

| | | | |
|-----------------|-----------------|------------------------|-------------------|
| | | <u>AGM Insured</u> | <u>Underlying</u> |
| RATINGS: | S&P: | AA+ (stable outlook) | A+ |
| | Moody's: | Aa3 (negative outlook) | - |
| | | | (See "RATINGS") |

In the opinion of Fulbright & Jaworski L.L.P., Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the "Code") from the gross income of the owners thereof for federal income tax purposes and is not subject to the alternative minimum tax on individuals, or, except as described herein, corporations. See "TAX MATTERS" herein.

\$22,750,000
SLO COUNTY FINANCING AUTHORITY
LOPEZ DAM IMPROVEMENT REFUNDING REVENUE BONDS,
2011 SERIES A

Dated: Date of Delivery

Due: August 1, as shown on the following page

The SLO County Financing Authority (the "Authority") is issuing \$22,750,000 principal amount of SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A (the "2011 Bonds") to: (i) refund on a current basis, together with other available funds, all of the Authority's outstanding Lopez Dam Improvement Revenue Bonds, 2000 Series A (the "2000 Bonds"); (ii) purchase a municipal bond debt service reserve policy for deposit into the 2011 Reserve Account within the Reserve Fund (each as defined herein) as security for the 2011 Bonds; and (iii) pay certain costs associated with the issuance of the 2011 Bonds. See "PLAN OF REFUNDING."

The 2011 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of October 1, 2000 (the "Original Indenture"), as supplemented by the First Supplemental Indenture of Trust, dated as of November 1, 2003 (the "First Supplement" and, together with the Original Indenture, the "Existing Indenture"), as amended and supplemented by the Second Supplemental Indenture of Trust dated as of June 1, 2011 (as so amended, the "Indenture"), each by and between the Authority and US Bank National Association, as trustee (the "Trustee"). The Authority is a joint exercise of powers authority established pursuant to an agreement between the County of San Luis Obispo, California (the "County") and the San Luis Obispo County Flood Control and Water Conservation District (the "Flood Control District"). The 2011 Bonds are payable solely from Revenues (as defined in the Indenture), consisting principally of principal and interest payments received by the Authority as the owner of San Luis Obispo County Flood Control and Water Conservation District, Zone 3 General Obligation Refunding Bonds, 2000 Election, 2011 Series A (the "General Obligation Bonds") in the aggregate principal amount of \$10,760,000, installment payments in the aggregate principal amount of \$11,990,000 (the "Installment Payments") to be made by the Flood Control District pursuant to an Installment Purchase Agreement, dated as of October 1, 2000, as amended and supplemented by the First Amendment to Installment Purchase Agreement, dated as of June 1, 2011 (as so amended, the "Installment Purchase Agreement"), each by and between the Flood Control District and the Authority, and moneys in certain funds and accounts held under and by the Indenture.

The 2011 Bonds will be issued in book-entry form only, in authorized denominations of \$5,000 and integral multiples thereof and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2011 Bonds. Purchasers will not receive certificates representing their interests in the 2011 Bonds. Payments of principal of and interest on the 2011 Bonds will be made by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2011 Bonds. See APPENDIX J—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

The principal of the 2011 Bonds is payable on August 1 of each year as set forth on the inside cover page hereof. Interest on the 2011 Bonds is payable semiannually on each February 1 and August 1, commencing February 1, 2012.

The 2011 Bonds are subject to optional and mandatory redemption as more fully described herein. See "THE 2011 BONDS-Redemption Provisions."

The General Obligation Bonds will be issued and secured pursuant to the terms of the San Luis Obispo County Flood Control and Water Conservation District Act and a resolution, adopted November 23, 2010 by the Board of Supervisors of the County, acting as the governing board of the Flood Control District. The General Obligation Bonds are payable as to both principal and interest from the proceeds of the levy of *ad valorem* property taxes on all property subject to such taxes located within Zone 3 of the Flood Control District ("Zone 3"), which *ad valorem* property taxes are unlimited as to rate or amount. The General Obligation Bonds were authorized at a general election of the registered voters of Zone 3 on March 7, 2000 (the "Election"), at which the requisite two-thirds of the electors authorized the issuance and sale of not to exceed \$13,200,000 aggregate principal amount of general obligation bonds of Zone 3 to finance the construction of seismic improvements to Lopez Dam, including its related facilities, in order to satisfy State of California seismic, safety and water quality requirements.

The Installment Payments are payable from and secured by a pledge of Net Revenues (as defined in the Installment Purchase Agreement), consisting principally of certain *ad valorem* property taxes on real property received by the Flood Control District and all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of Lopez Dam, including payments to be made by the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach and County of San Luis Obispo Service Area No. 12 pursuant to water supply contracts entered into by the Flood Control District with each such agency, less operation and maintenance costs.

The obligation of the Flood Control District to make the Installment Payments is a special obligation of the Flood Control District payable solely from Net Revenues and the funds described in the Installment Purchase Agreement and does not constitute a debt of the Flood Control District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY AND ARE NOT A CHARGE UPON THE FUNDS OR PROPERTY OF THE AUTHORITY, EXCEPT THE REVENUES. THE BONDS ARE NOT A DEBT OF THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, AND THE STATE OF CALIFORNIA IS NOT LIABLE FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The scheduled payment of principal of and interest on the 2011 Bonds will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series of 2011 Bonds by Assured Guaranty Municipal Corp.



This cover page contains certain references only. It is *not* a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. An investment in the 2011 Bonds involves risk. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision, see "CERTAIN RISK FACTORS," as well as other factors discussed throughout this Official Statement.

The 2011 Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval as to their legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Bond Counsel, and certain other conditions. Certain matters will be passed on for the Authority, the Flood Control District and each 2011 Bonds Participating Agency (defined herein) by their respective counsels and for the Underwriter by Lofton & Jennings, San Francisco, California. It is anticipated that the 2011 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about June 8, 2011.

WEDBUSH

\$22,750,000
SLO COUNTY FINANCING AUTHORITY
LOPEZ DAM IMPROVEMENT REFUNDING REVENUE BONDS,
2011 SERIES A

MATURITY SCHEDULE

| <u>Maturity</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP No.[†]</u> |
|-----------------|-----------------------------|--------------------------|--------------|----------------------|------------------------------|
| 02/01/2012 | \$1,085,000 | 2.000% | 0.750% | 100.805% | 798693 CY1 |
| 08/01/2012 | 750,000 | 2.000 | 0.940 | 101.206 | 798693 CL9 |
| 08/01/2013 | 765,000 | 3.000 | 1.210 | 103.781 | 798693 CM7 |
| 08/01/2014 | 795,000 | 4.000 | 1.640 | 107.208 | 798693 CN5 |
| 08/01/2015 | 830,000 | 4.000 | 2.000 | 107.919 | 798693 CP0 |
| 08/01/2016 | 865,000 | 4.000 | 2.250 | 108.458 | 798693 CQ8 |
| 08/01/2017 | 895,000 | 4.000 | 2.650 | 107.608 | 798693 CR6 |
| 08/01/2018 | 935,000 | 4.500 | 2.960 | 109.851 | 798693 CS4 |
| 08/01/2019 | 975,000 | 4.500 | 3.260 | 108.805 | 798693 CT2 |
| 08/01/2020 | 1,025,000 | 5.000 | 3.490 | 111.733 | 798693 CU9 |
| 08/01/2021 | 1,080,000 | 5.000 | 3.700 | 110.910 | 798693 CV7 |
| 08/01/2022 | 1,140,000 | 5.000 | 3.860 | 109.491 ^C | 798693 CZ8 |

\$5,195,000–5.500% Term Bonds due August 1, 2026–Yield: 4.610%–Price: 107.142%^C–CUSIP No.[†]: 798693 CW5

\$6,415,000–5.000% Term Bonds due August 1, 2030–Yield: 5.100%–Price: 98.780%–CUSIP No.[†]: 798693 CX3

[†] Copyright 2011 American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference only. None of the Authority, the Flood Control District, the County or the Underwriter take any responsibility for the accuracy of such numbers.

^C Priced to call at par on August 1, 2021.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2011 Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized by the Authority, the Flood Control District, the County, the 2011 Bonds Participating Agencies (as defined herein) or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the Flood Control District, the County, the 2011 Bonds Participating Agencies or the Underwriter

This Official Statement is not to be construed as a contract with the purchasers of the 2011 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth in this Official Statement has been obtained from official sources and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and, with respect to information obtained from sources other than the County, is not to be construed as a representation by the County. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Flood Control District, the County or the 2011 Bonds Participating Agencies since the date hereof. This Official Statement is submitted in connection with the sale of the 2011 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The County and each of the 2011 Bonds Participating Agencies maintain a website. Unless specifically indicated otherwise, the information presented on those websites is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2011 Bonds.

The 2011 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such act.

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

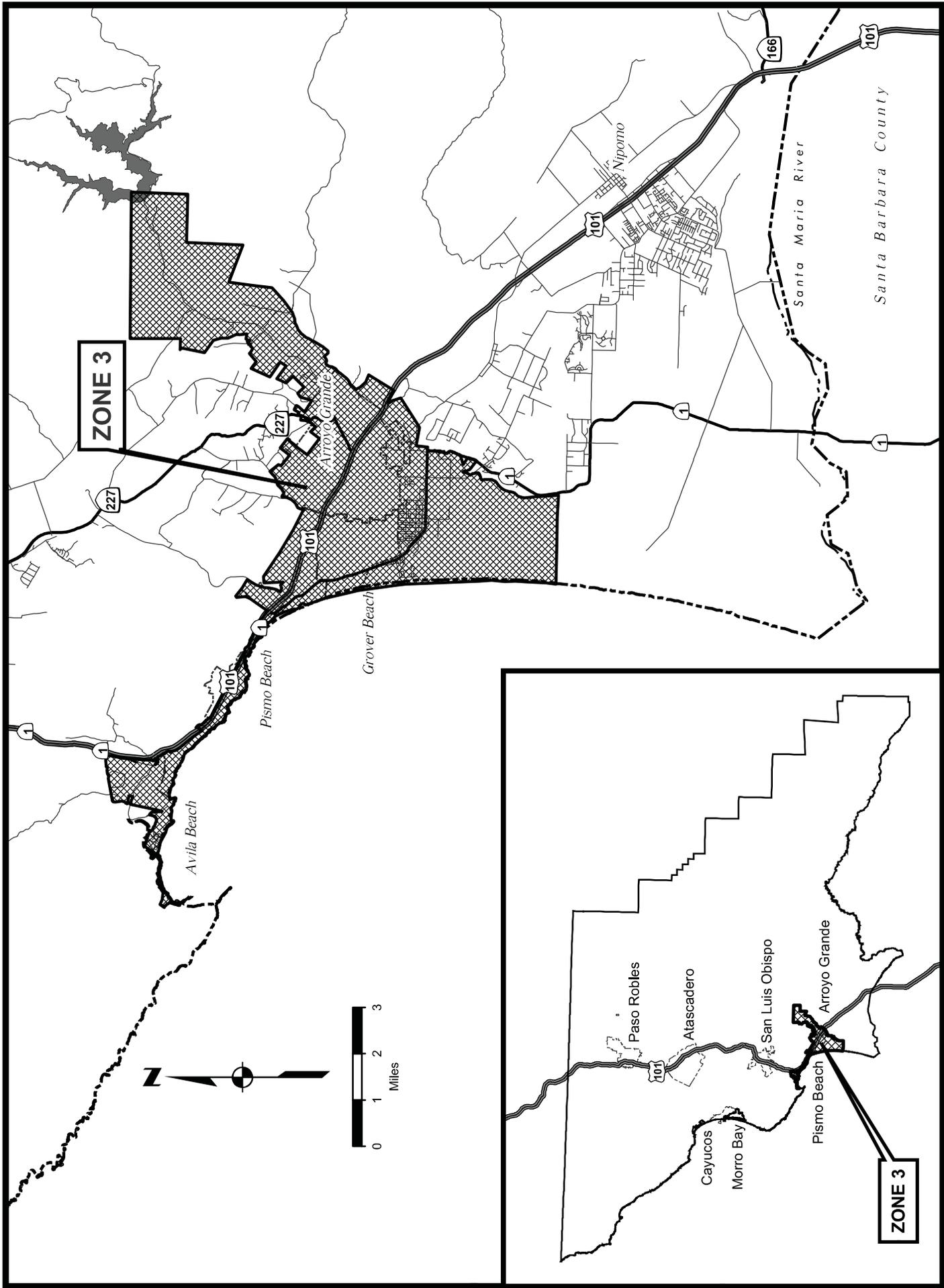
In connection with the offering of the 2011 Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the 2011 Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2011 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements contained in this Official Statement reflect not historical facts but forecasts and “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” “plan,” “budget,” and similar expressions are intended to identify forward-looking statements. Projections, forecasts, assumptions, expressions of opinions, estimates and other forward statements are not to be construed as representations of fact and are qualified in their entirety by the cautionary statements set forth in this Official Statement.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that 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 Authority, the Flood Control District and the 2011 Bonds Participating Agencies do 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 or do not occur, other than as described under “CONTINUING DISCLOSURE.”

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the 2011 Bonds or the advisability of investing in the 2011 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and APPENDIX K-“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”



FLOOD CONTROL ZONE 3
 SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

SLO COUNTY FINANCING AUTHORITY

BOARD OF COMMISSIONERS

Gere W. Sibbach, *Chair*
Jim Grant, *Vice Chair*
Frank L. Freitas, *Member*

AUDITOR

Gere W. Sibbach, *County Auditor-Controller*

TREASURER

Frank L. Freitas, *County Treasurer-Tax Collector,
Public Administrator*

LEGAL ADVISOR

Warren R. Jensen, *County Counsel*

SECRETARY

Julie L. Rodewald, *County Clerk/Recorder*

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

GOVERNING BOARD

Adam Hill, *Chair*

James R. Patterson, *Vice Chair*

Bruce S. Gibson

Frank R. Mecham

Paul Teixeira

STAFF

Paavo Ogren, *Director of Public Works*
Dean Benedix, *Utilities Division Manager*

Will Clemens, *Public Works Department Administrator*
Ron Coleman, *Water Systems Superintendent*

2011 BONDS PARTICIPATING AGENCIES

City of Arroyo Grande
City of Grover Beach
City of Pismo Beach
County of San Luis Obispo Service Area No. 12

PROFESSIONAL SERVICES

BOND COUNSEL

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

FINANCIAL ADVISOR

Public Financial Management
San Francisco, California

TRUSTEE AND ESCROW AGENT

U.S. Bank National Association
Los Angeles, California

VERIFICATION AGENT

Causey Demgen & Moore, Inc.
Denver, Colorado

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OFFICIAL STATEMENT

\$22,750,000
SLO COUNTY FINANCING AUTHORITY
LOPEZ DAM IMPROVEMENT REFUNDING REVENUE BONDS,
2011 SERIES A

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A (the “2011 Bonds”) being offered, and a full review should be made of the entire Official Statement including the cover page, the inside cover page, the table of contents and the appendices for a more complete description of the terms of the 2011 Bonds. Descriptions and summaries of various documents set forth in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Indenture (as defined below). This Introduction is subject in all respects to the more complete information contained in this Official Statement, and the offering of the 2011 Bonds to potential investors is made only by means of the entire Official Statement. See APPENDIX H–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–DEFINITIONS.”

General; Purpose

The purpose of this Official Statement, including the cover page, the inside cover page and the appendices hereto, is to furnish information in connection with the issuance, sale and delivery by the SLO County Financing Authority (the “Authority”) of \$22,750,000 principal amount of the “2011 Bonds. The 2011 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of October 1, 2000 (the “Original Indenture”), as supplemented by the First Supplemental Indenture of Trust, dated as of November 1, 2003, by and between the same parties (the “First Supplement” and, together with the Original Indenture, the “Existing Indenture”), as amended and supplemented by the Second Supplemental Indenture of Trust dated as of June 1, 2011 (the “Second Supplement”), each by and between the Authority and U.S. Bank National Association, as successor to U.S. Bank Trust National Association, as trustee (the “Trustee”). The Existing Indenture as amended and supplemented by the Second Supplement is referred to as the “Indenture.”

The 2011 Bonds are being issued to: (i) refund on a current basis, together with other available funds, all of the Authority’s outstanding Lopez Dam Improvement Revenue Bonds, 2000 Series A (the “2000 Bonds”); (ii) purchase a municipal bond debt service reserve policy (the “Reserve Policy”) to be issued by Assured Guaranty Municipal Corp. (the “Bond Insurer”) for deposit into the 2011 Reserve Account within the Reserve Fund (each as defined herein) as security for the 2011 Bonds; and (iii) pay certain costs associated with the issuance of the 2011 Bonds. See “PLAN OF REFUNDING.”

The Authority

The Authority is a joint exercise of powers authority established pursuant to an agreement between the County of San Luis Obispo (the “County”) and the Flood Control District. See “THE AUTHORITY.”

The Flood Control District

The Flood Control District was formed in 1945 through the enactment of the San Luis County Flood Control and Water Conservation District Act. Zone 3 of the Flood Control District (“Zone 3”) was formed in 1959 to include all of the area along the southern coast of the County and covers an area of approximately 20,000 acres. See “THE FLOOD CONTROL DISTRICT AND ZONE 3.”

Security and Sources of Payment for the 2011 Bonds

The 2011 Bonds are payable solely from Revenues, consisting principally of principal and interest payments received by the Authority as the owner of San Luis Obispo County Flood Control and Water Conservation District, Zone 3 General Obligation Refunding Bonds, 2000 Election, 2011 Series A (the “General Obligation Bonds”), and installment payments (the “Installment Payments”) to be made by the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”) pursuant to an Installment Purchase Agreement, dated as of October 1, 2000 (the “Installment Purchase Agreement”), between the Flood Control District and the Authority, and moneys in certain funds and accounts held under the Indenture. See “THE 2011 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS” and “DEBT SERVICE SCHEDULE.”

General Obligation Bonds. The General Obligation Bonds will be issued and secured pursuant to the San Luis Obispo County Flood Control and Water Conservation District Act, being Act 7205 of the Statutes of 1945, Chapter 1294, as amended (the “Act”) and Resolution No. 2010-343 adopted on November 23, 2010 (the “Resolution”) by the Board of Supervisors of the County of San Luis Obispo (the “Board of Supervisors”), acting as the governing board of the Flood Control District. The General Obligation Bonds are payable as to both principal and interest from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in Zone 3, which taxes are unlimited as to rate or amount. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS—General Obligation Bonds” and “–Zone 3 *Ad Valorem* Property Taxes.”

Installment Payments. The Installment Payments are payable from and secured by a pledge of Net Revenues, consisting principally of all income, rents, rates, fees, charges and other moneys derived from the ownership and operation of Lopez Dam, including payments to be made by the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach and County of San Luis Obispo Service Area No. 12 (each a “2011 Bonds Participating Agency” and collectively, the “2011 Bonds Participating Agencies”) pursuant to water supply contracts (each a “Water Supply Contract” and collectively, the “Water Supply Contracts”) entered into by the Flood Control District with each 2011 Bonds Participating Agency, less operation and maintenance costs and certain *ad valorem* taxes on real property received by the Flood Control District. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS—Installment Purchase Agreement” and “–Water Supply Contracts.”

2011 Reserve Account. Pursuant to the Second Supplement, a reserve account (the “2011 Reserve Account”) within the Reserve Fund is established for the benefit of the Owners of the 2011 Bonds in an amount equal to the Reserve Requirement (as defined herein). Amounts on deposit in the 2011 Reserve Account will be used and withdrawn solely to make up deficiencies in the Interest Account or the Principal Account for the payment when due of all Lease Payments and Prepayments under the Lease and payments with respect to the 2011 Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS—2011 Reserve Account” and APPENDIX H—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Funds and Accounts.”

On the date of delivery of the 2011 Bonds, the Authority will deposit the Reserve Policy issued by the Bond Insurer into the 2011 Reserve Account. The Reserve Policy will be issued in the amount of \$934,700, which amount is equal to the Reserve Requirement. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS–2011 Reserve Account.”

Bond Insurance

The scheduled payment of principal of and interest on the 2011 Bonds will be guaranteed under a municipal bond insurance policy to be issued by the Bond Insurer concurrently with the delivery of the Series of 2011 Bonds. See “BOND INSURANCE” and APPENDIX K–“SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

Certain Risk Factors

For a discussion of certain investment considerations and risk factors that should be considered by prospective purchasers of the 2011 Bonds, see “CERTAIN RISK FACTORS.”

Continuing Disclosure

The Flood Control District has covenanted for the benefit of the beneficial owners of the 2011 Bonds to provide certain financial information and operating data relating to the County by no later than March 15 each year commencing with the report due on March 15, 2012 for the Fiscal Year ended June 30, 2011 (each a “Flood Control District Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access site. See “CONTINUING DISCLOSURE” and APPENDIX I–“FORMS OF CONTINUING DISCLOSURE AGREEMENTS–SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Each 2011 Bonds Participating Agency has covenanted to provide certain financial and operating data relating to such 2011 Bonds Participating Agency by no later than March 15 each year commencing with the report due on March 15, 2012 for the Fiscal Year ended June 30, 2011 (each a “2011 Bonds Participating Agency Annual Report”). See “CONTINUING DISCLOSURE” and APPENDIX I–“FORMS OF CONTINUING DISCLOSURE AGREEMENTS–2011 BONDS PARTICIPATING AGENCY CONTINUING DISCLOSURE AGREEMENT.”

Reference to Documents

This Official Statement contains summaries of the 2011 Bonds, the security for the 2011 Bonds, the Indenture, the Installment Purchase Agreement, the Installment Sale Agreement, the Water Supply Contracts, the Escrow Agreement, the Flood Control District, the County, the 2011 Bonds Participating Agencies and certain other information relevant to the delivery of the 2011 Bonds. All references herein to the Indenture, the Installment Purchase Agreement and the Installment Sale Agreement are qualified in their entirety by reference to the complete text thereof and all references to the 2011 Bonds are further qualified by reference to the form thereof contained in the Indenture. The proposed form of legal opinion of Bond Counsel with respect to the 2011 Bonds is set forth in APPENDIX G. See APPENDIX H–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” for definitions of certain words and terms used herein. The information set forth herein and in the Appendices hereto has been furnished by the County and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by the Authority, the Flood Control District, the 2011

Bonds Participating Agencies or the Underwriter and is not to be construed as a representation by the Underwriter. Copies of documents referred to herein and information concerning the 2011 Bonds are available upon request from the County Auditor-Controller, County of San Luis Obispo, County Government Center, 1050 Monterey Street, Room D220, San Luis Obispo, California 93048. The County may impose a charge for copying, mailing and handling.

THE AUTHORITY

General

The Authority was created pursuant to a Joint Exercise of Powers Agreement Creating the SLO County Financing Authority, dated as of August 15, 2000 (the “Joint Powers Agreement”), between the County and the Flood Control District. The Joint Powers Agreement was entered into pursuant to the provisions of Chapter 5 of Division 7 of Title I of the California Government Code. The Authority was created to issue bonds for the purpose of financing all or a portion of the costs of the purchase, construction, expansion, improvement or rehabilitation of any real or other tangible property for the Flood Control District and the County and to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing and refinancing for such capital improvements of the Flood Control District and the County. The Joint Powers Agreement may be amended at any time, or from time to time, except as limited by contract with the holders of bonds issued by the Authority or certificates of participation in payments to be made by the Authority or its members or by applicable regulations or laws of any jurisdiction having authority, including to provide for the addition of new parties.

Governance and Management

Pursuant to the Joint Powers Agreement, the Authority is administered by a three-member Board of Commissioners, two of whom are appointed by the County and one who is appointed by the Flood Control District.

The current Commissioners of the Authority are:

| Member | Title |
|---|------------|
| Gere W. Sibbach, <i>County Auditor- Controller</i> | Chair |
| Jim Grant, <i>County Administrative Officer</i> | Vice Chair |
| Frank L. Freitas, <i>County Treasurer-Tax Collector</i> | Member |

Pursuant to the Joint Powers Agreement, the Auditor of the County serves as Auditor of the Authority, the Treasurer of the County serves as Treasurer of the Authority and County Counsel for the County serves as the Authority’s Legal Advisor. The Clerk/Recorder of the County currently serves as the Authority’s Secretary.

THE FLOOD CONTROL DISTRICT AND ZONE 3

The Flood Control District. The Flood Control District was formed in 1945 through the enactment of the San Luis Obispo Flood Control and Water Conservation District Act. The Flood Control District is county-wide and has as its governing body the Board of Supervisors. Other key staff include: the Director of Public Works, and Public Works Department Administrator, Utilities Division Manager, and Water Systems Superintendent. The purposes of the Flood Control District are:

- to provide for the control, disposition, and distribution of the flood and storm waters of the district and the flood and storm waters of the streams that flow into the district;
- to prevent the waste or diminution of the water supply to the district;
- to conserve flood and storm waters by spreading, storing, retaining, and causing these waters to percolate into district soils;
- to retain these waters for beneficial use, such as the purchase and sale thereof within the district;
- to protect watercourses, watersheds, public highways, life and property from damage or destruction from these waters; and
- to provide for recreation activities incidental to and in connection with said purposes.

