuation</b>
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
2011-12	41,846,720	1,118,384	(927,194)	42,037,910
2012-13	41,223,923	1,081,596	(965,088)	41,340,431

Source: County of San Luis Obispo Auditor-Controller's Office, Property Tax Division.



## Principal Taxpayers

Assessed values for the principal taxpayers totaled approximately \$3.2 billion, or 7.9% of the County's 2011-12 Net Assessed Valuations. The principal largest taxpayers in the County, as shown on the Fiscal Year 2011-12 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 2011-12**

Company	Type of Business	2011-12 Assessed Value (\$ in thousands) <sup>†</sup>	% 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 Exp2oration& 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%

<sup>†</sup> 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<sup>(1)</sup>**  
(\$ in Thousands)

Taxable Retail Sales	2006	2007	2008	2009	2010 <sup>(1)</sup>
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	-	-	-	331,194	392,463
Household Group	133,146	132,874	124,362	_(3)	_(3)
Health and Personal Care	-	-	-	74,401	76,589
Electronic and Appliances	-	-	-	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)

Year	Residential		Valuation <sup>(1)</sup>	Nonresidential Valuation	Total <sup>(2)</sup>
	Single Family	Multifamily			
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.

(2) Total represents the sum of residential and nonresidential building permit valuations. Columns may not total due to independent rounding.

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.

**Table A-12**  
**County of San Luis Obispo**  
**Unincorporated Areas Growth Management Ordinance**  
**Maximum Annual Allocation**  
**(Fiscal Years)**

<b>Fiscal Year</b>	<b>Maximum Annual Allocation</b>
2007-08	1,099
2008-09	1,100
2009-10	1,101
2010-11	1,102
2011-12	1,102

*Source: Construction Industry Research Board.*

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**



**APPENDIX C**  
**SUMMARY OF THE INDENTURE**

**APPENDIX D**

**PROPOSED FORM OF  
BOND COUNSEL OPINION**

[Closing Date]

Nipomo Community Services District  
Nipomo, California

Re: \$ \_\_\_\_\_ Nipomo Community Services District Water Revenue Refunding Bonds, Series  
2013A

Ladies and Gentlemen:

We have acted as Bond Counsel to the Nipomo Community Services District (the "District") in connection with the issuance and sale of the Water Revenue Refunding Bonds, Series 2013A (the "Bonds"), pursuant to and in accordance with Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the Government Code of the State of California (the "Bond Law"), and pursuant to an Indenture of Trust, dated as of June 1, 2013 (the "Indenture"), by and between the District and The Bank of New York Mellon Trust Company, N.A. as trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

In our capacity as bond counsel, we have reviewed the Indenture and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture. In addition, we call attention to the fact that the rights and obligations under the Bonds and the Indenture are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles, to the possible unavailability of specific performance or injunctive relief, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Indenture has been duly and validly authorized, executed and delivered by the District, and assuming the Indenture constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its terms, and the Bonds are entitled to the benefits of the Indenture.

2. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds 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 interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon 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. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the {Indenture} and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the Issuer in connection with the issuance of the Bonds, the Issuer is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the Issuer with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

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 hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of results 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.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States.

Respectfully submitted,

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 2013 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 \_\_\_\_\_ Water Revenue Refunding Bonds, Series 2013A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of June 1, 2013 (the "Indenture") between the District and the Trustee. The District, the Dissemination Agent and the Trustee covenant and agree as follows:

**Section 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is executed and delivered by the District, the Dissemination Agent and the Trustee for the benefit of the holders of the Bonds and in order to assist the Participating Underwriter (as defined below) in complying with the Rule (as defined below).

**Section 2. Definitions.** In addition to the definitions set forth in the Indenture, 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 Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"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 Citigroup Global Markets Inc., the underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"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 1] of each year, commencing with the report for the District's Fiscal Year ended June 30, 2013, 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 Dissemination Agent 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 Bonds, 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 1 – Historical Groundwater Pumped (add Supplemental Water when purchased) and Deliveries;
- (ii) Table 3 – Historical Water Connections;
- (iii) Table 6 – Historical Water Sales;



- (iv) Table 7 – Historical Assessed Valuation and Property Tax Revenues;
- (v) Table 11 – Ten Largest Customers;
- (vi) Table 14 – Historical Capacity Fees;
- (vii) Table 17- Historical Revenues, Expenses and Changes in Net Assets; and
- (viii) Table 19 – Historical Debt Service Coverage.

(c) Information on water rates of the District.

(d) The principal amount of the Bonds and parity obligations outstanding and balance in the Reserve Fund to the extent not included in the audited financial statements described in (a) above.

(e) Update on any water purchase or sale agreements of the District.

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; provided, that any such modifications shall comply with the requirements of the Rule.

**Section 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds (in each case to the extent applicable) in a timely manner not more than ten (10) 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 Bonds;
- (v) modifications to the rights of Owners of the Bonds;
- (vi) bond calls other than mandatory sinking fund redemptions;
- (vii) defeasances;
- (viii) release, substitution, or sale of property, if any, securing repayment of the Bonds; 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. For the purpose of this Disclosure Agreement, "actual knowledge" means actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Indenture.

(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. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

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

**Section 8. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure 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. Amendment; Waiver.** 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 Bonds, 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 Bonds, 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 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(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. Default.** 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 Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture with respect to the Bonds, 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. Duties, Immunities and Liabilities of Dissemination Agent.** Article V of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnification hereunder as are afforded the

Dissemination Agent [Trustee] thereunder. 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 Bonds.

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. Beneficiaries.** 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 Bonds, and shall create no rights in any other person or entity.

**Section 14. Notices.** 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.  
400 South Hope Street, Suite 400  
Los Angeles, California 90071  
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.

NIPOMO COMMUNITY SERVICES DISTRICT

By:.....  
District Manager

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

By:.....  
Authorized Signatory



**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO  
FILE ANNUAL REPORT**

Name of District: Nipomo Community Services District  
Name of Issue: Water Revenue Refunding Bonds, Series 2013A  
Date of Issuance: June \_\_, 2013

NOTICE IS HEREBY GIVEN that the Nipomo Community Services District (the "District") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated as of June 1, 2013 between the District and The Bank of New York Mellon Trust 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 Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). The information set forth on these websites is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the

identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Principal, premium, if any, and interest payments on the Bonds 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 Trustee, on a 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 nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of 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 Bonds at any time by giving reasonable notice to 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.

If DTC determines not to continue to act as securities depository by giving notice to the District and the Trustee, and discharges its responsibilities with respect thereto under applicable law and there is not a successor securities depository, or the District determines that it is in the best interest of the Beneficial Owners of the Bonds that they be able to obtain certificates, the Trustee will execute, transfer and exchange Bonds as requested by DTC and will deliver new Bonds in fully registered form in denominations of \$5,000 principal amount or any integral multiple thereof in the names of Beneficial Owners or DTC Participants.

In the event the book-entry system is discontinued, the principal amount of and premium, if any, payable with respect to the Bonds will be payable upon surrender thereof at the principal corporate trust office of the Trustee. The interest on Bonds will be payable by check mailed to the respective Owners thereof at their addresses as they appear on the books maintained by the Trustee.

Any Bond may, in accordance with its terms, be transferred, upon the register required to be kept pursuant to the provisions of the Resolution, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Bonds may be exchanged at the corporate trust office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same series, tenor, maturity and interest rate by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation; provided that no transfer or exchange may occur during the period established by the Trustee for selection of Bonds for redemption, or of any Bond or portion of a Bond so selected for redemption. The Trustee shall require the Bondholder requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.