Zone 3. Zone 3 of the Flood Control District was formed in 1959 to include all of the area along the southern coast of San Luis Obispo County. It covers an area of approximately 20,000 acres, extending 14 miles along the Pacific Coast and includes the incorporated cities of Arroyo Grande, Grover Beach, and Pismo Beach, and the unincorporated communities of Oceano, Shell Beach, and Avila Beach. A committee of residents from Zone 3, representing various interest groups as well as the city councils of the three incorporated cities, was appointed in February of 1961 to act in an advisory capacity to the Board of Supervisors.

The principal components of the local economy are agriculture and tourism. The agriculturally rich Arroyo Grande Valley, which is adjacent to Zone 3, produces a wide variety of vegetables which are triple-cropped annually, rotating such crops as celery, lettuce, cauliflower, broccoli, and string beans. The ideal climate and the numerous beach and recreation facilities in Zone 3 attract an increasing number of year-round visitors as well as permanent residents.

For more information regarding the Flood Control District and Zone 3, see APPENDIX A—“COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION” and APPENDIX B—“TAXATION OF REAL PROPERTY IN ZONE 3.”

THE 2011 BONDS PARTICIPATING AGENCIES

The 2011 Bonds Participating Agencies consist of the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach, and County of San Luis Obispo Service Area No. 12. The percentage of the Installment Payments allocated to each 2011 Bonds Participating Agency is set forth below:

| <u>2011 Bonds Participating Agency</u> | <u>Installment Payment Percent</u> |
|---|--|
| City of Arroyo Grande | 54.17% |
| City of Grover Beach | 18.93 |
| City of Pismo Beach | 18.93 |
| County of San Luis Obispo Service Area No. 12 | <u>7.97</u> |
| TOTAL | 100.00% |

PLAN OF REFUNDING

The proceeds of the 2011 Bonds will be used by the Authority to (i) refund on a current basis, together with other available funds, all of the Authority’s outstanding Lopez Dam Improvement Revenue Bonds, 2000 Series A (the “2000 Bonds”); (ii) fund a deposit into the 2011 Reserve Account within the Reserve Fund (each as defined herein) or purchase a municipal bond debt reserve policy as security for the 2011 Bonds and (iii) pay certain costs associated with the issuance of the 2011 Bonds.

The 2000 Bonds were issued in the original principal amount of \$28,905,000 pursuant to the Original Indenture to finance the construction of seismic improvements to Lopez Dam, including its related facilities, in order to satisfy State of California seismic, safety and water quality requirements. A Notice of Substantial Completion for this project was adopted by the Flood Control District on November 25, 2003.

In connection with the refunding of the 2000 Bonds, the Flood Control District will make a loan to the Oceano Community Services District (the “Oceano CSD”) in the amount of \$880,607.98 to defease its *pro rata* share of the 2000 Bonds. Upon the redemption of the 2000 Bonds, the Oceano CSD will be a Participating Agency *only* with respect to its obligations under the Water Contract.

A portion of the proceeds of the 2011 Bonds, together with the funds contributed by the Flood Control District, will be deposited with U.S. Bank National Association, as escrow agent (the “Escrow Agent”) pursuant to the terms and conditions of an Escrow Deposit and Trust Agreement, dated as of June 1, 2011 (the “Escrow Agreement”) by and among the Escrow Agent, the Flood Control District and the Authority. The amounts deposited with the Escrow Agent will be held in cash, and will be sufficient to pay the redemption price of, including interest, on the 2000 Bonds on June 13, 2011.

The 2000 Bonds to be redeemed with the proceeds of the 2011 Bonds consist of the following:

\$23,765,000
Dated Date: October 1, 2000
Redemption Date: June 13, 2011
Redemption Price: 100%

| Maturity Date (August 1) | Amount | Interest Rate | Base CUSIP No. (798693)[†] |
|---|---------------|--------------------------------|--|
| 2011 | \$700,000 | 4.600% | AK3 |
| 2012 | 735,000 | 4.700 | AL1 |
| 2013 | 770,000 | 4.750 | AM9 |
| 2014 | 810,000 | 4.875 | AN7 |
| 2015 | 850,000 | 5.000 | AP2 |
| 2016 | 895,000 | 5.000 | AQ0 |
| 2017 | 940,000 | 5.125 | AR8 |
| 2018 | 990,000 | 5.200 | AS6 |
| 2019 | 1,040,000 | 5.250 | AT4 |
| 2020 | 1,095,000 | 5.250 | AU1 |
| 2024 | 5,035,000 | 5.375 | AV9 |
| 2030 | 9,905,000 | 5.375 | AW7 |

[†] Copyright, American Bankers Association. CUSIP data herein is provided by Standard and Poor’s, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the Authority, the Flood Control District, the County or the Underwriter take any responsibility for the accuracy of such numbers.

Upon the deposit of cash with the Escrow Agent, the 2000 Bonds will no longer be deemed outstanding under the Original Indenture.

The mathematical computations used to determine the sufficiency of the cash deposited with the Escrow Agent to defease the 2000 Bonds will be verified by Causey Demgen & Moore, Inc., Denver, Colorado (the “Verification Agent”) who will deliver a report to such effect upon delivery of the 2011 Bonds. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds for the 2011 Bonds are set forth below:

SOURCES:

| | |
|---|------------------------|
| Par Amount of 2011 Bonds | \$22,750,000.00 |
| Flood Control District Loan Proceeds ⁽¹⁾ | 880,607.98 |
| <i>Plus</i> Original Issue Premium | <u>1,127,996.65</u> |
| TOTAL SOURCES | \$24,758,604.63 |

USES:

| | |
|--|------------------------|
| Deposit to the Redemption Account ⁽¹⁾ | \$24,221,455.83 |
| Costs of Issuance ⁽²⁾ | 373,901.55 |
| Underwriter’s Discount | <u>163,247.25</u> |
| TOTAL USES | \$24,758,604.63 |

(1) See “PLAN OF REFUNDING.”

(2) Includes legal, printing, rating, trustee and Authority fees, Financial Advisor and Verification Agent fees, municipal bond insurance policy and the Reserve Policy premiums and other miscellaneous costs of issuance.

THE 2011 BONDS

General

The 2011 Bonds will be dated their date of delivery, will bear interest (computed on the basis of a 360-day year consisting of twelve 30-day months) at the rates per annum (payable semiannually on February 1 and August 1 in each year, commencing on February 1, 2012 (each an “Interest Payment Date”)), and will mature and become payable on August 1 in each of the years in the principal amounts set forth on the inside cover page hereof. The 2011 Bonds will be issued as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The 2011 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of the nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2011 Bonds. So long as the 2011 Bonds remain in book-entry form, payments of principal of and interest on the 2011 Bonds will be made by the Trustee to DTC for subsequent credit to DTC Participants and disbursement to Beneficial Owners. For additional information concerning DTC and the book-entry system, see APPENDIX J–“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption Provisions

Optional Redemption. The 2011 Bonds maturing on or before August 1, 2021 are not subject to optional redemption prior to maturity. The 2011 Bonds maturing on or after August 1, 2022 are subject to redemption prior to their scheduled maturity dates, on or after August 1, 2021 at the option of the Authority exercised at the request of the Flood Control District, as a whole or in part on any date, from any source of available funds, at a redemption price equal to the principal amount of the 2011 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The 2011 Bonds maturing on August 1, 2026 are subject to mandatory redemption in part from Sinking Fund Installments to be made by the Authority on August 1, 2023 and on each August 1 thereafter up to and including August 1, 2026, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium as follows:

| <u>Sinking Fund Payment Date</u> <u>(August 1)</u> | <u>Principal Amount</u> |
|---|-------------------------|
| 2023 | \$1,195,000 |
| 2024 | 1,260,000 |
| 2025 | 1,330,000 |
| 2026 [†] | 1,410,000 |

[†] Maturity.

The 2011 Bonds maturing on August 1, 2030 are subject to mandatory redemption in part from Sinking Fund Installments to be made by the Authority on August 1, 2027 and on each August 1 thereafter up to and including August 1, 2030, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the redemption date without premium, as follows:

| <u>Sinking Fund Payment Date</u> <u>(August 1)</u> | <u>Principal Amount</u> |
|---|-------------------------|
| 2027 | \$1,485,000 |
| 2028 | 1,560,000 |
| 2029 | 1,645,000 |
| 2030 [†] | 1,725,000 |

[†] Final Maturity.

Extraordinary Redemption. The 2011 Bonds are also subject to redemption as a whole or in part on any date, in the order directed by the Authority, to the extent that Net Proceeds are deposited into the Redemption Account to be used for such purpose pursuant to the Installment Purchase Agreement, at a redemption price equal to the principal amount of the 2011 Bonds, without premium, plus interest accrued thereon to the date fixed for redemption.

Redemption Procedure

Notice of Redemption. Notice of redemption is required to be mailed by the Trustee, by first class mail, postage prepaid, to the respective Owners of any 2011 Bonds designated for redemption at their addresses appearing on the Registration Books and to the Securities Depositories and the Information Services at least 30 days but not more than 60 days prior to the redemption date. Neither the failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the

proceedings for redemption of such 2011 Bonds or the cessation of accrual of interest on the redemption date. Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any 2011 Bonds nor the cessation of accrual of interest thereon. So long as the 2011 Bonds are registered in the name of a nominee of DTC, notice of redemption will be given to DTC. See APPENDIX J—“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Partial Redemption. In the event only a portion of any 2011 Bond is called for redemption, then upon surrender of such 2011 Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the Authority, a new 2011 Bond or 2011 Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the 2011 Bond or 2011 Bonds.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2011 Bonds of a maturity, the Trustee will select the 2011 Bonds to be redeemed from all 2011 Bonds of such maturity or such given portion thereof not previously called for redemption, by lot. For purposes of such selection, the Trustee will treat each 2011 Bond as consisting of separate \$5,000 portions and each such portion will be subject to redemption as if such portion were a separate Bond.

Purchase of Bonds in Lieu of Redemption. In lieu of redemption of any 2011 Bond, amounts on deposit in the Principal Account or Redemption Account may also be used and withdrawn by the Trustee at any time, upon the Written Request of the Authorized Representative, for the purchase of such 2011 Bond 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 the Authority may in its discretion determine in accordance with all applicable laws, so long as such prices do not exceed par.

Effect of Redemption. If notice of redemption has been given in accordance with the terms of the Indenture, and moneys for the redemption (including interest to the applicable date of redemption and including any applicable premium), has been set aside in the Redemption Fund or any of the accounts therein, then the 2011 Bonds will become due and payable on the date specified for redemption, and, upon presentation and surrender thereof at the Principal Office of the Trustee, such 2011 Bonds will be paid at the redemption price thereof, together with interest accrued and unpaid to said date of redemption and premium, if any. From and after such date of redemption, interest represented by such 2011 Bonds will cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of 2011 Bonds are required to be held in trust for the account of the Owners of the 2011 Bonds so to be redeemed without liability for interest thereon.

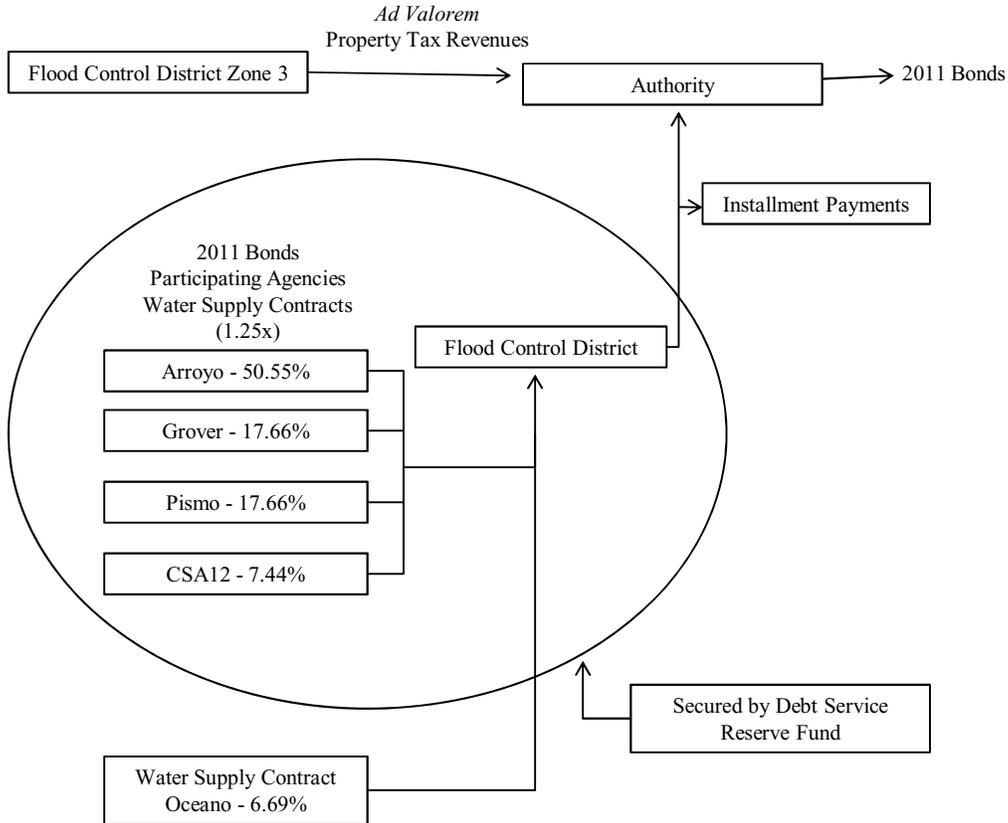
SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS

General

The 2011 Bonds are special limited obligations of the Authority paid solely from and secured solely by a pledge of Revenues, consisting principally of principal and interest payments received by the Authority as the owner of the General Obligation Bonds and the obligee of the Installment Payments, and all funds held by the Trustee under the Indenture (other than the Rebate Fund). For an illustration of the flow of funds, see the chart on page 10. See also “DEBT SERVICE SCHEDULE.”

Flow of Funds

In connection with the refunding of the 2000 Bonds, the Flood Control District will make a loan to the Oceano Community Services District (the “Oceano CSD”) in the amount of \$880,607.98 to defease its *pro rata* share of the 2000 Bonds. Upon the redemption of the 2000 Bonds, the Oceano CSD will be a Participating Agency *only* with respect to its obligations under the Water Contract.



General Obligation Bonds

The General Obligation Bonds will be issued and secured pursuant to the Act and the Resolution. The General Obligation Bonds are payable as to both principal and interest from the proceeds of the levy of *ad valorem* taxes on all property subject to such taxes in Zone 3, which taxes are unlimited as to rate and amount.

The General Obligation Bonds were authorized at a general election of the registered voters of Zone 3 on March 7, 2000 (the "Election"), at which the requisite two-thirds of the electors authorized the issuance and sale of not to exceed \$13,200,000 aggregate principal amount of general obligation bonds of Zone 3 to finance the costs of constructing seismic improvements to Lopez Dam, including its related facilities, in order to meet state seismic, safety and water quality requirements.

Zone 3 *Ad Valorem* Property Taxes

General. Taxes are levied for each Fiscal Year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." Property taxes in the Flood Control District are assessed and collected by the County at the same time and on the same rolls as the County and special district property taxes. Assessed valuations are the same for both the Flood Control District and County taxing purposes.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each Fiscal Year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about June 30 of the Fiscal Year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1.

State law allows exemptions from *ad valorem* property taxation of \$7,000 of full value of owner occupied dwellings. However, the State reimburses all local taxing authorities for the loss of revenues imputed on these exemptions. The State Constitution and various statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, nonprofit hospitals, and charitable institutions.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, two percent inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part

of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For information on the assessed valuation of property within Zone 3, tax rate, levy, collection and delinquency information and the largest taxpayers in the County, see APPENDIX B—"TAXATION OF REAL PROPERTY ZONE 3." For County demographic and economic information see APPENDIX A—"COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION."

Teeter Plan. On June 22, 1993, the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly known as the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including cities, levying property taxes in its county may receive the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the County receives and retains delinquent payments, penalties and interest, as collected, that would have been due to the local agency. However, although a local agency could receive the total levy for its property taxes without regard to actual collections funded from a reserve established and held by the County for this purpose, the basic legal liability for property tax deficiencies at all times remains with the local agency.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses that may occur as a result of sales of tax-defaulted property. Once the tax losses reserve fund reaches a level of 1% of the total of all taxes and assessments levied on the secured roll for that year, any additional penalties and interest normally credited to the tax losses reserve fund may be credited to the County General Fund as provided in the State Revenue and Taxation Code. State law permits any county to draw down the tax losses reserve fund to a balance equal to one percent of the total of all taxes and assessments levied on the secured roll for that year, or 25% of the current year delinquent secured tax levy. Any draw on the tax losses reserve fund is made following adoption of a resolution by the Board of Supervisors of the County by September 1 of any Fiscal Year. As of June 30, 2010, the cash balance in the tax losses reserve fund was \$14.1 million.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent Fiscal Year the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent Fiscal Year after a public hearing, discontinue the Teeter Plan as to any tax levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency. If the Teeter Plan is discontinued subsequent to its implementation, only those secured property taxes actually collected would be allocated to political subdivisions (including the Flood Control District) for which the County acts as the tax-levying or tax-collecting agency, but penalties and interest would be credited to the political subdivisions. The Board of Supervisors no longer implements Teeter Plan treatment of the "unitary" portion of the property tax roll. This was done to reduce the County's exposure due to disruptions in payment by large utilities.

The *ad valorem* property tax to be levied on the property within Zone 3 to pay the interest on and principal of the General Obligation Bonds remains subject to the Teeter Plan. The Flood Control District receives 100% of the *ad valorem* property tax levied in San Luis Obispo County to pay the General Obligation Bonds irrespective of actual delinquencies in the collection of the *ad valorem* tax.

Taxation of State Assessed Utility Property. The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the State Board of Equalization (the “SBE”) and taxed locally. Property valued by the SBE as an operating unit in a primary function of the utility taxpayer is known as “unitary property,” a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and “operating nonunitary” property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and distributed to taxing jurisdictions (including the Flood Control District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Pursuant to Assembly Bill 81 (California Legislature 2001-2002 Regular Session), commencing with the January 1, 2003 property tax lien date, the SBE assesses certain electric generation facilities. The legislation provides that the assessed value and revenues derived from such assessed property is allocated to local jurisdictions in the same manner as locally assessed property based on the location of the property and not under the unitary property formulae.

For Fiscal Year 2009-10, approximately 0.01% of the total net assessed valuation of Zone 3 constituted property subject to State assessment by the SBE, for which approximately \$6,300 of property taxes were assessed in Fiscal Year 2009-10.

For Fiscal Year 2010-11, approximately 0.01% of the total net assessed valuation of Zone 3 constitutes property subject to State assessment by the SBE, for which approximately \$6,300 of property taxes were assessed in Fiscal Year 2010-11.

Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the Flood Control District, as purchaser, is obligated to make payments in amounts sufficient to pay the Installment Payments when due. The Installment Payments are payable solely from and secured by a pledge of Net Revenues, and all amounts on deposit in the Operating Fund established under the Installment Purchase Agreement. Under the Installment Purchase Agreement, the following terms have the following meanings:

“*Enterprise*” means the whole and each and every part of the Lopez Dam water containment and supply facilities, including, without limitation, its appurtenant water delivery structures and lines, its recreational facilities and all additions, betterments, extensions and improvements thereto or any part thereof hereafter acquired or constructed.

“*Net Revenues*” means, for any Fiscal Year, the Revenues for such Fiscal Year, less the Operation and Maintenance Costs for such Fiscal Year.

“*Revenues*” means all *ad valorem* taxes on real property received by the Flood Control District, all income, rents, rates, fees, charges and other moneys derived from the ownership or operation of the Enterprise including, without limiting the generality of the foregoing, the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves, and all District Revenues, but excluding;

- (i) all income, rents, rates, fees, charges or other moneys derived by the Flood Control District from operations not related to the Enterprise;

(ii) any proceeds of taxes or assessments restricted by law to be used by the Flood Control District to pay the General Obligation Bonds or bonds, notes or other indebtedness hereafter issued or which are otherwise not legally available for payment of Installment Payments; and

(iii) grants, loans, bequests, gifts.

“Operation and Maintenance Costs” means

(i) Costs spent or incurred for maintenance and operation of the Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, security expenses, and administrative costs of the Flood Control District that are charged directly or apportioned to the Enterprise, including but not limited to salaries and wages of employees, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and

(ii) All other reasonable and necessary costs of the Flood Control District or charges (other than debt service payments) required to be paid by it to comply with the terms of the Installment Purchase Agreement or any Contract or of a resolution or indenture authorizing the issuance of any Obligations, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and capital improvements for the betterment of the Enterprise requiring amortization pursuant to the Internal Revenue Code.

“District Revenues” means the amounts available to the Flood Control District from the general *ad valorem* property taxes to be received by the Flood Control District and the Recreational Use Revenues (as defined in the Water Contracts) received by the Flood Control District.

Net Revenues include payments to be made under substantially similar water supply contracts entered into by the Flood Control District with each of the 2011 Bonds Participating Agencies.

Water Supply Contracts

General. The Water Supply Contracts amended and restated certain contracts for a water supply entered into between the Flood Control District and each of the Participating Agencies in 1966. The Water Supply Contracts provide for the delivery of water from Lopez Reservoir by the Flood Control District to the Participating Agencies and for payment by each Participating Agency for each Water Year of its share of Total Project Costs, defined as the aggregate amount necessary to provide for Operation and Maintenance Costs, Debt Service and Capital Reserves.

Generally, allocations of Operation and Maintenance Costs and Capital Reserves are determined separately for each Unit in the Project and allocations of Debt Service are based on the Participating Agencies’ respective “Proportionate Shares.” The Water Supply Contracts define a Participating Agency’s “Proportionate Share” as “the percent of the total Entitlements available to the Participating Agency, as compared to the Entitlements given to the Participating Agency and all other Participating Agencies under all Water Supply Contracts in any given Water Year.”

Under the Water Contracts, the Participating Agencies presently consist of the City of Arroyo Grande, the City of Grover Beach, the City of Pismo Beach, the Oceano Community Services District and County of San Luis Obispo Service Area No. 12. The Proportionate Share (as defined in the Water Supply Contracts), based upon such Participating Agency’s share of the quantity of water to be distributed by the Flood Control District from Lopez Dam (the “Entitlement”) of each of Participating Agency is as follows:

| <u>Participating Agency</u> | <u>% Entitlement</u> |
|---|----------------------|
| City of Arroyo Grande | 50.55% |
| City of Grover Beach | 17.66 |
| City of Pismo Beach | 17.66 |
| County of San Luis Obispo Service Area No. 12 | 7.44 |
| Oceano Community Services District [†] | <u>6.69</u> |
| TOTAL | 100.00% |

[†] Oceano Community Services District (“Oceano CSD”) is entitled to 6.69% of the water distributed by the Flood Control District from Lopez Dam, however, Oceano CSD is *not* a 2011 Bonds Participating Agency with respect to the 2011 Bonds.

Additional public agencies may become a Participating Agency through entering into a Water Supply Contract with the Flood Control District, so long as the payment obligations of above public agencies are not reduced.

Allocation of Total Project Costs and Debt Service. On or before April 1 of each Calendar Year, the Flood Control District calculates, or causes to be calculated, Total Project Costs (defined as operation and maintenance costs, debt service and capital reserves) for the Fiscal Year commencing on the immediately following July 1. The Flood Control District is required to deduct from the calculated Total Project Costs for such Fiscal Year: (i) the general *ad valorem* property taxes expected to be received by the Flood Control District during such Fiscal Year; provided that any *ad valorem* taxes levied and paid to provide debt service on the General Obligation Bonds outstanding at any time is required to be restricted to use for the payment of debt service on such General Obligation Bonds and shall not be included in the deducted amount represented by the foregoing clause; and (ii) a sum equal to Recreational Use Revenues received by the Flood Control District during the Fiscal Year about to be concluded (the “District Revenues”). The result comprises the Total Contract Payments due, collectively, from the Participating Agencies under the Water Supply Contracts.

In determining the Debt Service portion of Total Project Costs during any Fiscal Year to be supported by each Participating Agency, the Flood Control District is required to make the following calculations:

- $[(G.O. \text{ Debt Service}) + (\text{Installment Debt Service})] - (\text{District Revenues}) = \text{Allocable Debt Service ("ADS")}$
- $[(\text{Proportionate Share}) \times \text{ADS}] = \text{Annual Agency Obligations ("AAO")}$
- $\text{AAO} - (\text{G.O. Tax Collections}) = \text{Agency Debt Service}$

For purposes of the above calculations, the term “G.O. Debt Service” above refers to the debt service on the General Obligation Bonds; the term “Installment Debt Service” refers to the installment payments due with respect to the Installment Payments; the term “Proportionate Share” refers to the Participating Agency’s Proportionate Share thereunder; and the term “G.O. Tax Collections” refers to amounts collected to support the General Obligation Bonds within the boundaries of the Participating

Agency during the Fiscal Year in question, based upon then-current levies; provided, however, that in the case of County Service Area No. 12, such boundaries will be deemed to include that area comprising Avila Beach Community Services District, as well as the area comprising such County Service Area No. 12. In no event will Agency Debt Service, as calculated above, be a figure less than zero.

Participating Agency Water Supply Contract Payments. Unless a Participating Agency is entitled to an offsetting credit for Surplus Water sales or Wheeling Charges, each Participating Agency is obligated to pay to the Flood Control District:

(i) on or before July 1 and the immediately following January 1 of each Fiscal Year, a sum equal to one-half of its Percentage Share of charges for Operation and Maintenance and Capital Reserves for such Fiscal Year;

(ii) on or before July 1 of each Fiscal Year, a sum equal to Agency Debt Service, as calculated as described above; and

(iii) on or before the 15th day following the end of each Calendar Quarter during a Fiscal Year, the variable charge calculated in accordance with the Water Supply Contracts for the Calendar Quarter ending on the last day of the Calendar Quarter most recently concluded.

Establishment and Collection of Rates and Charges. Each Participating Agency pledges gross water sale revenues of its Water Enterprise to its obligations under its Water Sales Contract and covenants and agrees to establish, fix and collect Rates and Charges from the customers of its Water Enterprise at levels sufficient to produce revenues from the Water Enterprise at least equal to: (i) the costs of operating and maintaining the Water Enterprise, plus (ii) the Participating Agency's Contract Payments, including (iii) the Agency's Proportionate Share of Debt Service, plus (iv) the Coverage Factor for the Debt Service portion of the Agency's Contract Payments. The Participating Agency acknowledges and agrees that its obligations under its Water Supply Contract will comprise, for accounting purposes, an operation and maintenance expense of its Water Enterprise. The Water Sales Contracts define "Coverage Factor" to mean 25% of Agency Debt Service, calculated for each Fiscal Year.

Take-or-Pay Obligation of Participating Agencies. Pursuant to each Participating Agency's Water Supply Contract, such Participating Agency is required to pay all amounts due under the Water Supply Contract, without reduction or offset of any kind, whether or not the Project or any part thereof is then operating or operable or its service is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Participating Agency payments shall not be conditional upon the performance or nonperformance by any party for any cause whatsoever, including the Other Agencies. The Participating Agency's failure or refusal to accept delivery of Project water to which it is entitled under the Water Supply Contract shall in no way relieve the Participating Agency of its obligation to make payments to the Flood Control District as provided for therein.

Since the Water Supply Contracts were executed, no Participating Agency has failed to make its Contract Payments.

Obligations of Participating Agencies Several and Not Joint; Limited Step-up Provisions. Except as described in the next paragraph, each Participating Agency shall be solely responsible and liable for performance under its Water Supply Contract. Participating Agencies' obligations to the Flood Control District to make payments under their respective Water Supply Contracts are expressly recognized by the Flood Control District as several, not joint, and no default on the part of one of the Participating Agencies shall, in and of itself, create an event of default under the Water Supply Contracts of the Other Agencies.

In the event that a Participating Agency (a “Delinquent Agency”) fails to pay its Contract Payments under such Participating Agency’s Water Supply Contract for any reason, then the Contract Payments for each non-delinquent agency (each, a “Non-Delinquent Agency”) then participating in the Project shall be increased for the particular Water Year by an amount equal to the sum of Contract Payments not paid in full by Delinquent Agencies (collectively, the “Shortfall”); *provided, however*, that Non-Delinquent Agencies shall contribute to the Shortfall in proportion determined by dividing the Debt Service portion of the Contract Payments attributable to each particular Non-Delinquent Agency by the aggregate Debt Service portions of the Contract Payments attributable to all Non-Delinquent Agencies; and *provided further*, that any Participating Agency in no event will be required to contribute to the Shortfall by an amount in any Water Year exceeding the amount which is 20% of the portion of such Participating Agency’s Contract Payments representing Debt Service for that Water Year.

2011 Reserve Account

The Second Supplement provides for the funding of the 2011 Reserve Account within the Reserve Fund in an amount equal to the Reserve Requirement. The initial Reserve Requirement is to \$934,700, which is equal to the maximum annual debt service of the Installment Agreement. Money in the 2011 Reserve Account may be used and withdrawn solely to make up deficiencies in the Interest Account or the Principal Account, in such order of priority, or for the retirement of all 2011 Bonds then Outstanding attributable to the Installment Purchase Agreement, provided that earnings and other amounts in the 2011 Reserve Account in excess of the Reserve Requirement will be credited to the obligations of the Flood Control District under the Installment Purchase Agreement.

“*Reserve Requirement*” is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (i) 125% of the average annual debt service on the Installment Purchase Agreement for that and any subsequent Bond Year, (ii) 100% of the maximum annual debt service on the Installment Agreement for that or any subsequent Bond Year, or (c) 10% of the issue price of the 2011 Bonds (within the meaning of Section 148 of the Code) attributable to the Installment Purchase Agreement.

On the date of delivery of the 2011 Bonds, the Reserve Policy in the amount of the Reserve Requirement will be issued by the Bond Insurer for deposit in the 2011 Reserve Account.

Notwithstanding any provision of the Indenture to the contrary all or any portion of the Reserve Requirement may be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, that, together with moneys on deposit in the 2011 Reserve Account, provides an aggregate amount equal to the Reserve Requirement; provided, that the inclusion of such policy of insurance, surety bond, letter of credit or other comparable credit facility will only be permitted so long as its inclusion does not cause the then-prevailing rating on the 2011 Bonds to be lowered or given a negative qualifier.

No Reserve Requirement is established for the General Obligation Bonds.

Additional Bonds

In addition to the 2011 Bonds, the Trustee is required, upon written Request of the Authority, by a supplement to the Indenture, establish one or more other series of bonds secured by the pledge made under the Indenture equally and ratably with any 2011 Bonds previously issued and delivered, in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions hereof and any additional requirements set forth in the applicable Supplemental Indenture, which are hereby made conditions precedent to the execution and delivery of Additional Bonds:

(a) No Event of Default shall have occurred and be then continuing;

(b) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (i) to provide moneys needed to acquire Local Obligations by depositing into the Proceeds Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds theretofore outstanding hereunder, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the Authority with respect to the purchase of Local Obligations. Such supplement to the Indenture may, but shall not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing 2011 Bonds, or other obligations of the Authority, expenses incident to calling, redeeming, paying or otherwise discharging the amounts to be paid off with the proceeds of the Additional Bonds;

(c) The Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all 2011 Bonds and Additional Bonds to be then Outstanding;

(d) The Additional Bonds shall be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than 12 months;

(e) Fixed serial maturities or mandatory sinking account payments, or any combination thereof shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such series on or before their respective maturity dates.

(f) The aggregate principal amount of Bonds and Additional Bonds executed and delivered hereunder shall not exceed any limitation imposed by law or by any Supplemental Indenture; and

(g) The Trustee shall be the Trustee for the Additional Bonds.

Nothing in the Indenture limits in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

Additional Contracts and Obligations

The Flood Control District may at any time execute any Contract or issue any Obligations, as the case may be, payable from Net Revenues on a parity with the Installment Payment, *provided*:

(i) The estimated Rates and Charges of each 2011 Bonds Participating Agency for the then-current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed with the proceeds of such Contracts or Obligations, as evidenced by a certificate and a report of an Independent Financial Consultant on file with the Flood Control District, plus (after giving effect to the completion of all such uncompleted projects) an allowance for estimated Rates and Charges for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed and received through operation of such 2011 Bonds Participating Agency's Water Enterprise, shall produce a

sum at least equal to (A) the costs of operating and maintaining such 2011 Bonds Participating Agency's Water Enterprise, plus (B) such 2011 Bonds Participating Agency's Total Contract Payments, including (C) such 2011 Bonds Participating Agency's Proportionate Share of Debt Service, plus (D) the Coverage Factor for the Debt Service portion of such 2011 Bonds Participating Agency's Contract Payments; and

(ii) The estimated Net Revenues for the then-current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project to be financed from proceeds of such Contracts or Obligations, as evidenced by a certificate and a report of an Independent Financial Consultant on file with the Flood Control District, plus (after giving effect to the completion of all such uncompleted projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed and received through operation of the Enterprise and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the Flood Control District and a report of an Independent Financial Consultant on file with the Flood Control District, shall produce a sum equal to at least 100% of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Obligations estimated to be required to be executed or issued to pay the costs of completing any uncompleted Project within such Fiscal Years, assuming that all such Contracts and Obligations have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Obligations last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Project; and

(iii) No Event of Default under the Installment Purchase Agreement shall have occurred and be continuing.

For purposes of the foregoing, "Net Revenues" shall include investment earnings on the Reserve Fund maintained by the Trustee.

Limited Obligations

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY AND ARE NOT A CHARGE UPON THE FUNDS OR PROPERTY OF THE AUTHORITY, EXCEPT THE REVENUES. THE BONDS ARE NOT A DEBT OF THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, AND THE STATE OF CALIFORNIA IS NOT LIABLE FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The obligation of the Flood Control District to make the Installment Payments is a special obligation of the Flood Control District payable solely from Net Revenues and the funds described in the Installment Purchase Agreement and does not constitute a debt of the Flood Control District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Bond Insurance

The Authority has received a commitment from the Bond Insurer to guaranty the scheduled payment of principal of and interest on the 2011 Bonds when due. Depending on the market conditions on the day the 2011 Bonds are priced, some or all of the 2011 Bonds may be guaranteed under a municipal bond insurance policy to be issued by the Bond Insurer concurrently with the delivery of the Series of 2011 Bonds. The Authority also received a commitment from the Bond Insurer to issue a municipal bond debt service reserve policy as security for the 2011 Bonds. See also "–2011 Reserve Account."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the 2011 Bonds, Assured Guaranty Municipal Corp. (the “Bond Insurer” or “AGM”) will issue its Municipal Bond Insurance Policy for the 2011 Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the 2011 Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Assured Guaranty Municipal Holdings Inc. (“Holdings”). Holdings is an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. No shareholder of AGL, Holdings or AGM is liable for the obligations of AGM.

AGM’s financial strength is rated “AA+” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) and “Aa3” (negative outlook) by Moody’s Investors Service, Inc. (“Moody’s”). An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by AGM. AGM does not guarantee the market price of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings. On January 24, 2011, S&P published a Request for Comment: Bond Insurance Criteria (the “Bond Insurance RFC”) in which it requested comments on its proposed changes to its bond insurance ratings criteria. In the Bond Insurance RFC, S&P notes that it could lower its financial strength ratings on existing investment-grade bond insurers (including AGM) by one or more rating categories if the proposed bond insurance ratings criteria are adopted, unless those bond insurers (including AGM) raise additional capital or reduce risk. Reference is made to the Bond Insurance RFC, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

On October 25, 2010, S&P published a Research Update in which it downgraded AGM’s counterparty credit and financial strength rating from “AAA” (negative outlook) to “AA+” (stable outlook). Reference is made to the Research Update, a copy of which is available at www.standardandpoors.com, for the complete text of S&P’s comments.

On December 18, 2009, Moody’s issued a press release stating that it had affirmed the “Aa3” insurance financial strength rating of AGM, with a negative outlook. Reference is made to the press release, a copy of which is available at www.moodys.com, for the complete text of Moody’s comments.

There can be no assurance as to any further ratings action that Moody's or S&P may take with respect to AGM.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which was filed by AGL with the Securities and Exchange Commission (the "SEC") on March 1, 2011, and AGL's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, which was filed by AGL with the SEC on May 10, 2011.

Capitalization of AGM. At March 31, 2011, AGM's consolidated policyholders' surplus and contingency reserves were approximately \$3,058,791,206 and its total net unearned premium reserve was approximately \$2,285,987,748, in each case, in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference. Portions of the following document filed by AGL with the SEC that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (which was filed by AGL with the SEC on March 1, 2011); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (which was filed by AGL with the SEC on May 10, 2011).

All information relating to AGM included in, or as exhibits to, documents filed by AGL pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, after the filing of the last document referred to above and before the termination of the offering of the 2011 Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

Any information regarding AGM included herein under the caption "BOND INSURANCE—Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

AGM makes no representation regarding the 2011 Bonds or the advisability of investing in the 2011 Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

DEBT SERVICE SCHEDULE

The following table sets forth the semiannual and fiscal year debt service with respect to the Revenues and with respect to the 2011 Bonds. The sum of the debt service on the General Obligation Bonds and the Installment Payments comprise the Revenues available to pay debt service on the 2011 Bonds. See "SECURITY AND SOURCES OF PAYMENT OF THE 2011 BONDS" for a description of the General Obligation Bonds and the Installment Payments.

DEBT SERVICE SCHEDULE

| Date | General Obligation Bonds | | | Installment Payments | | Total Revenues | Fiscal Year Total | 2011 Bonds Debt Service | | | Fiscal Year Total |
|------------|--------------------------|--------------|--|----------------------|--------------|----------------|-------------------|-------------------------|--------------|----------------|-------------------|
| | Principal | Interest | | Principal | Interest | | | Principal | Interest | Debt Service | |
| 02/01/2012 | \$515,000 | \$321,297.29 | | \$570,000 | \$358,108.06 | \$1,764,405.35 | | \$1,085,000 | \$679,405.35 | \$1,764,405.35 | |
| 06/30/2012 | - | - | | - | - | \$1,764,405.35 | \$1,764,405.35 | - | - | - | \$1,764,405.35 |
| 08/01/2012 | 355,000 | 243,062.50 | | 395,000 | 270,950.00 | 1,264,012.50 | | 750,000 | 514,012.50 | 1,264,012.50 | |
| 02/01/2013 | - | 239,512.50 | | - | 267,000.00 | 506,512.50 | | - | 506,512.50 | 506,512.50 | |
| 06/30/2013 | - | - | | - | - | 1,770,525.00 | 1,770,525.00 | - | - | - | 1,770,525.00 |
| 08/01/2013 | 360,000 | 239,512.50 | | 405,000 | 267,000.00 | 1,271,512.50 | | 765,000 | 506,512.50 | 1,271,512.50 | |
| 02/01/2014 | - | 234,112.50 | | - | 260,925.00 | 495,037.50 | | - | 495,037.50 | 495,037.50 | |
| 06/30/2014 | - | - | | - | - | 1,766,550.00 | 1,766,550.00 | - | - | - | 1,766,550.00 |
| 08/01/2014 | 375,000 | 234,112.50 | | 420,000 | 260,925.00 | 1,290,037.50 | | 795,000 | 495,037.50 | 1,290,037.50 | |
| 02/01/2015 | - | 226,612.50 | | - | 252,525.00 | 479,137.50 | | - | 479,137.50 | 479,137.50 | |
| 06/30/2015 | - | - | | - | - | 1,769,175.00 | 1,769,175.00 | - | - | - | 1,769,175.00 |
| 08/01/2015 | 395,000 | 226,612.50 | | 435,000 | 252,525.00 | 1,309,137.50 | | 830,000 | 479,137.50 | 1,309,137.50 | |
| 02/01/2016 | - | 218,712.50 | | - | 243,825.00 | 462,537.50 | | - | 462,537.50 | 462,537.50 | |
| 06/30/2016 | - | - | | - | - | 1,771,675.00 | 1,771,675.00 | - | - | - | 1,771,675.00 |
| 08/01/2016 | 410,000 | 218,712.50 | | 455,000 | 243,825.00 | 1,327,537.50 | | 865,000 | 462,537.50 | 1,327,537.50 | |
| 02/01/2017 | - | 210,512.50 | | - | 234,725.00 | 445,237.50 | | - | 445,237.50 | 445,237.50 | |
| 06/30/2017 | - | - | | - | - | 1,772,775.00 | 1,772,775.00 | - | - | - | 1,772,775.00 |
| 08/01/2017 | 425,000 | 210,512.50 | | 470,000 | 234,725.00 | 1,340,237.50 | | 895,000 | 445,237.50 | 1,340,237.50 | |
| 02/01/2018 | - | 202,012.50 | | - | 225,325.00 | 427,337.50 | | - | 427,337.50 | 427,337.50 | |
| 06/30/2018 | - | - | | - | - | 1,767,575.00 | 1,767,575.00 | - | - | - | 1,767,575.00 |
| 08/01/2018 | 440,000 | 202,012.50 | | 495,000 | 225,325.00 | 1,362,337.50 | | 935,000 | 427,337.50 | 1,362,337.50 | |
| 02/01/2019 | - | 192,112.50 | | - | 214,187.50 | 406,300.00 | | - | 406,300.00 | 406,300.00 | |
| 06/30/2019 | - | - | | - | - | 1,768,637.50 | 1,768,637.50 | - | - | - | 1,768,637.50 |
| 08/01/2019 | 460,000 | 192,112.50 | | 515,000 | 214,187.50 | 1,381,300.00 | | 975,000 | 406,300.00 | 1,381,300.00 | |
| 02/01/2020 | - | 181,762.50 | | - | 202,600.00 | 384,362.50 | | - | 384,362.50 | 384,362.50 | |
| 06/30/2020 | - | - | | - | - | 1,765,662.50 | 1,765,662.50 | - | - | - | 1,765,662.50 |

(Table continued on next page)

**DEBT SERVICE SCHEDULE
(Continued)**

| Date | Revenues | | | | | 2011 Bonds Debt Service | | | | |
|--------------|--------------------------|-----------------------|----------------------|-----------------------|------------------------|-------------------------|------------------------|------------------------|------------------------|------------------------|
| | General Obligation Bonds | | Installment Payments | | Total | Fiscal Year | | 2011 Bonds | | Fiscal Year |
| | Principal | Interest | Principal | Interest | Revenues | Principal | Interest | Debt Service | Total | Total |
| 08/01/2020 | \$485,000 | \$181,762.50 | \$540,000 | \$202,600.00 | \$1,409,362.50 | \$1,025,000 | \$384,362.50 | \$1,409,362.50 | — | — |
| 02/01/2021 | — | 169,637.50 | — | 189,100.00 | 358,737.50 | — | 358,737.50 | 358,737.50 | — | — |
| 06/30/2021 | — | — | — | — | \$1,768,100.00 | — | — | — | — | \$1,768,100.00 |
| 08/01/2021 | 510,000 | 169,637.50 | 570,000 | 189,100.00 | 1,438,737.50 | 1,080,000 | 358,737.50 | 1,438,737.50 | — | — |
| 02/01/2022 | — | 156,887.50 | — | 174,850.00 | 331,737.50 | — | 331,737.50 | 331,737.50 | — | — |
| 06/30/2022 | — | — | — | — | 1,770,475.00 | — | — | — | — | 1,770,475.00 |
| 08/01/2022 | 540,000 | 156,887.50 | 600,000 | 174,850.00 | 1,471,737.50 | 1,140,000 | 331,737.50 | 1,471,737.50 | — | — |
| 02/01/2023 | — | 143,387.50 | — | 159,850.00 | 303,237.50 | — | 303,237.50 | 303,237.50 | — | — |
| 06/30/2023 | — | — | — | — | 1,774,975.00 | — | — | — | — | 1,774,975.00 |
| 08/01/2023 | 565,000 | 143,387.50 | 630,000 | 159,850.00 | 1,498,237.50 | 1,195,000 | 303,237.50 | 1,498,237.50 | — | — |
| 02/01/2024 | — | 127,850.00 | — | 142,525.00 | 270,375.00 | — | 270,375.00 | 270,375.00 | — | — |
| 06/30/2024 | — | — | — | — | 1,768,612.50 | — | — | — | — | 1,768,612.50 |
| 08/01/2024 | 595,000 | 127,850.00 | 665,000 | 142,525.00 | 1,530,375.00 | 1,260,000 | 270,375.00 | 1,530,375.00 | — | — |
| 02/01/2025 | — | 111,487.50 | — | 124,237.50 | 235,725.00 | — | 235,725.00 | 235,725.00 | — | — |
| 06/30/2025 | — | — | — | — | 1,766,100.00 | — | — | — | — | 1,766,100.00 |
| 08/01/2025 | 630,000 | 111,487.50 | 700,000 | 124,237.50 | 1,565,725.00 | 1,330,000 | 199,150.00 | 1,565,725.00 | — | — |
| 02/01/2026 | — | 94,162.50 | — | 104,987.50 | 199,150.00 | — | 199,150.00 | 199,150.00 | — | — |
| 06/30/2026 | — | — | — | — | 1,764,875.00 | — | — | — | — | 1,764,875.00 |
| 08/01/2026 | 665,000 | 94,162.50 | 745,000 | 104,987.50 | 1,609,150.00 | 1,410,000 | 199,150.00 | 1,609,150.00 | — | — |
| 02/01/2027 | — | 75,875.00 | — | 84,500.00 | 160,375.00 | — | 160,375.00 | 160,375.00 | — | — |
| 06/30/2027 | — | — | — | — | 1,769,525.00 | — | — | — | — | 1,769,525.00 |
| 08/01/2027 | 700,000 | 75,875.00 | 785,000 | 84,500.00 | 1,645,375.00 | 1,485,000 | 160,375.00 | 1,645,375.00 | — | — |
| 02/01/2028 | — | 58,375.00 | — | 64,875.00 | 123,250.00 | — | 123,250.00 | 123,250.00 | — | — |
| 06/30/2028 | — | — | — | — | 1,768,625.00 | — | — | — | — | 1,768,625.00 |
| 08/01/2028 | 735,000 | 58,375.00 | 825,000 | 64,875.00 | 1,683,250.00 | 1,560,000 | 123,250.00 | 1,683,250.00 | — | — |
| 02/01/2029 | — | 40,000.00 | — | 44,250.00 | 84,250.00 | — | 84,250.00 | 84,250.00 | — | — |
| 06/30/2029 | — | — | — | — | 1,767,500.00 | — | — | — | — | 1,767,500.00 |
| 08/01/2029 | 780,000 | 40,000.00 | 865,000 | 44,250.00 | 1,729,250.00 | 1,645,000 | 84,250.00 | 1,729,250.00 | — | — |
| 02/01/2030 | — | 20,500.00 | — | 22,625.00 | 43,125.00 | — | 43,125.00 | 43,125.00 | — | — |
| 06/30/2030 | — | — | — | — | 1,772,375.00 | — | — | — | — | 1,772,375.00 |
| 08/01/2030 | 820,000 | 20,500.00 | 905,000 | 22,625.00 | 1,768,125.00 | 1,725,000 | 43,125.00 | 1,768,125.00 | — | — |
| 06/30/2031 | — | — | — | — | 1,768,125.00 | — | — | — | — | 1,768,125.00 |
| TOTAL | \$10,760,000 | \$5,971,384.79 | \$11,990,000 | \$6,654,883.06 | \$35,376,267.85 | \$22,750,000 | \$12,626,267.85 | \$35,376,267.85 | \$35,376,267.85 | \$35,376,267.85 |

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when 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 a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, on bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, and on bonded indebtedness for school facilities approved by 55% of the votes cast.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the \$1 per \$100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of “sites” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of “base” revenue from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources which may be provided by the State to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

The effect of Article XIII A on the finances of the Flood Control District and each Participating Agency has been to restrict *ad valorem* tax revenues for general purposes to the statutory allocation of the 1% levy while leaving intact the power to levy *ad valorem* taxes in whatever rate or amount may be required to pay debt service on its general obligation bonds. The Authority and the Flood Control District cannot predict whether any further challenges to the State’s present system of property tax assessment will be made, or what the outcome of impact on the Flood Control District or any of the Participating Agencies of any such challenge might be.

Article XIII B of the California Constitution

An initiative amendment to the California Constitution (Article XIII B) was approved by the California electorate on November 6, 1979. This amendment establishes limits on certain annual appropriations of state and local government entities. Initially, the limits are based generally on appropriations for the Fiscal Year 1978-79 with future adjustments permitted for changes in the cost of living, population and certain other factors. The definition of appropriations subject to limitation is stated so as to exclude, among other things, (1) appropriations of proceeds received by a government entity from

user fees to the extent such proceeds do not exceed the costs reasonably borne by such entity in providing the product or service, (2) the appropriations of any special district “which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12 1/2 cents per \$100 of assessed value”, and (3) “appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or a bonded indebtedness thereafter approved by vote of the electors of the issuing entity. In addition, the amendment provides that nothing in it “will be construed to impair the ability of the State or any local government to meet its obligations with respect to existing or future bonded indebtedness.”

The Flood Control District is of the opinion that its water fees and charges do not exceed the costs they reasonably bear in providing such services and therefore are not subject to the limits of Article XIII B.

Article XIII C and Article XIII D of the California Constitution

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C applied to rates and fees charged for domestic water use. In that decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the Flood Control District and the Participating Agencies do not believe that Article XIII C grants to the voters within the Flood Control District or the Participating Agencies the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the Flood Control District or the Participating Agencies, respectively. No assurance can be given that the voters of the Flood Control District or the Participating Agencies will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the fees and charges.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Article XIII D. Article XIII D established procedural requirements for the imposition of assessments, defined to mean any levy or charge upon real property for a special benefit conferred upon real property, including standby charges. The procedural requirements include the conducting of a public hearing and an election, by mailed ballot, with notice to the record owner of each parcel subject to the assessment. If a majority of the ballots returned oppose the assessment, it may not be imposed.

Article XIII D conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIII D defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or

charge for a “property-related service.” One of the requirements of Article XIII D is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIII D does not apply to such fees. However, in a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409, upheld a Court of Appeals decision that water connection fees were not property related fees or charges subject to Article XIII D, while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court’s dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal.App.4th 914 (5th Dist. 2005), holding that an “in lieu” fee which is payable to the general fund of the City of Fresno from its water utility and which is included in the water rate structure of the city was invalid. In reaching its decision, the court concluded that the city’s water rates were “property related” fees, governed by the limitations of Article XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006, the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. In dicta, the Supreme Court repeated its previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIII D.

In addition to the procedural requirements of Article XIII D, under Article XIII D all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards: (i) the revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service; (ii) the revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel; (iv) no fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question, fees or charges based on potential or future use of a service are not permitted, and standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments); and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

Article XIII D provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the

fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition, Proposition 218 added several requirements making it generally more difficult for counties and other local agencies to levy and maintain assessments for municipal services and programs.

Finally, Proposition 218 requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general government purposes of the County require a majority vote and taxes for specific purposes only require a two-thirds vote. The voter approval requirements reduce the flexibility of the Board of Supervisors to deal with fiscal problems by raising revenue and no assurance can be given that the County will be able to raise taxes in the future to meet increased expenditure requirements.

No assurance may be given that Article XIII C and Article XIII D would not have a material adverse impact on the Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS.”

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiatives could be proposed and adopted affecting the Participants’ revenues or ability to increase revenues.

CERTAIN RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the 2011 Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2011 Bonds and the order presented herein does not necessarily reflect the relative importance of the various issues. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating the 2011 Bonds. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the 2011 Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. The realization of the Net Revenues sufficient to enable the Flood Control District to make the Installment Payments is subject to, among other things, the capabilities of management of the Flood Control District and the 2011 Bonds Participating Agencies, the ability of the 2011 Bonds Participating Agencies to provide water services to their users, and the ability of the 2011 Bonds Participating Agencies to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of revenues realized by the 2011 Bonds Participating Agencies and ultimately the ability of the 2011 Bonds Participating Agencies to pay their Proportionate Share of Debt Service to the Flood Control District.

Initiatives; Changes in Law

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the 2011 Bonds Participating Agencies or local districts to increase revenues or to increase appropriations which may affect the revenues of the 2011 Bonds Participating Agencies or their ability to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the 2011 Bonds Participating Agencies to implement rate increases which could reduce their ability to make payments under the Installment Purchase Agreement and adversely affect the security for the 2011 Bonds.

Statutory and Regulatory Impact

Laws and regulations governing conservation, transmission, treatment and delivery of water are enacted and promulgated by government agencies on the federal, State and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed, these costs will likely increase. In addition, claims against any 2011 Bonds Participating Agency for violations of regulations with respect to its facilities and services could be significant. Such claims would be payable from the water revenues of such 2011 Bonds Participating Agency or from other legally available sources.

Earthquakes, Floods and Other Natural Disasters

Earthquakes, floods or other natural disasters could interrupt operation of the Water Enterprise and the 2011 Bonds Participating Agencies' water systems and cause increased costs and thereby interrupt the ability of the 2011 Bonds Participating Agencies to realize revenues sufficient to pay their Proportionate Share of Total Project Costs to the Flood Control District. Neither the Flood Control District nor the 2011 Bonds Participating Agencies is obligated under the Water Supply Contracts to procure or maintain earthquake or flood insurance.

Earthquakes, floods or other natural disasters could also adversely affect property values in Zone 3.

Earthquake. There are several active geological faults in the State that have potential to cause serious earthquakes that could result in damage within the Flood Control District, the water systems of the 2011 Bonds Participating Agencies, buildings, roads, bridges, and other property. The Flood Control District is located in a zone 4 seismic area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location, and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems). The Lopez Dam Seismic Remediation Project was designed to withstand the "maximum credible earthquake" which is now assumed to be a Richter Scale 7.0 event on the Huasna Fault, located approximately two miles from the Lopez Dam site.

In the event of a severe seismic event in or around the Flood Control District, there could be substantial damage to the water system facilities of the 2011 Bonds Participating Agencies resulting in a reduction of revenues sufficient to pay their Proportionate Share (as defined in the Water Supply Contracts). Such a reduction of available revenues could have a material adverse effect on the ability of the Authority to make timely payments of 2011 Installment Payments with respect to the 2011 Bonds.

Tsunamis. A tsunami, a series of ocean waves generated by vertical movement of the sea floor are typically caused by earthquake related faulting, but can also result from submarine landslides or volcanic eruptions. The County and the Flood Control District could be affected by a tsunami caused by fault related ground displacement on a local, near or offshore fault, or on a more distant fault. Common sources of tsunamis affecting the State in the past have been earthquakes on faults off the coast of Chile and the North American coast (up to Alaska).

Tsunamis are a unique hazard because the arrival time of a wave generated far out to sea can be predicted fairly accurately. Unfortunately, the intensity of the wave when it reaches shore cannot be accurately predicted. Tsunamis are sometimes preceded by a trough or recession of ocean water that can attract people to the shore to examine what appears to be a very low tide. These recessions can also cause problems, when the water returns, for moored boats that are grounded.

The potential tsunami hazard for the County coastal areas is greatest for those communities or portions of communities located below the estimated elevations for the 100-to 500-year events, that is, below elevation 50 feet above mean sea level. In general, much of the coast of the County is protected from tsunami hazards by wide beaches, coastal dunes, or sea cliffs that provide protection for coastal developments. Coastal developments most vulnerable to the tsunami hazards are those located near mouths of streams that drain into the Pacific Ocean, such as: San Simeon Creek in San Simeon; Santa Rosa Creek in Cambria; Cayucos Creek, Little Cayucos Creek, Old Creek and Willow Creek in Cayucos; Morro Creek and Alva Paul Creek in Morro Bay; Chorro Creek in Morro Bay and the South Bay area; San Luis Obispo Creek in Avila; Pismo Creek in Pismo Beach; and Meadow Creek and Arroyo Grande Creek in Oceano. Each of San Luis Obispo Creek in Avila; Pismo Creek in Pismo Beach; and Meadow Creek and Arroyo Grande Creek in Oceano is located within the Flood Control District.

Also at risk are those low lying developed and unprotected coastal areas and those adjacent creeks influenced by tidal fluctuation. The severity of the exposure to the tsunami hazard will vary locally depending on specific natural and artificial coastal conditions. The potential for damage to coastal structures could be increased if the tsunami event were to coincide with a high tide, storm related waves, or large winter storm runoff.

The Diablo Canyon Power Plant (the "DCPP"), a nuclear power plant, was constructed in 1975. The DCPP is operated by Pacific Gas & Electric. The DCPP is located in Zone 3 at an elevation of 85 feet above mean sea level, atop a high coastal bluff. The DCPP is effectively above the range of any conceivable earthquake-induced tsunami, and is mapped as lying outside of the tsunami inundation zone on the Tsunami Inundation Maps recently released by the California Emergency Management Agency, California Geological Survey, and the University of Southern California.

Risk of Flooding. In accordance with the National Flood Insurance Reform Act requiring, among other things, that the Federal Emergency Management Agency ("FEMA") assess its flood hazard map inventory at least once every five years. The Flood Control District is located within zones that correspond to the boundaries of a 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1% (or 1-in-100) probability of occurrence in any year.

A Flood Insurance Study conducted by FEMA for the County noted that runoff in the streams is small, with appreciable flows occurring only during and immediately after precipitation. However, during large storms, streamflow increases rapidly, and flood waters can contain high amounts of debris, causing major flood damage. For many of the water courses that are located in the County, areas that may be inundated in response to 100-year storm events are located adjacent to or near the stream or river channel. Since many of the County's watercourses are located in mountainous or remote areas with little or no

development, flooding events along these rivers and streams generally result in minimal impacts. Other watercourses that are located in the County, however, have floodplains that extend well beyond the defined stream or river channel. When a flood occurs along one of these watercourses, and it is located in or near an area that is urbanized, damage to property and infrastructure can be widespread.

In the southern portion of the County, Arroyo Grande Creek, San Luis Obispo Creek, and their respective tributaries, are watercourses that pass through urbanized areas and that have caused major floods. The north coast area of the County also contains a number of short, steep-gradient creeks that can experience rapid increases in water flows in response to storm events in Cambria. Santa Rosa Creek is such a watercourse that has caused significant flooding events. The largest water course in the inland portion of the County is the Salinas River, which is located adjacent to numerous incorporated and unincorporated communities. Although the floodplain of Salinas River can be extensive, it is generally contained within the river channel. Other major inland water courses include the Estrella River and San Juan Creek. Due to the generally remote locates of these watercourses, flooding impacts are generally not significant.

Climate Change

The adoption by the State of the California Global Warming Solutions Act of 2006 (AB 32) and subsequent companion bills demonstrate the commitment by the State to take action and reduce greenhouse gases (“GHG”) to 1990 levels by 2020. The State Attorney General’s Office, in accordance with SB 375, now requires that local governments examine local policies and large-scale planning efforts to determine how to reduce greenhouse gas emissions.

In July 2008, the County prepared a study that established GHG emissions baselines for both the community-wide and County operations sectors. In 2009, the County received grant funding of more than \$1,000,000 to retrofit old, inefficient heating, ventilation and air conditioning equipment in County buildings with high efficiency equipment.

The County General Plan was amended in May 2010 to add GHG emissions and climate change policies to the Conservation and Open Space Element (the “COSE”) of the General Plan. The COSE also established a GHG reduction goal of 15% below baseline by the year 2020.

During 2010, the County took the following actions to reduce GHG emissions:

- Adoption by the Board of Supervisors of an employee commute policy and a 9/80 work schedule to reduce GHG emissions from County employee commuting, which is the largest GHG producer in the County operations sector;
- Prepared a Climate Action Plan (a “CAP”) detailing the strategies that the County will use to meet the reduction goal of 15% by 2020;
- In conjunction with the Local Government Commission, developed a climate change adaptation plan identifying the specific local effects of climate change such as changes in rainfall patterns and creation of new hazards such as coastal sea level rise effects; and
- Began developing a “green building ordinance” to reduce GHG emissions from new development and replacing streetlights with hi efficiency LED lights.

Climate change concerns are leading to new laws and regulations at the federal, State and local levels. The Authority is unable to predict the impact such laws and regulations, if adopted, will have on the revenues of the 2011 Bonds Participating Agencies. The effects, however, could be material.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX H—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the 2011 Bonds Participating Agencies could have a material adverse effect on the security of the 2011 Bonds.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture, the Resolution, the General Obligation Bonds, the Installment Purchase Agreement and the Water Supply Contracts may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as APPENDIX G), will be similarly qualified.

The enforcement of the remedies provided in the Indenture, the Resolution, the General Obligation Bonds, the Installment Purchase Agreement and the Water Supply Contracts could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture, the Resolution, the General Obligation Bonds, the Installment Purchase Agreement and the Water Supply Contracts may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the Authority, the Flood Control District or a 2011 Bonds Participating Agency were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture, the Resolution, the General Obligation Bonds, the Installment Purchase Agreement or the Water Supply Contracts.

TAX MATTERS

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 Authority 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., Bond Counsel to the Authority, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, 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 and is not included in the computation of the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). 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 *Tax Exemption Certificate*, to be delivered by the Authority upon the issuance of the Bonds (the "Tax Certificate"), and also pursuant to the Indenture, the Authority has made representations relevant to the determination of, and has made 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 above, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the Authority with such covenants. 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. No assurance can be given that pending or future legislation, or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not contain provisions that could directly or indirectly reduce the benefit 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.

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 Authority 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 Authority 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 Authority may have different or conflicting interests from the owners of the Bonds. Further, the disclosure of the initiation of an audit of the Bonds may adversely affect the market price and liquidity of the Bonds regardless of the final disposition of the audit.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

To the extent that a purchaser of a Bond acquires a Bond at a price that exceeds the aggregate amount of payments (other than payments of qualified stated interest within the meaning of section 1.1273-1 of the Treasury Regulations) to be made on the Bond (determined, in the case of a callable Bond, under the assumption described below), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized on a constant yield, economic accrual, basis; the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. In the case of a purchase of a Bond that is callable, the determination whether there is amortizable bond premium, and the computation of the accrual of that premium, must be made under the assumption that the Bond will be called on the redemption date that would minimize the purchaser’s yield on the Bond (or that the Bond will not be called prior to maturity if that would minimize the purchaser’s yield). The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when a Bond owned by such owner is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 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 set forth on the inside cover of this Official Statement is “original issue discount.” Such 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 exempt from California personal income tax to the same extent as would be the stated interest on the Bonds. 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.

Such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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 treatment of accrued 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: these provisions are not addressed herein and are not within the scope of the opinion of Bond Counsel.

Any person considering purchasing a Bond at a price that includes bond premium should consult his or her own tax advisors with respect to the amortization and treatment of such bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption or other disposition

of the Bond. Any person considering purchasing a Bond of a maturity having original issue discount should consult his or her own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

RATINGS

Standard & Poor's Ratings Services, a Division of the McGraw Hill Companies, Inc. ("S&P") and Moody's Investors Service, Inc. ("Moody's") are expected to assign ratings of "AA+" (stable outlook) and "Aa3" (negative outlook), respectively, to the 2011 Bonds, with the understanding that upon the delivery of the 2011 Bonds, the Policy will be delivered by Assured Guaranty Municipal Corp. See "BOND INSURANCE" and APPENDIX K—"SPECIMEN MUNICIPAL BOND INSURANCE POLICY." S&P has assigned an underlying rating of "A+" to the 2011 Bonds.

The rating reflects only the views of the respective rating agency and is not a recommendation to buy, sell or hold the 2011 Bonds. An explanation of the significance of the ratings may be obtained from S&P, 55 Water Street, New York, New York 10041; and Moody's 7 World Trade Center at 250 Greenwich Street, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011 Bonds.

FINANCIAL ADVISOR

Public Financial Management, Inc., San Francisco, California, serves as financial advisor with respect to the issuance of the 2011 Bonds. Public Financial Management, Inc. is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Public Financial Management, Inc. is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

UNDERWRITING

The 2011 Bonds will be purchased by Wedbush Securities Inc. (the "Underwriter") pursuant to a Contract of Purchase, under which the Underwriter agrees to purchase all of the 2011 Bonds for an aggregate purchase price of \$23,714,749.40 (which represents the principal amount of the 2011 Bonds, plus net original issue premium of \$1,127,996.65, less an Underwriter's discount of \$163,247.25).

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the 2011 Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

NO MATERIAL LITIGATION

Authority and Flood Control District

The Authority and the Flood Control District will each certify to the effect that, to the best knowledge of such public agency, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending other than as described in the Official Statement (i) in any way questioning the existence of such public agency or the titles of the officers of such public agency to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance or delivery of any of the 2011 Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the 2011 Bonds, or in any way contesting or affecting the validity of the 2011 Bonds or the related legal documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest on the 2011 Bonds from taxation; or (iii) contesting the completeness or accuracy of the Preliminary Official Statement (including all appendices) or the Official Statement (including all appendices) or any supplement or amendment thereto or asserting that the Preliminary Official Statement (including all appendices) or the Official Statement (including all appendices) contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

2011 Bonds Participating Agencies

Each 2011 Bonds Participating Agency will certify to the effect that, to the best knowledge of such 2011 Bonds Participating Agency, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending other than as described in the Official Statement (i) in any way questioning the existence of such public agency or the titles of the officers of such public agency to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the validity of the related Water Supply Contract, the payment of any amounts thereunder or the consummation of the transactions contemplated thereby; or (iii) contesting the completeness or accuracy of the information contained in the appendix relating to such 2011 Bonds Participating Agency contained in the Preliminary Official Statement, the Official Statement or any supplement or amendment thereto or asserting that such appendix contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

LEGAL MATTERS

The legality and enforceability of the 2011 Bonds are subject to the approval of Fulbright & Jaworski L.L.P., Los Angeles, California, acting as Bond Counsel. The form of such legal opinion is attached hereto as Appendix G. Certain legal matters will be passed upon for the Authority, the Flood Control District and each Participating Agency by their respective counsels and for the Underwriter by Lofton & Jennings, San Francisco, California.

CONTINUING DISCLOSURE

Flood Control District

The County, on behalf of the Flood Control District, has covenanted for the benefit of the beneficial owners of the 2011 Bonds to provide certain financial information and operating data relating to the County by no later than March 15 each year commencing with the report due on March 15, 2011 for the Fiscal Year ended June 30, 2010 (each a “County Annual Report”), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of material events will be filed through the Electronic Municipal Market Access site maintained by the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the “Rule”). The specific nature of the financial information and operating data and the notice of material events is set forth in APPENDIX I–“FORMS OF CONTINUING DISCLOSURE AGREEMENTS–SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT CONTINUING DISCLOSURE AGREEMENT.”

The County has not failed in the last five years to comply in any material respect with any prior undertaking under the Rule.

2011 Bonds Participating Agencies

Each 2011 Bonds Participating Agency has covenanted to provide certain financial and operating data relating to such 2011 Bonds Participating Agency by no later than March 15 each year commencing with the report due on March 15, 2011 for the Fiscal Year ended June 30, 2010 (each a “2011 Bonds Participating Agency Annual Report”). The specific nature of the financial and operating data to be provided is set forth in APPENDIX I–“FORMS OF CONTINUING DISCLOSURE AGREEMENTS–2011 BONDS PARTICIPATING AGENCY CONTINUING DISCLOSURE AGREEMENT.”

Neither the City of Arroyo Grande nor the County of San Luis Obispo Service Area No. 12 has failed in the last five years to comply in any material respect with any prior undertaking under the Rule.

While the City of Grover Beach and the City of Pismo Beach have each timely filed their annual reports in the last five years, some of those reports failed to contain all of the required information. As of the date hereof, the City of Grover Beach and the City of Pismo Beach have filed all such previous annual reports. As a result of the implementation of certain administrative changes and compliance processes, the City of Grover Beach and the City of Pismo Beach each believe it will be in full compliance with its continuing disclosure obligations in the future.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2011 Bonds, Causey Demgen & Moore Inc., Denver, Colorado (the “Verification Agent”), will deliver a report stating that it has reviewed and confirmed the mathematical accuracy of certain computations relating to the adequacy of the funds to be held pursuant to the Escrow Agreement and the interest thereon, if any, to pay, when due, the redemption price and interest on the 2000 Bonds on the redemption date thereof.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the 2011 Bonds.

The delivery of this Official Statement has been duly authorized by the Authority and the Flood Control District.

SLO COUNTY FINANCING AUTHORITY

By: /s/ Gere W. Sibbach
Chair of the Board of Commissioners

**SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT**

By: /s/ Adam Hill
Chair of the Governing Board

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APPENDIX A

COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION

Introduction

The County of San Luis Obispo (the “County”) was formed in 1850 as a general law county, pursuant to the established general laws of the State of California. A five-member Board of Supervisors, elected for four-year terms in district nonpartisan elections, governs the County. The seven incorporated cities in the County are Paso Robles, Atascadero, Morro Bay, San Luis Obispo, Pismo Beach, Arroyo Grande, and Grover Beach which comprise approximately 56% of the total population in the County. Zone 3 of the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”) is located in the southwestern portion of the County, and includes the cities of Arroyo Grande, Grover Beach and Pismo Beach. The total population of Zone 3 as of January 1, 2010 is estimated at approximately 39,125.

Population

According to the Department of Finance estimates, the population in the County grew by approximately 2.4% between 2006 and 2010.

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

| <u>Area</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010[†]</u> |
|------------------------|----------------|----------------|----------------|----------------|-------------------------|
| Arroyo Grande | 16,632 | 16,818 | 16,968 | 17,110 | 17,252 |
| Atascadero | 27,709 | 27,872 | 28,477 | 28,488 | 28,310 |
| El Paso de Robles | 29,027 | 29,618 | 29,813 | 30,004 | 29,793 |
| Grover Beach | 13,239 | 13,131 | 13,159 | 13,278 | 13,156 |
| Morro Bay | 10,511 | 10,474 | 10,506 | 10,576 | 10,234 |
| Pismo Beach | 8,634 | 8,573 | 8,568 | 8,677 | 7,655 |
| San Luis Obispo (city) | <u>44,522</u> | <u>44,389</u> | <u>44,521</u> | <u>44,829</u> | <u>45,119</u> |
| SUBTOTAL | 150,274 | 150,875 | 152,012 | 152,962 | 118,118 |
| Unincorporated | <u>113,453</u> | <u>114,911</u> | <u>116,278</u> | <u>117,939</u> | <u>151,519</u> |
| TOTAL | 263,727 | 265,786 | 268,290 | 270,901 | 269,637 |

[†] Preliminary.

Sources: State of California, Department of Finance; Table 2: E-4 Population Estimates for Cities, Counties and State, 2006-2009 with 2000 DRU Benchmark and Table 1 - Total Population 2000 and 2010 - Incorporated Cities by County in California.

Industry and Employment

The following Table A-2 compares estimates of the labor force, civilian employment and unemployment for County residents, State residents and United States residents between 2006 through 2010.

Table A-2
County of San Luis Obispo
Civilian Labor Force, Employment and Unemployment
Annual Average for Years 2006 Through 2010

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

[†] Preliminary. Data is not 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

| <u>Industry Employment⁽¹⁾</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009⁽²⁾</u> |
|--|-------------|-------------|-------------|-------------|---------------------------|
| Agriculture | 4,300 | 4,300 | 4,500 | 4,300 | 3,900 |
| Natural Resources, Mining and Construction | 7,800 | 8,200 | 7,600 | 6,500 | 5,300 |
| Manufacturing | 6,400 | 6,300 | 6,100 | 6,200 | 5,500 |
| Trade, Transportation, Warehousing and Utilities | 20,100 | 20,800 | 20,900 | 20,400 | 19,000 |
| Information | 1,600 | 1,500 | 1,400 | 1,400 | 1,300 |
| Finance, Insurance, and Real Estate | 4,800 | 4,900 | 4,600 | 4,200 | 4,000 |
| Professional and Business Services | 8,900 | 9,500 | 9,800 | 9,800 | 8,900 |
| Education and Health Services | 10,800 | 10,800 | 11,100 | 11,400 | 11,300 |
| Leisure and Hospitality | 14,900 | 15,000 | 15,700 | 15,500 | 14,900 |
| Other Services | 4,300 | 4,300 | 4,500 | 4,500 | 4,500 |
| Government | 21,800 | 22,200 | 22,300 | 23,200 | 23,600 |
| TOTAL ⁽³⁾ | 105,600 | 107,500 | 108,500 | 107,400 | 102,200 |

(1) Based on place of work.

(2) Most recent annual data available.

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

Source: State of California, Employment Development Department.

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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. In 2009 (the most recent annual data available), the total gross value of agricultural products and crops reached \$623.095 million, an increase of \$20.103 million compared to 2008. The approximately 3% increase in crop value compared to that for 2008 is attributed to overall good growing conditions and increased yields for many major crops. The value of agricultural production since 2005 is set forth in Table A-4 below.

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

| | <u>2005⁽²⁾</u> | <u>2006⁽²⁾</u> | <u>2007⁽²⁾</u> | <u>2008⁽²⁾</u> | <u>2009⁽¹⁾</u> |
|--------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Wine Grapes | \$194,370 | \$151,990 | \$141,674 | \$124,126 | \$166,378 |
| Strawberries | 29,372 | 40,051 | 55,493 | 65,481 | 73,198 |
| Broccoli | 50,062 | 64,044 | 77,991 | 70,404 | 60,162 |
| Cattle and Calves | 53,071 | 59,869 | 55,272 | 50,050 | 51,992 |
| Vegetable Transplants | 28,933 | 32,880 | 34,679 | 35,682 | 33,207 |
| Cut Flowers (Greenhouse) | 28,240 | 29,607 | 28,555 | 25,203 | 25,026 |
| Head Lettuce | 23,178 | 29,253 | 31,862 | 23,810 | 27,721 |
| Indoor Decoratives | 25,168 | 28,063 | 24,340 | 21,011 | 18,430 |
| Cauliflower | - | - | 17,426 | - | 13,618 |
| Leaf Lettuce | - | - | - | - | 12,313 |
| Carrots | - | - | 22,505 | 19,623 | - |
| Avocados, Hass | - | 23,445 | - | - | - |
| Bedding Plants | - | - | - | - | - |
| Oriental Vegetables | 15,741 | - | - | 13,090 | - |
| Bell Peppers | 14,755 | - | - | - | - |
| Celery | - | <u>14,802</u> | - | - | - |
| Subtotal Top Ten Crops | 438,965 | 474,004 | 489,797 | 435,399 | 482,045 |
| All Other Crops | <u>154,667</u> | <u>156,610</u> | <u>148,298</u> | <u>167,593</u> | <u>141,050</u> |
| TOTAL | \$593,632 | \$630,614 | \$638,095 | \$602,992 | 623,095 |
| Percent Change | 9.04% | 6.23% | 3.69% | (5.82%) | 3.33% |

(1) Preliminary. Most recent annual data available

(2) Revised.

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 2010)**

| <u>Firm</u> | <u>Product or Service</u> | <u>Estimated FTE Employment</u> |
|--|---------------------------|-------------------------------------|
| California Polytechnic State University, SLO | Education | 2,516 |
| County of San Luis Obispo | Government | 2,439 |
| Atascadero State Hospital | Health Services | 2,300 |
| California Men's Colony | Correction Institution | 2,000 |
| Pacific Gas and Electric Company | Utility | 1,600 |
| Tenent Healthcare | Health Services | 1,400 |
| Lucia Mar Unified School District | Education | 1,074 |
| Paseo Robles Public Schools | Education | 935 |
| Catholic Healthcare West | Health Services | 908 |
| Cuesta College | Education | 825 |
| San Luis Coastal Unified School District | Education | 825 |

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.

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Table A-6 below presents the latest available total personal income and per capita personal income for the County, the State and the nation for the calendar years 2005 through 2009.

Table A-6
County of San Luis Obispo, State of California and United States
Personal Income⁽¹⁾
Calendar Years 2005 Through 2009⁽²⁾

| <u>Year and Area</u> | <u>Personal Income</u> <u>(millions of dollars)</u> | <u>Per Capita</u> <u>Personal Income</u> <u>(dollars)</u> |
|---------------------------|--|---|
| 2009⁽²⁾ | | |
| County | \$10,706 | \$40,103 |
| State | 1,566,999 | 42,395 |
| United States | 12,168,161 | 39,635 |
| 2008⁽¹⁾ | | |
| County | 10,896 | \$41,094 |
| State | 1,604,155 | 43,853 |
| United States | 12,380,225 | 40,674 |
| 2007⁽¹⁾ | | |
| County | 10,652 | 40,704 |
| State | 1,566,400 | 43,240 |
| United States | 11,900,562 | 39,461 |
| 2006⁽¹⁾ | | |
| County | 10,000 | 38,556 |
| State | 1,495,533 | 41,567 |
| United States | 11,256,516 | 37,698 |
| 2005⁽¹⁾ | | |
| County | 9,170 | 35,601 |
| State | 1,387,661 | 38,767 |
| United States | 10,476,669 | 35,424 |

(1) Revised. Estimates incorporate the results of the comprehensive revision to the national income and product accounts released in July 2009 and of the comprehensive revision to the State income accounts released in October 2009. Additionally, population was revised back to the year 2000.

(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 2008-09 are shown in Table A-7.

Table A-7
County of San Luis Obispo
Summary of Assessed Valuations and Delinquencies
Fiscal Years 2000-01 through 2009-10

| Fiscal Year (June 30) | Gross Assessed Valuation | Secured Property Tax Levies | Current Tax Delinquencies (June 30) [†] | % Levy Delinquent (June 30) |
|--------------------------|--------------------------------|-----------------------------------|--|-----------------------------------|
| 2000-01 | \$210,048,887 | \$207,392,423 | \$2,656,464 | 1.26% |
| 2001-02 | 224,426,275 | 221,377,339 | 3,048,936 | 1.36 |
| 2002-03 | 243,985,100 | 240,501,981 | 3,483,119 | 1.43 |
| 2003-04 | 265,009,066 | 261,421,793 | 3,587,273 | 1.35 |
| 2004-05 | 290,692,797 | 286,937,155 | 3,755,642 | 1.29 |
| 2005-06 | 324,547,130 | 319,214,673 | 5,332,457 | 1.64 |
| 2006-07 | 362,429,105 | 354,117,728 | 8,311,377 | 2.29 |
| 2007-08 | 394,779,683 | 380,943,586 | 13,836,097 | 3.50 |
| 2008-09 | 416,262,450 | 400,120,501 | 16,141,949 | 3.88 |
| 2009-10 | 412,698,021 | 398,651,720 | 13,746,301 | 3.33 |

[†] Property taxes are due in two installments and become delinquent on December 10, with respect to the installment due on November 1 and on April 10, with respect to the installment due on February 1.
Source: County Auditor-Controller.

Under California law in effect at this time, these tax collections are allocated approximately 23% to the County, 7% to cities, 6% to special districts, 63% to schools and 1% to redevelopment agencies within the County.

Table A-8
County of San Luis Obispo
Assessed Valuations
Fiscal Years 2001-02 Through 2010-11
(\$ in thousands)

| Fiscal Year | Secured | Unsecured | Exemptions | Net Assessed Valuation |
|-------------|--------------|-----------|-------------|---------------------------|
| 2001-02 | \$23,038,553 | \$834,800 | (\$603,887) | \$23,269,466 |
| 2002-03 | 25,052,023 | 875,457 | (634,019) | 25,293,461 |
| 2003-04 | 27,194,503 | 859,296 | (658,326) | 27,395,473 |
| 2004-05 | 29,738,552 | 836,182 | (627,983) | 29,946,751 |
| 2005-06 | 32,984,334 | 933,186 | (701,194) | 33,216,326 |
| 2006-07 | 36,890,449 | 1,000,874 | (781,070) | 37,110,253 |
| 2007-08 | 40,252,998 | 1,035,444 | (835,357) | 40,453,075 |
| 2008-09 | 42,348,044 | 1,132,435 | (891,907) | 42,588,572 |
| 2009-10 | 42,185,285 | 1,148,662 | (914,310) | 42,419,638 |
| 2010-11 | 41,846,720 | 1,118,383 | (927,194) | 42,037,912 |

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

Assessment Appeals. Property tax values determined by the County Assessor may be subject to appeal by property owners. Assessment appeals are annually filed with the Assessment Appeals Board for a hearing and resolution. The resolution of an appeal may result in a reduction to the County Assessor's original taxable value and a tax refund to the applicant/property owner.

There are two basic types of assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year (Proposition 13) assessment appeal, involves a dispute on the valuation assigned by the County Assessor immediately subsequent to an instance of a change in ownership (including a change following a foreclosure sale) or completion of new construction. If the base year value assigned by the County Assessor is reduced, the valuation of the property cannot increase in subsequent years more than two percent annually unless and until another change in ownership and/or additional new construction activity occurs. The second type of appeal, commonly referred to as a Proposition 8 appeal, can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to California law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board.

Base Year (Proposition 13) Appeals. Each assessment appeal could result in a reduction of the taxable value of the real property, personal property or possessory interest of the property which is the subject of the appeal. Alternatively, an appeal may be withdrawn by the applicant or the Assessment Appeals Board may deny or modify the appeal at a hearing or by stipulation.

In Fiscal Year 2008-09 there were 165 assessment appeals resolved affecting the assessment roll values for Fiscal Years 2004-05 through 2008-09. These appeals affected the assessments for 173 parcels which had an aggregate original assessed value of \$212,604,962. The aggregate assessed value for these parcels was reduced by \$28,665,741. In Fiscal Year 2009-10 there were 662 assessment appeals resolved affecting the assessment roll values for Fiscal Years 2005-06 through 2009-10. These appeals affected the assessments for 636 parcels which had an aggregate original assessed value of \$537,602,661. The aggregate assessed value for these parcels was reduced by \$48,537,749.

Proposition 8 Appeals. In the County, a property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the San Luis Obispo County Assessment Appeals Board (the "Appeals Board"). Applications for any tax year must be submitted by September 15 of such tax year. Following a review of the application by the Office of the County Assessor, the County Assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the County Assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

The County Assessor reviewed approximately 44,000 properties sold since 2003 for a reduction in assessed value. The aggregate reduction is approximately \$861,675,659, or approximately 2.0% of the County's Fiscal Year 2009-10 secured roll.

Effect of Foreclosures on Property Tax Collections. As described in the body of the Official Statement under “–Teeter Plan,” once an installment of property tax becomes delinquent, penalties are assessed commencing on the applicable delinquency date until the delinquent installment(s) and all assessed penalties are paid. In the event of foreclosure and sale of property by a mortgage holder, all past due property taxes, penalties and interest is required to be paid before the property can be transferred to a new owner. The County has established a tax resources account in the amount of \$14.1 million to compensate for losses that may occur as a result of uncollected property taxes.

In addition, as required under the Teeter Plan (described above), the County maintains a tax losses reserve fund, to cover potential losses that may result if tax-defaulted property is sold by the County for less than the amount of the taxes owed.

Based on information provided by MDA DataQuick Information Systems as of calendar year 2010, mortgage holders had sent 1,673 notices of default with respect to properties located within the County compared to 2,006 for calendar year 2009, and 925 trustee deeds had been recorded in calendar year 2010 (indicating that the property has been lost to foreclosure), compared to 806 during calendar year 2009. These events are related to declines in the real estate market in general and the collapse of the subprime sector of the mortgage market that is impacting certain homeowners nationwide. In California, the greatest impacts to date are in regions of the Central Valley and the Inland Empire, although the County is being impacted as well, particularly in the northern area of the County (*i.e.* the cities of Paso Robles and Atascadero) and the unincorporated area of Nipomo where the largest number of new residential mortgages were originated as growth occurred within the County during 2005 and 2006.

A summary of the notices of default sent and trustee deeds recorded for the cities within the County during calendar years 2007 through 2010 is set forth in Table A-9A and for comparable counties (*i.e.* those that the County uses for the purpose of salary review based upon a combination of size of the budget, population and geographic location) for the calendar years 2007 through 2010 in Table A-9B.

**Table A-9A
County of San Luis Obispo
Summary of Foreclosure Activity
Calendar Years 2007 through 2010**

| | Notices of Default | | | | Trustee Deeds (Foreclosures) | | | |
|-----------------------|--------------------|-------------|-------------|-------------|------------------------------|-------------|-------------|-------------|
| | Calendar Years | | | | Calendar Years | | | |
| <u>Incorporated</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
| Arroyo Grande | 103 | 143 | 185 | 184 | 26 | 73 | 62 | 97 |
| Atascadero | 143 | 258 | 301 | 218 | 45 | 156 | 125 | 138 |
| Grover Beach | 58 | 79 | 100 | 100 | 11 | 44 | 38 | 44 |
| Morro Bay | 23 | 44 | 74 | 63 | 8 | 15 | 34 | 35 |
| Paso Robles | 339 | 527 | 543 | 403 | 72 | 231 | 233 | 250 |
| Pismo Beach | 22 | 38 | 49 | 51 | 3 | 7 | 22 | 21 |
| San Luis Obispo | <u>42</u> | <u>95</u> | <u>130</u> | <u>114</u> | <u>7</u> | <u>19</u> | <u>35</u> | <u>56</u> |
| Subtotal Incorporated | 730 | 1,184 | 1,382 | 1,133 | 172 | 545 | 549 | 641 |
| Unincorporated | <u>298</u> | <u>498</u> | <u>624</u> | <u>540</u> | <u>93</u> | <u>227</u> | <u>261</u> | <u>284</u> |
| Total County | 1,028 | 1,682 | 2,006 | 1,673 | 265 | 772 | 806 | 925 |
| Percent Change | 122.5% | 63.6% | 19.3% | (16.6%) | 531.0% | 191.3% | 4.4% | 14.8% |

Source: MDA DataQuick Information Systems.

Table A-9B
Comparable Counties
Summary of Foreclosure Activity
Calendar Years 2008 through 2010

| <u>County</u> | <u>Notices of Default</u> | | | | | <u>Trustee Deeds (Foreclosures)</u> | | | | |
|------------------------|---------------------------|---------------|-------------|---------------|---------------|-------------------------------------|---------------|------------|---------------|-------------|
| | <u>2008</u> | <u>2009</u> | | <u>2010</u> | | <u>2008</u> | <u>2009</u> | | <u>2010</u> | |
| | | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> | | <u>Number</u> | <u>%</u> | <u>Number</u> | <u>%</u> |
| Marin | 1,018 | 1,443 | 41.7% | 1,197 | (17.0%) | 439 | 447 | 1.8% | 511 | 14.3% |
| Monterey | 4,523 | 4,540 | 0.4 | 2,810 | (38.1) | 3,513 | 2,340 | (33.4) | 1,899 | (18.8) |
| Napa | 1,025 | 1,306 | 27.4 | 912 | (30.2) | 658 | 530 | (19.5) | 509 | (4.0) |
| Placer | 4,099 | 5,562 | 35.7 | 4,416 | (20.6) | 2,464 | 2,162 | (12.3) | 2,685 | 32.5 |
| San Luis Obispo | 1,682 | 2,006 | 19.3 | 1,673 | (16.6) | 772 | 806 | 4.4 | 925 | 14.8 |
| Santa Barbara | 3,086 | 3,051 | (1.1) | 2,212 | (27.5) | 1,700 | 1,236 | (27.3) | 1,118 | (9.5) |
| Santa Cruz | 1,409 | 1,623 | 15.2 | 1,250 | (23.0) | 814 | 599 | (26.6) | 608 | 1.5 |

Source: MDA DataQuick Information Systems.

The table below summarizes the assessed value in the County by method (*i.e.* whether assessed based upon a Proposition 8 temporary reduction or a Proposition 13 reduction, representing the sale of property at current market value.)

Table A-10
County of San Luis Obispo
Secured Assessed Valuation by Method
Fiscal Years 2008-09 through 2010-11
(\$ in 000's)

| <u>Fiscal Year</u> | <u>Secured Assessed Value[†]</u> | | <u>Method of Secured Assessed Valuation</u> | | | | | |
|--------------------|---|---------------|---|---------------|-------------------|-----------------------|---------------|-------------------|
| | <u>No. of Parcels</u> | <u>Amount</u> | <u>Proposition 13</u> | | | <u>Proposition 8</u> | | |
| | | | <u>No. of Parcels</u> | <u>Amount</u> | <u>% of Total</u> | <u>No. of Parcels</u> | <u>Amount</u> | <u>% of Total</u> |
| 2008-09 | 135,423 | \$38,955,711 | 117,805 | \$34,088,454 | 87.5% | 17,618 | \$4,867,256 | 12.5% |
| 2009-10 | 125,601 | 39,208,416 | 106,227 | 30,178,269 | 77.0 | 19,374 | 9,030,147 | 23.0 |
| 2010-11 | 145,162 | 38,791,851 | 116,435 | 29,235,874 | 75.4 | 28,727 | 9,555,977 | 24.6 |

[†] Data is based on July 1 Assessor's statutory roll wherein the Proposition 8 and Proposition 13 attributes reside. Any difference in the assessed value presented in this table and in the County Auditor-Controller's equalized roll represents the changes and adjustments made by the County Assessor and/or County Auditor between the July 1 statutory roll and the County Auditor-Controller's equalized roll published in early September.

Source: ParcelQuest.

Principal Taxpayers

Assessed values for the principal taxpayers totaled approximately \$3.1 billion, or 7.58% of the County's 2010-11 Net Assessed Valuations. The principal largest taxpayers in the County, as shown on the Fiscal Year 2010-11 secured tax roll, and the approximate amounts of their assessed values within the County are shown in Table A-11 below.

Table A-11
County of San Luis Obispo
Principal Taxpayers
Fiscal Year 2010-11

| <u>Company</u> | <u>Type of Business</u> | 2010-11 <u>Assessed Value</u> <u>(\$ in thousands)[†]</u> | <u>% of Total</u> |
|-------------------------------------|-------------------------|--|-------------------|
| Pacific Gas and Electric | Utility | \$2,504,614 | 5.96% |
| Tosco Corp A NV Corp | Oil and Construction | 162,407 | 0.39 |
| CSHV Mustang Village LLC | Real Estate | 74,801 | 0.18 |
| Plains Exploration & Prod Co | Petroleum & Gas | 67,993 | 0.16 |
| Pacific Bell | Utility | 67,597 | 0.16 |
| Beringer Wine Estates Co. | Agriculture | 73,502 | 0.17 |
| Southern California Gas Company | Utility | 62,345 | 0.15 |
| Martin Hotel Management Co LLC | Hotel | 60,804 | 0.14 |
| Sierra Vista Hospital | Health Care | 57,514 | 0.14 |
| Twin Cities Community Hospital, Inc | Health Care | <u>55,192</u> | <u>0.13</u> |
| Subtotal | | 3,186,767 | 7.58 |
| Remaining taxpayers | | <u>38,851,143</u> | <u>92.42</u> |
| TOTAL | | \$42,037,910 | 100.00% |

[†] Excludes exempt publicly owned property, State assessed property and property subject to special taxes.
Source: County of San Luis Obispo Auditor-Controller's Office.

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Commercial Activity

Commercial activity is an important contributor to San Luis Obispo County's economy. The following Table A-12 estimates the County's commercial activity between calendar years 2005 through 2009.

Table A-12
County of San Luis Obispo
Trade Outlets and Taxable Sales
for Calendar Years 2005-2009⁽¹⁾
(\$ in Thousands)

| <u>Taxable Retail Sales</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009⁽¹⁾</u> |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Clothing and Clothing Accessories Stores | \$127,207 | \$137,311 | \$146,917 | \$150,848 | \$178,574 |
| General Merchandise | 350,744 | 420,366 | 423,948 | 413,317 | 320,635 |
| Specialty Stores | 352,037 | 360,273 | — ⁽²⁾ | — ⁽²⁾ | — ⁽²⁾ |
| Food and Beverage Stores | 182,281 | 183,701 | 189,069 | 192,096 | 219,822 |
| Food Services and Drinking Places | 407,968 | 435,487 | 459,757 | 457,219 | 441,333 |
| Gasoline Stations | — | — | — | — | 331,194 |
| Household Group | 133,950 | 133,146 | 132,874 | 124,362 | — ⁽³⁾ |
| Health and Personal Care | — | — | — | — | 74,401 |
| Electronic and Appliances | — | — | — | — | 70,572 |
| Sporting Goods, Hobby, Books and Music | — | — | — | — | 94,647 |
| Motor Vehicles and Parts Gasoline Stations | — | — | — | — | 298,014 |
| Building Materials, Garden Equipment and Supplies | 405,098 | 409,719 | 364,601 | 280,015 | 256,282 |
| Automobile | 845,777 | 835,974 | 856,868 | 799,598 | — ⁽³⁾ |
| Other Retail | 200,591 | 212,615 | 480,825 | 430,091 | <u>209,876</u> |
| SUBTOTAL | 3,005,653 | 3,128,592 | 3,054,859 | 2,827,545 | 2,495,350 |
| Business & Personal Services | 142,882 | 147,929 | 146,840 | 133,372 | — ⁽³⁾ |
| All Other Outlets | <u>787,923</u> | <u>943,915</u> | <u>1,065,940</u> | <u>1,013,310</u> | <u>947,081</u> |
| TOTAL ALL OUTLETS | <u>\$3,936,458</u> | <u>\$4,220,436</u> | <u>\$4,267,639</u> | <u>\$3,974,226</u> | <u>\$3,442,431</u> |
| Percent Change | 7.3% | 7.2% | 1.1% | (6.9%) | (13.4%) |

(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.

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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-13 provides an estimated building permit valuation summary for calendar years 2005 through 2010.

Table A-13
County of San Luis Obispo
Building Permit Valuation
for Calendar Years 2005 - 2010
(\$ In Thousands)

| Year | Residential | | Valuation ⁽¹⁾ | Nonresidential | Total ⁽²⁾ |
|------|---------------|-------------|--------------------------|----------------|----------------------|
| | Single Family | Multifamily | | Valuation | |
| 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.

Table A-14
County of San Luis Obispo
Unincorporated Areas Growth Management Ordinance
Maximum Annual Allocation
(Fiscal Years)

| <u>Fiscal Year</u> | <u>Maximum Annual Allocation</u> |
|--------------------|--------------------------------------|
| 2006-07 | 1,288 |
| 2007-08 | 1,099 |
| 2008-09 | 1,100 |
| 2009-10 | 1,101 |
| 2010-11 | 1,102 |

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. The Ordinance has not had a material adverse impact on assessed valuation, property tax collections.

APPENDIX B

TAXATION OF REAL PROPERTY IN ZONE 3

In order to provide sufficient funds for repayment of principal and interest when due on the 2011 Bonds, the Board of Supervisors of the County of San Luis Obispo is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation in Zone 3 of the Flood Control District (“Zone 3”), without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within Zone 3.

Assessed Valuation of Property Within Zone 3

The following table summarizes the historical and current assessed valuation of Zone 3 for the last six Fiscal Years.

**Table B-1
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Assessed Value
Fiscal Years 2005-06 through 2010-11**

| <u>Fiscal Year</u> | <u>Secured Gross Assessed Value</u> | <u>Unsecured Gross Assessed Value</u> | <u>Total Gross Assessed Value</u> |
|--------------------|-------------------------------------|---------------------------------------|-----------------------------------|
| 2005-06 | \$5,265,171,426 | \$117,834,927 | \$5,383,006,353 |
| 2006-07 | 5,915,941,539 | 121,108,867 | 6,037,050,406 |
| 2007-08 | 6,436,578,797 | 128,140,200 | 6,564,718,997 |
| 2008-09 | 6,852,455,614 | 134,534,749 | 6,986,990,363 |
| 2009-10 | 6,773,246,759 | 129,771,145 | 6,903,017,904 |
| 2010-11 | 6,721,487,595 | 127,009,932 | 6,848,497,527 |

Source: County of San Luis Obispo, Office of the Auditor-Controller.

Tax Rates, Levies, Collections and Delinquencies

The following table shows real property tax collections and delinquencies in Zone 3 for the Fiscal Years 2005-06 through 2009-10.

**Table B-2
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Secured Tax Charges and Delinquencies
Fiscal Years 2004-05 through 2009-10
(\$ in thousands)**

| <u>Fiscal Year</u> | <u>Levy</u> | <u>Collections</u> | <u>Delinquent</u> | <u>Percentage Delinquent</u> |
|--------------------|-------------|--------------------|-------------------|------------------------------|
| 2005-06 | \$189,432 | \$186,156 | \$3,276 | 1.73% |
| 2006-07 | 211,687 | 206,541 | 5,146 | 2.43 |
| 2007-08 | 229,856 | 221,404 | 8,451 | 3.68 |
| 2008-09 | 245,697 | 235,663 | 10,034 | 4.08 |
| 2009-10 | 241,799 | 233,300 | 8,499 | 3.51 |

Source: County of San Luis Obispo, Office of the Auditor-Controller.

On June 22, 1993, the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (commonly known as the “Teeter Plan”), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code. Under the Teeter Plan, each participating local agency, including cities, levying property taxes in its county may receive the amount of uncollected taxes credited to its fund in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest, as collected, that would have been due to the local agency. However, although a local agency could receive the total levy for its property taxes without regard to actual collections funded from a reserve established and held by the county for this purpose, the basic legal liability for property tax deficiencies at all times remains with the local agency.

Pursuant to the Teeter Plan of the County of San Luis Obispo, the Flood Control District will receive 100% of the *ad valorem* property taxes levied in San Luis Obispo County to pay the General Obligation Bonds irrespective of actual delinquencies and collections of the tax. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2011 BONDS–Zone 3 *Ad Valorem* Proposed Rates–Teeter Plan.”

Largest Taxpayers in Zone 3

The 10 largest local taxpayers in Zone 3 for Fiscal Year 2010-11, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within Zone 3, are shown in the table below.

Table B-3
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Largest Taxpayers
Fiscal Year 2010-11

| <u>Property Owner</u> | <u>Primary Land Use</u> | <u>Fiscal Year 2010-11 Assessed Valuations</u> | <u>% of Total</u> |
|-----------------------------------|----------------------------|--|-----------------------|
| Martin Hotel Management Co. LLC | Hotel/Motel | \$50,199,461 | 0.75% |
| Pismo Beach Mobile Home Park Inc. | Mobile Home Park | 48,424,011 | 0.72 |
| ESJ Centers LLC | Shopping Center | 41,891,408 | 0.62 |
| Prime Outlets at Pismo Beach LLC | Commercial – Retail | 26,866,676 | 0.40 |
| Core Pismo LLC | Hotel/Motel | 22,574,508 | 0.34 |
| Sycamore Mineral Springs LLC | Hotel/Motel | 21,630,566 | 0.32 |
| MSB Properties Inc. | Financial Building | 21,407,353 | 0.32 |
| Heron Crest Development | Commercial and Residential | 15,582,493 | 0.23 |
| Cliffs Resort LLC | Hotel/Motel | 14,306,252 | 0.21 |
| Manfred G. Freutel Trust | Apartments | <u>13,682,924</u> | <u>0.20</u> |
| SUBTOTAL | | 276,565,652 | 4.11 |
| All Others | | <u>6,572,434,875</u> | <u>95.89</u> |
| TOTAL | | \$6,849,000,527 | 100.00% |

Source: California Municipal Statistics Inc.

Direct and Overlapping Debt Report

Direct and Overlapping Debt Report. Set forth below is a direct and overlapping debt report (the “Debt Report”) prepared by California Municipal Statistics Inc. and dated May 1, 2011. The Debt Report is included for general information purposes only. The Authority and the Flood Control District have not reviewed the Debt Report for completeness or accuracy and make no representations in connection therewith. The Debt Report generally includes long-term obligations sold in the public credit markets by

public agencies whose boundaries overlap the boundaries of Zone 3. Such long-term obligations generally are not payable from revenues of the Flood Control District (except as indicated) nor are they necessarily obligations secured by land within the Flood Control District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps Zone 3 in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of Zone 3. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in Zone 3.

Table B-4
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Direct and Overlapping Debt

2010-11 Assessed Valuation: \$6,849,000,527
 Redevelopment Incremental Valuation: 406,857,910
 Adjusted Assessed Valuation: \$6,442,142,617

| <u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> | <u>Debt 5/1/11</u> | |
|---|---------------------|---------------------|-----|
| San Luis Obispo County Flood Control and Water Conservation District, Zone No. 3 | 100. % | \$10,850,000 | (1) |
| Lucia Mar Unified School District | 53.893 | 19,993,111 | |
| City of Arroyo Grande | 98.665 | <u>1,376,377</u> | |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | \$32,219,488 | |
| <u>OVERLAPPING GENERAL FUND DEBT:</u> | | | |
| San Luis Obispo County General Fund Obligations | 16.779% | \$ 6,347,496 | |
| San Luis Obispo County Pension Obligations | 16.779 | 20,586,054 | |
| Community College District Certificates of Participation | 16.715 | 6,553,952 | |
| Lucia Mar Unified School District Certificates of Participation | 53.893 | 5,521,338 | |
| City of Pismo Beach General Fund Obligations | 90.401 | <u>4,054,485</u> | |
| TOTAL OVERLAPPING GENERAL FUND DEBT | | \$43,063,325 | |
| COMBINED TOTAL DEBT | | \$75,282,813 | (2) |

- (1) Excludes general obligation bonds to be sold.
- (2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:
Direct Debt (\$10,850,000).....**0.16%**
 Total Direct and Overlapping Tax and Assessment Debt0.47%

Ratios to Adjusted Assessed Valuation:
 Combined Total Debt.....1.17%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

Table B-5
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Statement of Net Assets
Fiscal Years 2008-09 and 2009-10
(\$ in thousands)

| | 2008-09 Lopez Flood Control | 2009-10 Lopez Flood Control |
|---|-----------------------------------|-----------------------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Cash and investments | \$ 7,842 | \$ 10,012 |
| Accounts receivable, net | 427 | - |
| Other receivables | | - |
| Due from other governments | 742 | 471 |
| Deposits with others | | - |
| Inventories | | - |
| Prepaid items | 28 | 28 |
| Loans receivable | | - |
| TOTAL CURRENT ASSETS | 9,039 | 10,511 |
| Noncurrent assets: | | |
| Advances to other funds | - | - |
| Restricted cash with fiscal agent | - | - |
| Prepaid bond issuance costs | - | - |
| Capital assets: | | |
| Nondepreciable: | | |
| Land | 2,096 | 2,096 |
| Construction in progress | 25,320 | 26,080 |
| Water rights | - | - |
| Other property | 1,968 | 1,968 |
| Depreciable: | | |
| Structures and improvements, net | 37,609 | 37,113 |
| Equipment, net | 24 | 20 |
| Other property, net | - | - |
| TOTAL NONCURRENT ASSETS | 67,017 | 67,277 |
| TOTAL ASSETS | \$ 76,056 | \$ 77,788 |
| <u>Liabilities:</u> | | |
| Current Liabilities: | | |
| Salaries and benefits payable | - | - |
| Accounts payable | 43 | 25 |
| Interest payable | 543 | 531 |
| Self insurance payable | - | - |
| Deposits from others | 11 | 13 |
| Unearned revenue | 2,138 | 2,345 |
| Accrued vacation and sick leave - current | | - |
| Notes and bond payable - current | 1,731 | 1,168 |
| Total Current Liabilities | 4,466 | 4,082 |
| Noncurrent Liabilities: | | |
| Self insurance payable | - | - |
| Advances from other funds | - | - |
| Notes and bonds payable | 48,785 | 49,213 |
| Accrued vacation and sick leave | - | - |
| TOTAL NONCURRENT LIABILITIES | 48,785 | 49,213 |
| TOTAL LIABILITIES | 53,251 | 53,295 |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 16,501 | 16,896 |
| Unrestricted | 6,304 | 7,597 |
| TOTAL FUND EQUITY | 22,805 | 24,493 |
| Total Liabilities and Fund Equity | \$ 76,056 | \$ 77,788 |

Table B-6
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Statement of Revenues, Expenses and Changes in Fund Net Assets
Fiscal Years 2008-09 and 2009-10
(\$ in thousands)

| | 2008-09 Lopez Flood Control | 2009-10 Lopez Flood Control |
|---|-----------------------------------|-----------------------------------|
| <u>Operating Revenues:</u> | | |
| Charges for current services | \$ 5,494 | \$ 6,164 |
| Total Operating Revenues | <u>5,494</u> | <u>6,164</u> |
| <u>Operating Expenses:</u> | | |
| Salaries and benefits | - | - |
| Services and supplies | 3,690 | 3,266 |
| Other charges | 11 | 4 |
| Insurance benefit payments | - | - |
| Insurance premiums | - | - |
| Depreciation | 502 | 501 |
| Countywide cost allocation | 61 | 68 |
| Total Operating Expenses | <u>4,264</u> | <u>3,839</u> |
| Operating Income (Loss) | <u>1,230</u> | <u>2,325</u> |
| <u>Nonoperating Revenues (Expenses):</u> | | |
| Property taxes | 1,191 | 1,222 |
| Interest income | 133 | 48 |
| Interest expense | (1,948) | (1,929) |
| Aid from governmental agencies | 15 | 15 |
| Other nonoperating revenue | - | - |
| (expenses) | - | 7 |
| Total Nonoperating Revenues (Expenses) | <u>(609)</u> | <u>(637)</u> |
| Income (Loss) Before | | |
| Contributions | | |
| and Transfers | 621 | 1,688 |
| Capital contributions | - | - |
| Transfers in | - | - |
| Transfers out | - | - |
| Changes in net assets before special item | <u>621</u> | <u>1,688</u> |
| Special item | - | - |
| Net Assets - Beginning | 22,184 | 22,805 |
| Prior period adjustments | - | - |
| Net Assets - Ending | <u>\$ 22,805</u> | <u>\$ 24,493</u> |

Table B-7
San Luis Obispo County Flood Control and Water Conservation District, Zone 3
Statement of Cash Flows
Fiscal Years 2008-09 and 2009-10
(\$ in thousands)

| | 2008-09 Lopez Flood Control | 2009-10 Lopez Flood Control |
|--|-----------------------------------|-----------------------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers and third parties | \$ 5,309 | \$ 7,076 |
| Receipts from interfund billings | - | - |
| Payments for goods and services | (3,755) | (3,354) |
| Payments to employees for service | - | - |
| Payments for insurance benefits | - | - |
| Payments for premiums | - | - |
| Net Cash Provided (Used) by Operating Activities | <u>1,554</u> | <u>3,722</u> |
| Cash Flows from Noncapital Financing Activities: | | |
| Property tax proceeds | 1,191 | 1,222 |
| Grants and subsidies from other gov't agencies | 15 | 15 |
| Payment to irrevocable OPEB trust | - | - |
| Advances from other funds | - | - |
| Transfers from other funds | - | - |
| Transfers to other funds | - | - |
| Net Cash Provided (Used) by Noncapital and Related Financing Activities | <u>1,206</u> | <u>1,237</u> |
| Cash Flows from Capital and Related Financing Activities: | | |
| Purchases and construction of capital assets | (992) | (761) |
| Proceeds from issuance of long-term debt | 816 | 510 |
| Proceeds from sale of capital assets | - | - |
| Proceeds from capital grants | - | - |
| Principal paid on capital debt | (615) | (645) |
| Interest paid on capital debt | (1,958) | (1,941) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(2,749)</u> | <u>(2,837)</u> |
| Cash Flows from Investing Activities: | | |
| Interest received | 133 | 48 |
| Net Cash Provided (Used) by Investing Activities | <u>133</u> | <u>48</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 144 | 2,170 |
| Cash and Cash Equivalents - Beginning of Year | 7,698 | 7,842 |
| Cash and Cash Equivalents - End of Year | <u>\$ 7,842</u> | <u>\$ 10,012</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Operating income (loss) | \$ 1,230 | \$ 2,325 |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation expense | 502 | 501 |
| Change in Assets and Liabilities: | | |
| Receivables, net | (881) | 705 |
| Prepays and other assets | (2) | - |
| Inventory | - | - |
| Accounts payable | 6 | (18) |
| Salaries and benefits payable | - | - |
| Deferred revenue | 696 | 207 |
| Accrued vacation and sick leave | - | - |
| Self-insurance liability | - | - |
| Other accrued liabilities | 3 | 2 |
| Total Adjustments | <u>324</u> | <u>1,397</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 1,554</u> | <u>\$ 3,722</u> |
| Noncash Investing, Capital, and Financing Activities: | | |
| Contributions of capital assets to governmental fund | \$ - | \$ - |

APPENDIX C

INFORMATION CONCERNING THE CITY OF ARROYO GRANDE

The City of Arroyo Grande (the “City”) is located five miles inland from the central California coastline. Incorporated in 1911, the City contains acres of agriculturally productive land in a valley created by the Arroyo Grande Creek. The fertile soil produces several crop harvests annually, including celery, lettuce, and strawberries. There are several wineries in the vicinity, designating the area as the Arroyo Grande wine region.

The City, locally known as one of the “Five Cities,” (which consists of the City, Grover Beach, Oceano, Pismo Beach and Shell Beach) adjoins Pismo Beach and Grover Beach, and is neighbor to Avila Beach and Shell Beach. The economy of the Five Cities depends heavily on tourists and retail sales.

Many of the residents of Arroyo Grande commute to work in neighboring communities. Others are employed in the service industries of Arroyo Grande, such as retail, education, and health care. A small quantity of manufacturing is located within the City.

The City provides water to a 5.25 square mile service area serving a population of approximately 17,145. Water service and sewer service are accounted for separately as enterprise funds of the City and are operated as a water utility and sewer utility.

Governance and Management

The governing board of the City and key officials are as follows:

Governing Board
Tony M. Ferrara, *Mayor/Chair*
Caren Ray, *Mayor Pro Tem/Vice Chair*
Tim Brown, *Council Member*
Joe Costello, *Council Member*
Jim Guthrie, *Council Member*

Key Officials
Angela Kraetsch, *Director of Administrative Services*
Doug Perrin, *Recreation and Maintenance Services Director*
Steven Adams, *City Manager*

Source: City of Arroyo Grande.

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Commercial Activity

Commercial activity is an important contributor to City of Arroyo Grande's economy. The following Table C-1 estimates the County's commercial activity between 2005 and 2009.

Table C-1
City of Arroyo Grande
Trade Outlets and Taxable Sales
for Calendar Years 2005 through 2009⁽¹⁾
(\$ in thousands)

| <u>Taxable Retail Sales</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009⁽¹⁾</u> |
|--|----------------------|----------------------|----------------------|----------------------|---------------------------|
| Clothing and Clothing Accessories Stores | \$11,106 | \$10,571 | \$9,961 | \$9,695 | \$10,870 |
| General Merchandise | 66,720 | 68,523 | 68,766 | 69,617 | (2) |
| Food and Beverage Stores | 19,980 | 20,009 | 19,237 | 17,908 | 17,560 |
| Food Services and Drinking Places | 24,804 | 26,203 | 28,266 | 30,781 | 29,699 |
| Home Furnishings and Appliances | 18,359 | 15,920 | 14,919 | 10,125 | 10,179 |
| Building Materials, Garden Equipment and Supplies | 22,198 | 19,098 | 18,383 | 14,780 | 19,132 |
| Motor Vehicles and Parts Dealers | 45,220 | 39,049 | 36,257 | 25,727 | 20,895 |
| Service Stations | 42,730 | 43,474 | 44,034 | 48,497 | 34,340 |
| Other Retail | <u>34,052</u> | <u>33,950</u> | <u>29,702</u> | <u>26,870</u> | <u>85,464</u> |
| SUBTOTAL | 285,169 | 276,797 | 269,525 | 254,000 | 228,139 |
| All Other Outlets | <u>29,688</u> | <u>31,815</u> | <u>28,218</u> | <u>25,047</u> | <u>23,826</u> |
| TOTAL ALL OUTLETS | <u>\$314,837</u> | <u>\$308,612</u> | <u>\$297,743</u> | <u>\$279,047</u> | <u>\$251,965</u> |

(1) Most recent annual data available.

(2) Sales omitted because publication would result in the disclosure of confidential information. Data is included in "Other Retail Group" when possible.

Source: Taxable Sales in California (Sales and Use Tax) Annual Reports, California State Board of Equalization.

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Construction Activity

The total valuation of building permits issued in the City of Arroyo Grande as estimated by the Construction Industry Research Board was approximately \$9.045 million for calendar year 2010. The following Table C-2 provides an estimated building permit valuation summary for 2005 through 2010. See also, "COUNTY FINANCIAL INFORMATION—MAJOR REVENUES—Growth Management Ordinance."

Table C-2
City of Arroyo Grande
Building Permit Valuation
for Calendar Years 2005 through 2010
(\$ in thousands)

| Year | Residential | | Valuation ⁽¹⁾ | Nonresidential | Total ⁽²⁾ |
|------|---------------|-------------|--------------------------|----------------|----------------------|
| | Single Family | Multifamily | | Valuation | |
| 2005 | 66 | 9 | \$15,936.4 | \$2,825.5 | \$18,761.9 |
| 2006 | 82 | 35 | \$20,000.4 | 3,208.5 | 23,209.0 |
| 2007 | 43 | 10 | 9,957.4 | 8,899.4 | 18,856.8 |
| 2008 | 8 | 0 | 3,056.0 | 1,881.1 | 4,937.1 |
| 2009 | 12 | 0 | 3,434.0 | 837.0 | 4,271.0 |
| 2010 | 10 | 5 | 4,420.9 | 4,624.1 | 9,045.0 |

(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.

See also APPENDIX A—"COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION—Assessed Value, Tax Levy and Delinquencies—*Assessment Appeals*" and "*Effect of Foreclosures on Property Tax Collections*."

Service Area and Customers

The principal revenue of the City's water utility is derived from water sales to retail service customers. The water utility derives its other income from meter installations, reconnection fees, hydrant water, personnel transfers, interest income, and other revenue.

The water utility provides service to approximately 6,300 customers. There are 12 classes of city customers including single-family residential, multi-family residential, business, church, schools, hospital, irrigation, motel, convalescent homes, other, and public and private fire protection. The City maintains a billing system that is capable of maintaining these classes and applying individual rate schedules to each class. The City also publishes a rate schedule for customers outside the City limits, although there are only a few of these customers. The City water rates are detailed in Municipal Code Section 13-04.

The following table summarizes over a five-year period, the customer base and the average number of accounts, water sales volume and water sales revenue under existing rates.

**Table C-3
City of Arroyo Grande
Customer Base as of December 31, 2010**

| <u>Customer Base</u> | <u>Number of Customers</u> | <u>Percentage of Total Customers</u> |
|---------------------------|----------------------------|--------------------------------------|
| Single-Family Residential | 5,637 | 89.4% |
| Multi-Family Residential | 116 | 1.8 |
| Commercial/Institutional | 409 | 6.5 |
| Landscape Irrigation | <u>145</u> | <u>2.3</u> |
| TOTAL | 6,307 | 100.00% |

Source: City of Arroyo Grande.

**Table C-4
City of Arroyo Grande
Water Utility
Average Number of Accounts,
Water Sales Volume, and Water Sales
Revenue Under Existing Rates**

| <u>Fiscal Year</u> | <u>Average Number of Accounts</u> | <u>Water Sales Volume (Ccf)[†]</u> | <u>Revenue Under Existing Rates</u> |
|--------------------|-----------------------------------|---|-------------------------------------|
| 2005-06 | 6,126 | 1,339,561 | \$4,277,684 |
| 2006-07 | 6,288 | 1,413,792 | 4,676,404 |
| 2007-08 | 6,255 | 1,456,441 | 5,608,323 |
| 2008-09 | 6,223 | 1,383,865 | 5,842,552 |
| 2009-10 | 6,307 | 1,246,990 | 5,655,673 |

[†] Ccf 100 cubic feet.

Source: City of Arroyo Grande.

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The following table sets forth the City's five largest water customers as of June 30, 2010, as determined by the amount of their respective water payments.

Table C-5
City of Arroyo Grande
Five Largest Customers
(As of June 30, 2010)

| <u>Customer</u> | <u>Water Volume (Ccf)[†]</u> | <u>Annual Payment</u> | <u>Percentage of Total Payments</u> |
|----------------------------------|---|---------------------------|---|
| Sunrise Terrace Mobile Home Park | 28,763 | \$146,750 | 6.06% |
| Agra Five Cities | 17,540 | 72,034 | 2.97 |
| Arroyo Grande Cemetery | 15,546 | 31,244 | 1.29 |
| Arroyo Grande High School | 10,757 | 28,404 | 1.17 |
| St Patrick's School | <u>7,104</u> | <u>19,433</u> | <u>0.80</u> |
| SUBTOTAL | 79,710 | 297,865 | 4.70 |
| All Others | <u>1,167,280</u> | <u>6,087,002</u> | <u>95.30</u> |
| TOTAL | 1,246,990 | \$6,384,867 | 100.00% |

[†] Ccf 100 cubic feet.

Source: City of Arroyo Grande.

The following tables summarize the City's connections over the past five years and the City's current customer base.

Table C-6
City of Arroyo Grande
Number of Connections
Calendar Years 2006 through 2010

| <u>Date</u> | <u>Number of Connections</u> |
|-------------------|----------------------------------|
| December 31, 2006 | 6,307 |
| December 31, 2007 | 6,296 |
| December 31, 2008 | 6,296 |
| December 31, 2009 | 6,300 |
| December 31, 2010 | 6,315 |

Source: City of Arroyo Grande.

Facilities and Sources of Water

Storage facilities include five above-ground or partially buried water tanks with a storage capacity of approximately 6.45 million gallons. The transmission and distribution system includes over 66 miles of pipeline, approximately 6,300 meters, and over 800 public fire hydrants.

The water utility obtains its water supply from seven wells and from surface water obtained from the Lopez Reservoir Project. Six of the City's wells extract water from the Paso Robles Formation of the Arroyo Grande Plain, Tri-Cities Mesa (AGP-TCM) sub-basin of the Santa Maria Ground Water Basin. Based on an agreement with other agencies pumping groundwater from the AGP-TCM basin, the City is allocated an annual basin extraction from these wells of 1,314 acre feet ("a.f.") The remaining seventh well extracts water from the Pismo Formation of a separate basin. This well is capable of extracting 100 a.f. per year.

The City also receives an annual allocation of 2,290 a.f of surface water from the Lopez Reservoir Project through a 1966 agreement with the Flood Control District. This allocation amount represents approximately 50% of the total amount of water purchased from the reservoir. Surplus water from the reservoir may also be purchased by the City when such supplies are available, though this is not a firm supply for the City. Annual water production for the City, including surfacewater, totals over 3,300 a.f.

Permits, Licenses and Other Regulations

The City is in compliance with all requirements of State Department of Health Services Permit Number 040695P043.

Capital Improvement Plan

The capital improvements for the City's Water Utility are projected to total approximately \$2,360,500 for Fiscal Years 2010-11 through 2014-15. Major projects include replacing existing sewer lines with 12-inch lines on Fair Oaks, Halcyon and Cornwall Streets (approximately \$1.5 million) and construction of Reservoir No. 7 (approximately \$810,500).

Billing Procedures

A deposit, currently in the amount of \$180.00, is required by the City in advance of providing service for utility accounts established in the name of renters. In lieu of a renter security deposit, the City will accept a written consent submitted by the property owner requesting that the account be maintained in the name of the owner or his/her agent management company.

A \$15.00 fee is charged to set up new accounts. This charge offsets the costs incurred by the City to program the utility billing system, the meter reading devices, and the cost of City personnel to turn on the water. This is a non-refundable, one-time fee.

The average single-family residential home bi-monthly bill for City utilities is \$180.00 based upon a bi-monthly use of 3,200 cubic feet of water.

The following table describes billings by classification of user for fiscal year ending June 30, 2010.

Table C-7
City of Arroyo Grande
Billings by User Classification
Fiscal Year Ending 2009-10

| <u>User Classification</u> | <u>Total</u> | <u>Percentage of Total Billings</u> |
|----------------------------|---------------|---|
| Residence | \$4,731,225 | 74.1% |
| Apartment | 416,401 | 6.5 |
| Business | 563,086 | 8.8 |
| Trailer Park | 184,411 | 2.9 |
| Irrigation | 216,355 | 3.4 |
| Motel | 73,414 | 1.2 |
| Miscellaneous [†] | 76,816 | 1.2 |
| School | 78,094 | 1.2 |
| Church | <u>45,065</u> | <u>1.7</u> |
| TOTAL | \$6,384,867 | 100.0% |

[†] Miscellaneous includes the Regional Center, campgrounds, cemetery, club house, hall, hospital, convalescent homes, and condominiums.

Source: City of Arroyo Grande.

Rates and Charges

The City's schedule of water rates provides for equitable cost recovery for the City's customers by developing both a customer charge and a uniform volume charge.

Volume rates are established based on usage, customer class and whether the customer is located within or outside of the City. A separate charge by meter size is also charged to customers. The customer charge is a fixed amount charged monthly and is intended to recover the costs associated with meter reading, billing, and collecting.

The following table shows the rate schedule for meter, volume and fire protection charges.

Table C-9
City of Arroyo Grande
Water Utility
Schedule of Water Service Rates
Effective July 1, 2010

Customer Charge - \$/month⁽¹⁾

| <u>Meter Size (Inches)</u> | <u>City (\$/month)</u> | <u>Outside City⁽²⁾ (\$/month)</u> |
|--------------------------------|----------------------------|--|
| 5/8 | \$5.45 | \$6.81 |
| 3/4 | 5.45 | 6.81 |
| 1 | 6.50 | 8.13 |
| 1 1/2 | 7.80 | 9.75 |
| 2 | 11.55 | 14.44 |
| 3 | 38.95 | 48.69 |
| 4 | 49.05 | 61.31 |
| 6 | 72.75 | 90.94 |
| 8 | 100.55 | 125.69 |

Volume Charges - \$/hundred cubic feet⁽¹⁾

| <u>Customer Class</u> | <u>City</u> <u>(\$/Ccf)</u> | <u>Outside City⁽²⁾</u> <u>(\$/Ccf)</u> |
|---------------------------|--------------------------------|--|
| Single Family | | |
| First 12 Ccf / bi-monthly | \$1.78 | \$2.23 |
| Next 20 Ccf / bi-monthly | 1.98 | 2.48 |
| Next 32 Ccf / bi-monthly | 2.24 | 2.80 |
| Next 64 Ccf / bi-monthly | 2.71 | 3.39 |
| Multi Family | | |
| First 12 Ccf / bi-monthly | 1.78 | 2.23 |
| Next 20 Ccf / bi-monthly | 1.98 | 2.48 |
| Next 32 Ccf / bi-monthly | 2.24 | 2.80 |
| Next 64 Ccf / bi-monthly | 2.71 | 3.39 |
| Business | 1.98 | 2.48 |
| Church | 1.98 | 2.48 |
| School | 1.98 | 2.48 |
| Hospital | 1.98 | 2.48 |
| Motel | 1.98 | 2.48 |
| Convalescent Homes | 1.98 | 2.48 |
| Other | 1.98 | 2.48 |
| Irrigation | 2.18 | 2.73 |
| Water Wheeling | 1.29 | |
| Hydrant | 13.52 | |

(1) Effective July 2008. Residential rates are charged per dwelling.

(2) Outside City rates are charged at 125% of Inside City rates.

Source: City of Arroyo Grande.

Fire Protection Charge⁽¹⁾

| <u>Fire Line Size</u> <u>(Inches)</u> | <u>Private Fire</u> <u>Line Charge</u> <u>(\$/Month)</u> |
|--|--|
| 1 1/2 | \$2.25 |
| 2 | 2.25 |
| 3 | 6.70 |
| 4 | 13.40 |
| 6 | 37.30 |
| 8 | 78.30 |
| 10 | 134.20 |

(1) Effective July 2008. Residential rates are charged per dwelling.

(2) Outside City rates are charged at 125% of Inside City rates.

Source: City of Arroyo Grande.

Other revenue includes meter installations, reconnection fees, hydrant water, personnel transfers, expense recovery, collections, interest income, and miscellaneous revenue.

Financial Information

The following table summarizes the operating results of the City Enterprise Funds for the last five Fiscal Years and as budgeted for the current Fiscal Year.

Table C-10
City of Arroyo Grande
Summary of Enterprise Funds Operating Results
Fiscal Years 2005-06 through 2009-10
and as Budgeted for Fiscal Year 2010-11

| | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>Budgeted 2010-11</u> |
|---|----------------|----------------|----------------|----------------|----------------|-----------------------------|
| Revenues | | | | | | |
| Operating Revenues ⁽¹⁾ | \$4,361,706 | \$4,753,981 | \$5,705,344 | \$5,944,428 | \$5,755,156 | \$6,340,400 |
| Interest Income | <u>97,112</u> | <u>146,557</u> | <u>155,280</u> | <u>93,557</u> | <u>30,291</u> | <u>47,300</u> |
| TOTAL REVENUE | 4,458,811 | 4,900,538 | 5,860,624 | 6,037,985 | 5,785,447 | 6,387,700 |
| Expenses | | | | | | |
| Operations & Maintenance ⁽²⁾ | (3,478,429) | (4,090,209) | (4,402,862) | (5,147,599) | (5,581,767) | (6,075,581) |
| Net Revenue | \$980,383 | \$810,329 | \$1,457,762 | \$890,386 | \$203,680 | \$312,119 |
| Lopez Dam Debt Service | \$640,835 | \$554,920 | \$542,108 | \$537,997 | \$540,231 | \$543,038 |
| Lopez Dam Debt Service Coverage | 2.53x | 2.46x | 3.69x | 2.66x | 1.38x | 1.57x |

(1) Includes Water Sales Revenues, Availability Charges and other miscellaneous service charges.

(2) Includes Lopez Dam Debt Service and transfers (Personnel, Operating and Cost Allocation) charged by other departments but does *not* include Depreciation Expenses.

Sources: City of Arroyo Grande and the San Luis Obispo County Flood Control and Water Conservation District for Lopez Dam debt service information.

Outstanding Long-Term Obligations. Other than the 2011 Bonds, the City has \$192,000 outstanding principal amount of debt secured by operating revenues of the Water Enterprise. The annual debt service on this obligation is approximately \$14,000 through its maturity in 2040.

The City believes that operating revenues generated from existing Water Enterprise Fund water rates are sufficient to pay all principal and interest with respect to these obligations through their respective maturity dates.

Insurance

The City is a member of the California Joint Powers Insurance Authority (the "Insurance Authority"). The Insurance Authority is composed of 122 California public entities and is organized under a joint powers agreement, pursuant to the State Government Code section 6500 *et seq.* The purpose of the Insurance Authority is to arrange and administer programs for the pooling of self-insured losses, purchase excess insurance or reinsurance and arrange for group purchased insurance for property and other coverage. The Insurance Authority pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the board of directors. The board of directors operates through a nine-member executive committee.

Self-Insurance Programs of the Insurance Authority

General Liability. Each member government pays a primary deposit to cover estimated losses for a Fiscal Year (a “claims year”). Six months after the close of a Fiscal Year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$30,000 of each occurrence is charges directly to the member; costs from \$30,001 to \$750,000 are pooled based upon a member’s share of costs under \$30,000; costs from \$750,001 to \$15,000,000 are pooled based upon payroll. Costs of covered claims above \$15,000,000 are currently paid by reinsurance. The protection for each member is \$50,000,000 per occurrence and \$50,000,000 annual aggregate

Workers’ Compensation. The City participates in the workers’ compensation pool administered by the Insurance Authority. Members retain the first \$50,000 of each claim. Claims are pooled separately between public safety and non-public safety. Loss development reserves are allocated by pool and by loss layer (\$0 - \$100,000 allocated by retained amount and \$100,000 to \$2,000,000 by payroll). Losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member’s share of losses under \$50,000. Losses from \$100,000 to \$2,000,000 and loss development reserves associated with losses from \$100,000 to \$2,000,000 are pooled based on payroll. Costs from \$2,000,000 to \$50,000,000 are transferred to an excess insurance policy. Costs in excess of \$50,000,000 are pooled among the members based on payroll. Administrative expenses are paid for the investment earnings of the Insurance Authority.

Purchased Insurance

Property Insurance. The City participates in the all-risk property protection of the Insurance Authority. Several insurance companies underwrite this insurance. The property of the City, including the Water Enterprise, is currently insured according to a schedule of covered property submitted by the City to the Insurance Authority. Total all-risk property insurance coverage is \$37,033,492, with a \$5,000 per loss deductible. Premiums are paid annually and are not subject to retroactive adjustments.

Fidelity Bonds. The City purchases blanket fidelity bond coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Insurance Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Employees

One full-time equivalent (an “FTE”) Recreation and Maintenance Services Director employee is paid out of the General Fund. The following five FTEs are paid out of the Water Fund: one Public Works Supervisor, one Water Services Worker III, two Maintenance Worker IIIs, and one Public Works Leadperson. There is also one part-time clerk paid from the Water Fund.

Retirement Plan. The City of Arroyo Grande’s defined benefit pension plan, Public Employees’ Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is part of the Public Agency portion of the California Public Employees’ Retirement (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees’ Retirement Law. The City selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report.

Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95814.

Other Post-Employment Benefits. The City provides other post-retirement health benefits (“OPEB”) in accordance with State statutes, to all employees retiring from the City and enrolled in an insurance program under the California Public Employees’ Medical Hospital Care (“PEMHCA”), defined contribution, multiple employer, healthcare plan providing benefits to active and retired employees. The healthcare plan is administered by the California Public Employees Retirement Agency. Copies of the CalPERS annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, California 95814. Information regarding the funding policy and annual OPEB costs is presented in the Comprehensive Annual Financial Report of the City. Copies of which may be obtained from the City of Arroyo Grande, Office of the City Manager, 2114 East Branch Street, Arroyo Grande, California 93420.

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Audited Financial Statements

The following are extracts from the Fiscal Year 2009-10 audited financial statements for the Water Fund and the Lopez Fund. A complete copy of the Fiscal Year 2009-10 audited financial statements may be obtained from the City. A fee may be imposed for copying and mailing. The Water Fund is used to account for the activities associated with the transmission and distribution of potable water by the City to its users. The Lopez Fund is responsible for the purchase of water from Lopez Dam. The City has a 50.55% share of the water and expenses generated by Zone 3.

Table C-11
City of Arroyo Grande
Combining Balance Sheet
Enterprise Funds
Fiscal Year 2009-10

| | Fiscal Year 2009-10 | | |
|--|---------------------|--------------------|---------------------|
| | Water Fund | Lopez Fund | Total |
| ASSETS | | | |
| Cash and investments | \$3,270,786 | \$1,689,952 | \$4,960,738 |
| Accounts receivable, net | 536,161 | 507,858 | 1,044,019 |
| Interest receivable | 3,205 | 3,314 | 6,519 |
| Inventory at costs | 68,932 | - | 68,932 |
| Prepaid expenses | <u>373,327</u> | <u>1,396,819</u> | <u>1,770,146</u> |
| TOTAL CURRENT ASSETS | 4,252,411 | 3,597,943 | 7,850,354 |
| Capital Assets | | | |
| Land | 56,730 | - | 56,730 |
| CIP | 11,784 | - | 11,784 |
| Structures and improvements | 222,999 | - | 222,999 |
| Equipment | <u>736,916</u> | - | <u>736,916</u> |
| Infrastructure | 15,094,719 | - | 15,094,719 |
| SUBTOTAL CAPITAL ASSETS | 16,123,148 | - | 16,123,148 |
| Less accumulated depreciation | (6,590,408) | - | (6,590,408) |
| TOTAL CAPITAL ASSETS (net of accumulated depreciation) | <u>9,532,740</u> | <u>-</u> | <u>9,532,740</u> |
| TOTAL ASSETS | 13,785,151 | 3,597,943 | 17,383,094 |
| LIABILITIES | | | |
| Accounts payable | 91,767 | - | 91,767 |
| Accrued wages | 28,779 | - | 28,779 |
| Deposits payable | 106,660 | - | 106,660 |
| TOTAL CURRENT LIABILITIES | 227,206 | - | 227,206 |
| OPEB | 30,975 | - | 30,975 |
| Compensated absences | <u>73,801</u> | - | <u>73,801</u> |
| TOTAL LONG-TERM LIABILITIES | 104,776 | - | 104,776 |
| TOTAL LIABILITIES | 331,982 | - | 331,982 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 9,532,740 | - | 9,532,740 |
| Unrestricted | <u>3,920,429</u> | <u>3,597,943</u> | <u>7,518,372</u> |
| TOTAL NET ASSETS | <u>\$13,453,169</u> | <u>\$3,597,943</u> | <u>\$17,051,112</u> |

Table C-12
City of Arroyo Grande
Statement of Revenues, Expenses and Changes in Net Assets
Fiscal Year 2009-10

| | Fiscal Year 2009-10 | | |
|--|---------------------|---------------|---------------|
| | Water Fund | Lopez Fund | Total |
| Operating Revenues | | | |
| Sale of water | \$2,451,143 | \$3,265,221 | \$5,716,364 |
| Distribution charges | 18,202 | – | 18,202 |
| Meter installations | 3,618 | – | 3,618 |
| Other | <u>35,173</u> | <u>–</u> | <u>35,173</u> |
| TOTAL OPERATING REVENUES | 2,508,136 | 3,265,221 | 5,773,357 |
| Operating Expenses | | | |
| Distribution | 543,904 | – | 543,904 |
| General | 318,247 | – | 318,247 |
| Lopez water contract | 367,000 | 2,772,836 | 3,139,836 |
| Production | 273,236 | – | 273,236 |
| Depreciation | 229,954 | – | 229,954 |
| TOTAL OPERATING EXPENSE | 1,732,341 | 2,772,836 | 4,505,177 |
| OPERATING INCOME (LOSS) | 775,795 | 492,385 | 1,268,180 |
| Non-Operating Revenue (Expense) | | | |
| Interest Income | <u>20,589</u> | <u>15,258</u> | <u>35,847</u> |
| TOTAL NON-OPERATING REVENUE (EXPENSE) | 20,589 | 15,258 | 35,847 |
| Income before transfers | 796,384 | 507,653 | 1,304,027 |
| Transfers out | (1,165,043) | (327,396) | (1,492,439) |
| Change in net assets | (368,659) | 180,247 | (188,412) |
| Net assets at July 1, 2009 | 13,821,828 | 3,417,696 | 17,239,524 |
| Net assets at June 30, 2010 | \$13,453,169 | \$3,597,943 | \$17,051,112 |

Table C-13
City of Arroyo Grande
Statement of Cash Flows
Fiscal Year 2009-10

| | Fiscal Year 2009-10 | | |
|--|---------------------|--------------------|--------------------|
| | Water Fund | Lopez Fund | Total |
| Cash Flows From Operating Activities: | | | |
| Receipts from customers | \$2,744,620 | \$3,326,229 | \$6,070,849 |
| Payments to suppliers and wages | (2,019,971) | (2,729,853) | (4,749,824) |
| Other receipts | <u>32,815</u> | <u>—</u> | <u>32,815</u> |
| Net cash provided (used) by operating activities | 757,464 | 596,376 | 1,353,840 |
| Cash Flows From Capital and Related Financing Activities: | | | |
| Purchase of capital assets | <u>(92,327)</u> | = | <u>(92,327)</u> |
| Net cash provided (used) by noncapital financing activities | <u>(92,327)</u> | — | <u>(92,327)</u> |
| Cash Flow From Noncapital Financing Activities: | | | |
| Transfers to other funds | (1,165,043) | (327,396) | (1,492,439) |
| Net cash provided (used) by noncapital financing activities | (1,165,043) | (327,396) | (1,492,439) |
| Cash Flow From Investing Activities: | | | |
| Interest income | <u>29,670</u> | <u>18,562</u> | <u>48,232</u> |
| Net cash provided (used) by investing activities | 29,670 | 18,562 | 48,232 |
| Net increase (decrease) in cash and cash equivalents | (470,236) | 287,542 | (182,694) |
| Cash and cash equivalents - July 1, 2009 | 3,741,022 | 1,402,410 | 5,143,432 |
| Cash and cash equivalents - June 30, 2010 | <u>\$3,270,786</u> | <u>\$1,689,952</u> | <u>\$4,960,738</u> |

APPENDIX D

INFORMATION CONCERNING THE CITY OF GROVER BEACH

General

The City of Grover Beach (the “City”) was incorporated December 21, 1959. The City is located on the Central Coast of California in San Luis Obispo County, 250 miles south of San Francisco and U.S. Interstate 85 miles north of Los Angeles. The City has a cool summer Mediterranean climate with an average rainfall of 20 inches.

The City is located on the Pacific Ocean and is adjoined by the City of Pismo Beach to the north, the City of Arroyo Grande to the east and the unincorporated community of Oceano to the south. The City is “land locked” with 2.25 square miles of area with an estimated build out population of approximately 16,000 people within the next ten to twenty years.

The City is a full service city with 56 full time employees providing services which include police and fire protection, parks and recreation services and facilities, community development and street improvement and maintenance services, and waste water and water services.

Governance and Management

The City is a general law City with a Council-Manager form of government. Four Council Members are elected at large for four year staggered terms. The Mayor is directly elected and serves a one-year term. The key staff is responsible for the City’s Water Enterprise Fund operations and management. The City Council governing board members and key staff are as follows:

Council Members

John P. Shoals, *Mayor*
William “Bill” Nicolls, *Mayor Pro Tem*
Karen Bright, *Council Member*
Phyllis A. Molnar, *Council Member*
Debbie Peterson, *Council Member*

Key Staff

Bob Perrault, *City Manager*
Gayla R. Chapman, *Administrative Services Director*
Gregory A. Ray, P.E., *Public Works Director/City Engineer*

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Commercial Activity

Commercial activity is an important contributor to the economy of the City. Table D-1 estimates the County's commercial activity between 2004 and 2008.

Table D-1
City of Grover Beach
Trade Outlets and Taxable Sales
for Calendar Years 2005-2009⁽¹⁾
(\$ in thousands)

| <u>Year</u> | <u>Retail Stores⁽²⁾</u> | <u>Total All Outlets</u> |
|---------------------|------------------------------------|--------------------------|
| 2005 | \$74,255 | \$92,409 |
| 2006 | 76,193 | 96,053 |
| 2007 | 73,689 | 95,733 |
| 2008 | 68,493 | 92,190 |
| 2009 ⁽¹⁾ | 63,200 | 81,295 |

(1) Most recent annual data available.

(2) Detailed information by trade outlet is not available.

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 City as estimated by the Construction Industry Research Board was approximately \$2.396 million for calendar year 2010. The following Table D-2 provides an estimated building permit valuation summary for calendar years 2005 through 2010.

Table D-2
City of Grover Beach
Building Permit Valuation
for Calendar Years 2005 - 2010
(\$ in thousands)

| <u>Year</u> | <u>Residential</u> | | | <u>Nonresidential</u> | <u>Total⁽²⁾</u> |
|-------------|----------------------|--------------------|--------------------------------|-----------------------|----------------------------|
| | <u>Single Family</u> | <u>Multifamily</u> | <u>Valuation⁽¹⁾</u> | <u>Valuation</u> | |
| 2005 | 42 | 2 | \$15,936.4 | \$2,825.5 | \$18,761.9 |
| 2006 | 52 | 11 | 10,868.3 | 1,287.8 | 121,156.1 |
| 2007 | 15 | 5 | 4,187.0 | 358.7 | 4,545.7 |
| 2008 | 17 | 0 | 4,357.6 | 2,788.0 | 7,145.6 |
| 2009 | 11 | 0 | 2,440.6 | 673.1 | 3,113.7 |
| 2010 | 6 | 0 | 1,507.1 | 889.2 | 2,396.2 |

(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.

See also APPENDIX A—"COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION—Assessed Value, Tax Levy and Delinquencies—*Assessment Appeals*" and "*—Effect of Foreclosures on Property Tax Collections.*"

Service Area and Customers

The City currently provides water service to 4,729 customers within its 2.25 square miles corporate boundaries. Approximately 90% of the City's customers are residential or apartment dwellers. The City's customer statistics are as follows.

Table D-3
City of Grover Beach
Customer Categories and Water Sales Revenue
Fiscal Years 2005-06 Through 2009-10

| <u>Customer Category</u> | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Single Family Residential | 4,214 | 4,225 | 4,234 | 4,244 | 4,307 |
| Multifamily Residential | 430 | 420 | 424 | 423 | 422 |
| Commercial/Industrial | 289 | 291 | 287 | 281 | 318 |
| Landscape Irrigation | – | – | – | 68 | – |
| Other | <u>190</u> | <u>182</u> | <u>190</u> | <u>124</u> | <u>155</u> |
| TOTAL ALL CUSTOMERS | 5,123 | 5,118 | 5,135 | 5,140 | 5,202 |
| Water Sales Revenue | 1,917,824 | 2,246,030 | 2,471,155 | 2,361,344 | 2,252,599 |
| Other Water Related Revenue | <u>319,049</u> | <u>328,513</u> | <u>218,654</u> | <u>171,379</u> | <u>126,546</u> |
| TOTAL WATER ENTERPRISE FUND REVENUE | 2,236,873 | 2,574,543 | 2,689,809 | 2,532,723 | 2,379,145 |

Source: City of Grover Beach.

The following table sets forth the City's five largest water customers for Fiscal Year 2009-10 as determined by the amount of their respective annual payments.

Table D-4
City of Grover Beach
Five Largest Customers
Fiscal Year 2009-10

| <u>Customer</u> | <u>Water Volume (Ccf)</u> | <u>Annual Payment</u> | <u>Percentage of Total Payments</u> |
|-----------------------------------|-------------------------------|---------------------------|---|
| Lucia Mar Unified School District | 10,958 | \$31,463 | 1.40% |
| Lucia Mar Unified School District | 7,899 | 20,355 | 0.90 |
| Pismo Beach Resorts | 5,515 | 38,594 | 1.71 |
| Von's Company, Inc. | 5,073 | 12,725 | 0.56 |
| 1385 Atlantic City | <u>7,799</u> | <u>46,346</u> | <u>2.06</u> |
| SUBTOTAL | 37,244 | 149,483 | 6.64 |
| Others | <u>536,006</u> | <u>2,103,116</u> | <u>93.36</u> |
| TOTAL | 573,250 | \$2,252,599 | 100.00% |

Source: City of Grover Beach.

Table D-5
City of Grover Beach
Historic Water Deliveries
Fiscal Years 2004-05 through 2009-10
(in hundred cubic feet per year)

| <u>Fiscal Year</u> | <u>Deliveries</u> |
|--------------------|-------------------|
| 2004-05 | 821,571 |
| 2005-06 | 774,839 |
| 2006-07 | 818,699 |
| 2007-08 | 792,349 |
| 2008-09 | 745,367 |
| 2009-10 | 806,562 |

Source: City of Grover Beach.

Facilities and Sources of Water

The City’s water system is supplied from four wells and the Lopez Reservoir. The City’s four wells include three wells in the shallow Paso Robles aquifer and one well in the deeper Careaga aquifer. The Paso Robles formation provides a high volume of relatively high quality water. Water from the Paso Robles aquifer is treated to remove nitrates at the City’s fourteen hundred gallon per minute nitrate removal plant.

Well number Four is in the Careaga aquifer and can be pumped into the City’s system without treatment.

The City is capable of receiving a total of 1,198 acre feet (“a.f.”) per year from the entire groundwater basin utilizing the above four wells. This amount of groundwater extraction is in accordance with resolution #83-1 of the South San Luis Obispo County Water Association (the “Gentlemen’s Agreement”), passed and adopted in February of 1983.

In addition to the groundwater entitlement, the City also has an annual entitlement to 800 a.f. of Lopez Water. Lopez Water is supplied through the accumulation of rainfall in the watershed leading to Lopez Lake, which contains some 51,000 a.f. of surface water when full. Lake water is diverted to the Lopez Water Treatment Plant and then to Zone 3. Zone 3 is comprised of the Cities of Arroyo Grande, Grover Beach, Pismo Beach, the Oceano Community Services District and County Service Area No. 12.

Water from well four is transported to the City’s citizens through the distribution system. Water from wells one, two and three is transported to the Nitrate Removal Plant and then to individual customers through the distribution system. Water is stored in three 1.5 million gallon reservoirs which supply water under gravity pressure to most of the City. Water from the Lopez Collection and Treatment System is delivered to the three 1.5 million gallon reservoirs through a separate main connected at the Lopez Water Turnout.

While most of the City is served by gravity from the three 1.5 million gallon reservoirs, approximately 20% of the City is served in an upper pressure zone pressurized by the 16th Street Boost Station. This pressure boost station is located on the west side of 16th Street between Saratoga Avenue and Atlantic City Avenue and is equipped with multiple domestic pumps, a fire pump and a stand-by power unit. Water to the suction side of this boost station is fed by gravity from the three 1.5 million gallon reservoirs.

Permit, Licenses and Other Regulations

The City is in compliance with all requirements of the State Department of Health Services Permit Number 4010004.

Capital Improvement Plan

The capital improvements for the City's Water Utility are projected to total approximately \$509,973 for Fiscal Years 2010-11 through 2014-15. Major projects include water repairs associated with street rehabilitation projects.

Billing Procedures

The City bills bi-monthly, alternating each side of town each month. The bills are processed for the prior two months' service. The payments are due on the 15th day of the month and are considered delinquent if not paid by the due date. If payment is not received by the due date, a shut-off notice is generated, which states the date that the account will be shut-off for non-payment. There is a minimum of 30 days to pay an account prior to the shut-off date. Payments must be received by the shut-off date or they will be discontinued. Accounts which are discontinued for non-payment must be paid in full plus an additional fee of \$25.00 is charged for reconnection of an account during normal business hours. A \$50.00 reconnection fee is charged after normal business hours.

Rates and Charges

The City has the power to establish rates and charges as needed to operate the Water System. Its charges are established by its governing body, the City Council, and are not subject to review or approval by any other agency.

Water Sales - Service charges are established by City ordinance. The current charges are composed of a fixed monthly charge and a quantity user charge based on the amount of water used during the billing period, measured in 100 cubic feet units.

Table D-6
City of Grover Beach
Water Utility
Schedule of Water Service Rates
Effective July 1, 2011

Customer Charge - \$/month

| Meter Size (Inches) | (\$/month) |
|------------------------|------------|
| 5/8 | \$8.85 |
| 3/4 | 8.85 |
| 1 | 14.75 |
| 1 1/2 | 29.55 |
| 2 | 47.25 |
| 3 | 88.55 |
| 4 | 147.60 |

Volume Charges - \$/hundred cubic feet

| <u>Customer Class</u> | <u>(\$/Ccf)</u> |
|-------------------------|-----------------|
| Single Family | \$2.91 |
| First 12 Units | 3.06 |
| Next 8 Units | 3.52 |
| Next 22 Units | 3.98 |
| Next 42 Units | 3.52 |
| Landscape | 3.52 |
| All Other Customers | 3.06 |

Source: City of Grover Beach.

- **Account Set-up Fees** - A \$100 Water Set-up Fee per account was established by City resolution.
- **Frontage Fees** - The collection of a \$39 per foot charge was also established by the same City resolution.
- **Meter Installation Charge** - The same City resolution established the collection of installation fees for water meters based on the size of the meter and whether other ancillary services need to be provided. Fees range from \$2,187 to \$3,859 for new services and \$312 to \$1,293 for drop-in services.
- **Service Charges** - The same City resolution established the collection of service charges when an account is disconnected due to non-payment. The re-connection fee during business hours is \$66 and the afterhours re-connection fee is \$132.
- **Retrofit Fees** - A City ordinance established the collection of fees to be used to establish a fund to retrofit five residences for each residential unit permitted to be built.
- **Water Development Impact Fees** - A City ordinance established the collection of Water Development Impact Fees. Fees are imposed as a condition of approval upon all development projects for which a building permit is issued. Fees are used to pay for capital costs of public facilities reasonably related to needs of new development in the City. If fees are not expended in five years following their collection, the City will refund their collection.
- **Interest Income** - Interest earned on the Water Enterprise Fund is cash balance.

Table D-7
City of Grover Beach
Water Tax and Impact Fee Revenue

| Fiscal Year | Tax | Impact Fees | Miscellaneous and Interest | Total |
|----------------|----------|----------------|-------------------------------|-----------|
| 2005-06 | \$18,273 | \$86,495 | \$243,799 | \$348,547 |
| 2006-07 | 20,702 | 77,575 | 247,419 | 345,696 |
| 2007-08 | 23,788 | 30,001 | 190,334 | 244,123 |
| 2008-09 | 22,954 | 31,857 | 170,110 | 224,921 |
| 2009-10 | 21,454 | 16,631 | 136,939 | 175,024 |

Source: City of Grover Beach.

Financial Information

The following table summarizes the operating results of the City Water Enterprise Fund for the last five Fiscal Years and as budgeted for the current Fiscal Year.

Table D-8
City of Grover Beach
Summary of Water Enterprise Fund Operating Results
Fiscal Years 2005-06 through 2009-10
and as Budgeted for Fiscal Year 2010-11

| | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>Budgeted 2010-11</u> |
|---|----------------|----------------------------|----------------|----------------|----------------------|-----------------------------|
| Revenues | | | | | | |
| Operating Revenues ⁽¹⁾ | \$2,236,873 | \$2,574,543 | \$2,689,809 | \$2,532,723 | \$2,252,599 | \$3,068,956 |
| Interest Income | <u>130,161</u> | <u>180,969</u> | <u>99,094</u> | <u>47,636</u> | <u>126,546</u> | <u>4,500</u> |
| TOTAL REVENUE | 2,367,034 | 2,755,512 | 2,788,903 | 2,580,359 | 2,379,145 | 3,073,956 |
| Expenses | | | | | | |
| Operations & Maintenance ⁽²⁾ | \$1,760,501 | \$3,921,002 ⁽³⁾ | \$1,897,843 | \$2,248,832 | \$2,409,917 | \$2,549,092 |
| Net Revenue | \$606,533 | (\$1,165,490) | \$891,060 | \$331,527 | (\$30,772) | \$524,864 |
| Lopez Dam Debt Service | \$154,696 | \$118,616 | \$115,158 | \$115,692 | \$119,352 | \$122,034 |
| Lopez Dam Debt Service Coverage | 4.92x | (8.83x) | 8.74x | 3.87x | 0.74x ⁽⁴⁾ | 5.30x |

(1) Includes Water Sales and other operating revenues.

(2) Includes Lopez Dam Debt Service related payments but does *not* include Depreciation Expenses.

(3) Includes approximately \$1.5 million for the installation of non-capitalized equipment (meters).

(4) Decline in coverage is due to a delay in the implementation of a phased 30% rate increase. Water rates were increased by 15% on August 1, 2010 and increased another 15% on March 1, 2011.

Sources: City of Grover Beach and the San Luis Obispo County Flood Control and Water Conservation District for Lopez Dam debt service information.

Outstanding Long-Term Obligations

Other than the 2011 Bonds, the City has only one other outstanding debt obligation secured by operating revenues of the Water Enterprise: a 2006 note for the lease/purchase of water meters, which will be fully paid on April 25, 2011.

The City believes that Operating revenues generated from existing Water Enterprise Fund water rates are sufficient to pay all principal and interest with respect to these obligations through their respective maturity dates.

Insurance

The City is a member of the California Joint Powers Insurance Authority (the “Insurance Authority”). The Insurance Authority is composed of 122 California public entities and is organized under a joint powers agreement, pursuant to the State Government Code section 6500 *et seq.* The purpose of the Insurance Authority is to arrange and administer programs for the pooling of self-insured losses, purchase excess insurance or reinsurance and arrange for group purchased insurance for property and other coverage. The Insurance Authority pool began covering claims of its members in 1978. Each member government has an elected official as its representative on the board of directors. The board of directors operates through a nine-member executive committee.

Self-Insurance Programs of the Insurance Authority

General Liability. Each member government pays a primary deposit to cover estimated losses for a Fiscal Year (a “claims year”). After the close of a Fiscal Year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are pooled separately between police and non-police. Costs are allocated to members by the following methods within each of four layers of coverage: (i) the first \$30,000 of each occurrence is charged directly to the member’s primary deposit; (ii) costs from \$30,000 to \$750,000 and the loss development reserves associated with losses up to \$750,000 are pooled based upon a member’s share of costs under \$50,000; (iii) costs from \$750,000 to \$5,000,000 and the associated loss development reserves are pooled based upon payroll; (iv) costs of covered claims from \$5,000,000 to \$10,000,000 are paid under reinsurance policies and are subject to a \$2,500,000 annual aggregate deductible; (v) costs of covered claims from \$10,000,000 to \$50,000,000 are covered through excess insurance policies; (vi) costs of covered claims for subsidence losses are paid by excess insurance with a sub-limit of \$25,000,000 per occurrence per member. This \$25,000,000 subsidence sub-limit is composed of \$10,000,000 in reinsurance and \$15,000,000 in excess insurance. The excess insurance layer has a \$15,000,000 annual aggregate. The costs associated with (iv), (v) and (vi) are estimated using actuarial models and pre-funded as part of the primary and retrospective deposits. The overall policy limit for each member, including all layers of coverage, is \$50,000,000 per occurrence.

Workers’ Compensation. The City participates in the workers’ compensation pool administered by the Insurance Authority. Each member pays a primary deposit to cover estimated losses for a Fiscal Year (claims year). After the close of a Fiscal Year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Claims are pooled separately between public safety and non-public safety. Costs are allocated to members by the following methods within each of the four layers of coverage: (i) the first \$50,000 of each loss is charged directly to the member’s primary deposit; (ii) losses from \$50,000 to \$100,000 and the loss development reserve associated with losses up to \$100,000 are pooled based on the member’s share of losses under \$50,000; (iii) losses from \$100,000 to \$2,000,000 and the loss development reserves associated with those losses are pooled based

on payroll; (iv) losses from \$2,000,000 up to statutory limits are paid under an excess insurance policy. Protection is provided per statutory liability under California Worker’s Compensation law.

Employer’s Liability losses are pooled among members to \$2,000,000, coverage from \$2,000,000 to \$4,000,000 is purchased as part of an excess insurance policy, and losses from \$4,000,000 to \$10,000,000 are pooled among members.

Purchased Insurance

Environmental Insurance. The City participates in the pollution legal liability and remediation legal liability insurance which is available through the Insurance Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Insurance Authority has a limit of \$50,000,000 for the three-year period from July 1, 2008 through July 1, 2011. Each member of the Insurance Authority has a \$10,000,000 sub-limit during the three-year term of the policy.

Property Insurance. The City participates in the all-risk property protection program of the Insurance Authority. This insurance protection is underwritten by several insurance companies. The property of the City, including the Water Enterprise, is currently insured according to a schedule of covered property submitted by the City to the Insurance Authority. City property currently has all-risk property insurance protection in the amount of \$12,106,715. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments. Premiums are paid annually and are not subject to retroactive adjustments.

Crime Insurance. The City purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,000 deductible. The fidelity coverage is provided through the Insurance Authority. Premiums are paid annually and are not subject to retroactive adjustments.

Employees

During Fiscal Year 2009-10 the City employed 9.1 full time equivalent (FTE) positions to operate and manage the Water Enterprise. For Fiscal Year 2010-11, the City has budgeted 9.1 FTE positions to operate and manage the Water Enterprise.

**Table D-9
City of Grover Beach
Water Enterprise Fund Employees
Budgeted Fiscal Year 2010-11**

| <u>Department</u> | <u>Number of FTEs</u> |
|--------------------------------------|-----------------------|
| Water Systems - Operations | 6.3 |
| Water Utility Billing | <u>2.8</u> |
| TOTAL WATER ENTERPRISE FUND EMPLOYEE | 9.1 |

Source: City of Grover Beach.

Non-management employees are represented by the Service Employees International Union with the current Memorandum of Understanding in effect until June 30, 2011. All Water Enterprise Fund related employees are provided fully funded employee benefits including health, dental, and life insurance, long-term disability insurance, and California Public Employees' Retirement System (PERS) pension benefits.

Pension Plans. The City is a member of the California Public Employees' Retirement System ("PERS"), a multiple-employer pension system which provides a contributory defined-benefit pension plan for substantially all City employees. Required employer and employee contributions are determined from rates established by PERS based upon various actuarial assumptions which were last revised in 2008. The City's normal pension costs, which are determined by PERS using the Entry Age Normal Actuarial Cost Method, are funded currently. PERS should be contacted directly at California Public Employees' Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225-7377 for other information, including information relating to its financial position and investments.

No Other Post-Employment Benefits. The City does not provide any other form of post retirement benefits to its employees.

Audited Financial Statements

The following are extracts from the Fiscal Year 2008-09 and Fiscal Year 2009-10 audited financial statements for the Water Fund. A complete copy of the audited financial statements may be obtained from the City of Grover Beach, Office of the City Manager, 154 South Eighth Street, Grover Beach, California 93433. The Water Fund accounts for the activities of providing water to residents.

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Table D-10
City of Grover Beach
Water Enterprise Fund
Statement of Net Assets
Fiscal Year 2008-09 and Fiscal Year 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|--|--------------------|--------------------|
| ASSETS | | |
| <u>Current assets:</u> | | |
| Cash and cash investments | \$933,434 | \$369,228 |
| Accounts receivable, net | 511,522 | 515,646 |
| Interest receivable | 4,411 | 935 |
| Inventory at cost | <u>43,256</u> | <u>44,964</u> |
| Total Current Assets | 1,492,928 | 930,773 |
| <u>Noncurrent assets:</u> | | |
| Advances receivable | <u>900,683</u> | <u>906,947</u> |
| Total Noncurrent Assets | 900,683 | 906,947 |
| <u>Capital assets::</u> | | |
| Land | 60,125 | 60,125 |
| Construction in progress | 651,518 | 0 |
| Equipments | 205,227 | 205,227 |
| Infrastructure | <u>3,532,323</u> | <u>4,183,841</u> |
| | 4,449,193 | 4,449,193 |
| Less accumulated depreciation | <u>(1,873,726)</u> | <u>(1,967,184)</u> |
| TOTAL CAPITAL ASSETS (Net of accumulated depreciation) | <u>2,575,467</u> | <u>2,482,009</u> |
| TOTAL CAPITAL ASSETS | 4,969,078 | 4,319,329 |
| LIABILITIES | | |
| <u>Current liabilities:</u> | | |
| Accounts payable | 167,035 | 50,696 |
| Accrued payroll | 21,940 | 25,038 |
| Accrued interest payable | 4,818 | 2,460 |
| Deposits | 78,368 | 81,556 |
| Current portion of long-term liabilities | <u>329,875</u> | <u>344,026</u> |
| Total Current Liabilities | 602,036 | 503,776 |
| <u>Noncurrent liabilities:</u> | | |
| Compensated absences | 39,004 | 41,018 |
| Capital lease payable | 344,026 | 0 |
| Total Noncurrent Liabilities | <u>383,030</u> | <u>41,018</u> |
| TOTAL LIABILITIES | 985,066 | 544,794 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt: | 1,901,566 | 2,137,983 |
| Unrestricted | <u>2,082,446</u> | <u>1,636,552</u> |
| TOTAL NET ASSETS | <u>\$3,984,012</u> | <u>\$3,774,535</u> |

Table D-11
City of Grover Beach
Water Enterprise Fund
Comparative Statements of Revenues, Expenses and
Changes in Net Assets
Fiscal Year 2008-09 and for Fiscal Year 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|--|--------------------|----------------------|
| OPERATING REVENUES | | |
| Charges for services | \$2,361,344 | \$2,252,599 |
| Other operating revenues | <u>1,171,379</u> | <u>126,546</u> |
| TOTAL OPERATING REVENUES | 2,532,723 | 2,379,145 |
| OPERATING EXPENSES: | | |
| Personnel services | 687,477 | 699,358 |
| Contractual services | 1,049,019 | 1,225,948 |
| Utilities | 121,673 | 109,314 |
| Repairs and Maintenance | 35,916 | 29,137 |
| Office expense, supplies and materials | 96,503 | 116,483 |
| Non capital equipment | 212,956 | 86,911 |
| Insurance, claims and expenses | 45,288 | 49,308 |
| Depreciation | <u>77,285</u> | <u>93,458</u> |
| TOTAL OPERATING EXPENSE | 2,326,117 | 2,409,917 |
| OPERATING INCOME (LOSS) | 206,606 | (30,772) |
| NON-OPERATING REVENUE (EXPENSE) | | |
| Interest Income | 47,636 | 11,095 |
| Interest expense | <u>(41,162)</u> | <u>(26,552)</u> |
| TOTAL NON-OPERATING REVENUE (EXPENSE) | 6,474 | (15,457) |
| Income (loss) before transfers and capital contributions | | |
| | 213,080 | (46,229) |
| Transfers and Capital Contributions | | |
| Capital impact fees | 31,857 | 17,956 |
| Transfers out: | <u>(204,268)</u> | <u>(181,643)</u> |
| TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS | (171,411) | (163,687) |
| Net assets - July 1 | 3,943,343 | 3,984,012 |
| Prior period adjustment | <u> -</u> | <u> 439</u> |
| Net assets - July 1 (restated) | - | 3,984,451 |
| Net assets - June 30 | <u>\$3,984,012</u> | <u>\$3,774,535</u> |

Table D-12
City of Grover Beach
Water Enterprise Fund
Statement of Cash Flows
Fiscal Year 2008-09 and Fiscal Year 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|--|------------------|------------------|
| Cash Flows from Operating Activities: | | |
| Receipts from customers | \$2,379,610 | \$2,251,668 |
| Payments to suppliers | (1,449,463) | (1,734,709) |
| Payments to employees | (683,805) | (694,246) |
| Other receipts | <u>171,379</u> | <u>126,546</u> |
| Net cash provided (used) by operating activities | 417,721 | (50,741) |
| Cash Flows From Capital and Related Financial Activities: | | |
| Acquisition of capital assets | (674,018) | 0 |
| Capital contributions | 31,857 | 17,956 |
| Principal payments on long-term debt | (509,305) | (329,875) |
| Interest paid on long-term debt | <u>(44,189)</u> | <u>(28,910)</u> |
| Net cash provided (used) by capital and related financing activities | (1,195,655) | (340,829) |
| Cash Flows From Noncapital Financing Activities: | | |
| Advances to/from other funds | (18,956) | 0 |
| Transfers to/from other funds | <u>(204,268)</u> | <u>(181,643)</u> |
| Net cash provided (used) by noncapital financing activities | (223,224) | (181,643) |
| Cash Flows From Investing Activities: | | |
| Interest income | <u>57,472</u> | <u>9,007</u> |
| Net cash provided (used) by investing activities | 57,472 | 9,007 |
| Net decrease in cash and cash equivalents | (943,686) | (564,206) |
| Cash and cash equivalents - July 1 | 1,877,120 | 933,434 |
| Cash and cash equivalents - June 30 | <u>\$933,434</u> | <u>\$369,228</u> |

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APPENDIX E

INFORMATION CONCERNING THE CITY OF PISMO BEACH

General

The City of Pismo Beach (the “City”) was incorporated in 1946 and acquired the El Pismo County Water District. The City is located in the southern portion of San Luis Obispo County along Highway 101 and is approximately equidistant from Los Angeles and San Francisco. It has a permanent population of approximately 8,704 as of January 1, 2010, but it is a major destination for tourists and recreation-oriented visitors (over 3,000 hotel rooms, motel rooms and recreational vehicle spaces are located within its boundaries), and its temporary population typically exceeds its permanent population by 3,000 to 6,000 people. The City currently provides water to approximately 4,000 municipal customers and estimates its service population at 13,000 to 15,000 people as of June 30, 2010. The City currently obtains its water supply from three sources: Lopez Reservoir, local groundwater basins and the State Water Project.

The City encompasses an area of approximately 2,050 acres, of which approximately 1,470 acres are developed (about 60% as residential and 40% as commercial). The City consists of a narrow coastal plain rising to steep hills. Water supplies are pumped to reservoirs and then gravity fed into the water system.

The City expects that the undeveloped land within its boundaries will continue to be developed, subject to its limitations with respect to the rate of growth. The City’s general practice since 1981 has been to limit the annual construction of new residences to 3% of the number of existing residences. This practice has been formalized as a limitation on the rate of residential development in the City’s General Plan.

The City offers its residents a full range of municipal services including police protection, fire protection and water and wastewater services. The City contracts with others for street maintenance, recycling services and refuse services.

Prior to June 15 of each year, the City Manager submits to the Council a proposed budget for the fiscal year commencing the following July 1. The Council generally conducts public workshops to obtain comments from residents and ratepayers. Subsequent to the public workshops, the Council approves the budget prior to July 1.

The City’s budget is prepared on the modified accrual basis and includes the City’s enterprise funds as well as its general fund. For budgeting purposes, the City generally sets user charges to cover operating expenses and general administrative expenses of the particular services, and tax and assessment collections are used to finance capital projects, debt service and payments due under the Water Treatment and Local Facilities Agreement (the “Agreement”).

Governance and Management

The City is governed by a five-member City Council (the “Council”), the members of which are elected by the registered voters of the City to staggered four-year terms. The City is a general law city. It operates under the Council/City Manager form of government. The current members of the Council and key staff are as follows:

Council Members
Shelly Higginbotham, *Mayor*
Kris Vardas, *Mayor Pro Tem*
Ted Ehring, *Council Member*
Mary Ann Reiss, *Council Member*
Edward Waage, *Council Member*

Key Staff
Dwayne Chisam, *Public Works Director/City Engineer*
Kevin M. Rice, *City Manager*
George Edes, *Administrative Services Director*
Brian Henson, *Public Works Operations Manager*

Commercial Activity

Commercial activity is an important contributor to the City of Pismo Beach’s economy. The following Table E-1 estimates the County’s commercial activity between 2005 and 2009.

Table E-1
City of Pismo Beach
Trade Outlets and Taxable Sales
for Calendar Years 2005-2009⁽¹⁾
(\$ in Thousands)

| <u>Year</u> | <u>Retail Stores⁽²⁾</u> | <u>Total All Outlets</u> |
|---------------------|------------------------------------|--------------------------|
| 2005 | \$166,141 | \$185,061 |
| 2006 | 178,219 | 196,592 |
| 2007 | 184,498 | 204,784 |
| 2008 | 190,907 | 206,945 |
| 2009 ⁽¹⁾ | 178,640 | 189,350 |

(1) Most recent annual data available.

(2) Detailed information by trade outlet is not available.

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 City of Pismo Beach as estimated by the Construction Industry Research Board was approximately \$8.025 million for calendar year 2010. The following Table E-6 provides an estimated building permit valuation summary for 2005 through 2010 (the most recent annual data available). See also, “COUNTY FINANCIAL INFORMATION–MAJOR REVENUES–Growth Management Ordinance.”

Table E-2
City of Pismo Beach
Building Permit Valuation
for Calendar Years 2005 - 2010[†]
(\$ in Thousands)

| <u>Year</u> | <u>Residential</u> | | <u>Valuation⁽¹⁾</u> | <u>Nonresidential</u> | <u>Total⁽²⁾</u> |
|-------------|----------------------|--------------------|--------------------------------|-----------------------|----------------------------|
| | <u>Single Family</u> | <u>Multifamily</u> | | <u>Valuation</u> | |
| 2005 | 27 | 14 | \$14,076.4 | \$3,741.4 | \$17,817.8 |
| 2006 | 25 | 17 | 11,691.6 | 2,741.5 | 14,433.1 |
| 2007 | 38 | 9 | 12,826.0 | 2,599.0 | 15,425.0 |
| 2008 | 14 | 3 | 10,902.7 | 3,892.3 | 14,795.0 |
| 2009 | 20 | 0 | 8,892.9 | 4,915.0 | 13,807.9 |
| 2010 | 12 | 0 | 6,486.2 | 1,537.7 | 8,024.9 |

(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.

See also APPENDIX A—"COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC INFORMATION—Assessed Value, Tax Levy and Delinquencies—*Assessment Appeals*" and "*Effect of Foreclosures on Property Tax Collections.*"

Service Area and Customers

The City provides water service throughout its territory, which encompasses approximately 3.2 square miles in the southern portion of San Luis Obispo County.

As of June 30, 2010, the City had 4,557 active connections. Within the territory of the City, the City is the sole provider of water service to domestic customers. The water customer base and five largest water customers as determined by the amount of their respective annual payments, are set out in the tables below.

Table E-3
City of Pismo Beach
Water Customer Base
Based on June/July 2010 Billings

| | <u>Number of Accounts</u> | <u>Percentage of Total Accounts</u> |
|------------------------------|---------------------------|-------------------------------------|
| Single-Family Residential | 3,698 | 81.1% |
| Non Residential [†] | 639 | 14.0 |
| Irrigation | 127 | 2.8 |
| Construction/Hydrant | 24 | 0.5 |
| Municipal | <u>72</u> | <u>1.6</u> |
| TOTAL | 4,558 | 100.0% |

[†] Includes multifamily, mobile homes and commercial customers.

Source: City of Pismo Beach.

Table E-4
City of Pismo Beach
Largest Customers
(Fiscal Year 2009-10)

| <u>Customer</u> | <u>Water Volume (Ccf)</u> | <u>Annual Payment</u> | <u>Percentage of Total Payments[†]</u> |
|------------------------|-------------------------------|---------------------------|---|
| Pismo Mobile Home Park | 15,030 | \$40,145.64 | 1.60% |
| Cliffs Shell Beach | 13,562 | 31,107.42 | 1.24 |
| Oxford Suites Resort | 7,925 | 24,233.03 | 0.96 |
| Shorecliffe Lodge | 8,063 | 18,313.38 | 0.73 |
| Motel 6 | <u>6,618</u> | <u>16,650.42</u> | <u>0.66</u> |
| SUBTOTAL | 51,198 | 130,449.89 | 5.19 |
| All Others | <u>739,257</u> | <u>2,380,852.27</u> | <u>94.81</u> |
| TOTAL | 790,455 | \$2,511,302.16 | 100.00% |

[†] Unaudited.
Source: City of Pismo Beach.

Historic Water Connections, Sales Revenues and Deliveries

The following table shows the number of active water connections to the City's water system for the five most recent Fiscal Years, together with the amount of its annual water sales revenues.

Table E-5
City of Pismo Beach
Historic Water Connections and Sales Revenues
Fiscal Years 2005-06 through 2009-10

| <u>Fiscal Year Ending June 30</u> | <u>Connections</u> | <u>Sales Revenues</u> |
|---------------------------------------|--------------------|-----------------------|
| 2005-06 | 4,443 | \$1,994,992 |
| 2006-07 | 4,458 | 2,251,500 |
| 2007-08 | 4,615 | 2,619,579 |
| 2008-09 | 4,657 | 2,834,803 |
| 2009-10 | 4,675 | 2,874,984 |

Source: City of Pismo Beach.

The following table describes the water tax and impact fee revenue for Fiscal Year 2005-06 through Fiscal Year 2009-10.

Table E-6
City of Pismo Beach
Water Tax and Impact Fee Revenue

| <u>Fiscal Year</u> | <u>Tax</u> | <u>Impact Fees</u> | <u>Gragg Valley</u> | <u>Miscellaneous and Interest</u> | <u>Total</u> |
|--------------------|-------------|--------------------|---------------------|-----------------------------------|--------------|
| 2005-06 | \$1,038,399 | \$158,966 | \$130,177 | \$0 | \$1,327,542 |
| 2006-07 | 1,125,162 | 128,892 | 121,365 | 884 | 1,376,303 |
| 2007-08 | 1,149,336 | 97,385 | 116,225 | 614 | 1,363,560 |
| 2008-09 | 1,187,397 | 164,873 | 138,801 | 1,595 | 1,492,666 |
| 2009-10 | 1,213,189 | 70,565 | 0 | (866) | 1,282,888 |

Source: City of Pismo Beach.

The following table presents a summary of historic water deliveries in acre-feet (“a.f.”) per year for the five most recent Fiscal Years.

Table E-7
City of Pismo Beach
Historic Water Deliveries
Fiscal Years 2005-06 through 2009-10
(In acre-feet per year)

| <u>Fiscal Year</u> | <u>Deliveries</u> |
|--------------------|-------------------|
| 2005-06 | 1,924 |
| 2006-07 | 2,003 |
| 2007-08 | 2,269 |
| 2008-09 | 2,135 |
| 2009-10 | 1,971 |

Source: City of Pismo Beach.

Facilities

The City is the sole provider of water service to water users within its boundaries. The City’s water distribution system includes over 50 miles of pipelines ranging in size from 2 inches to 16 inches in diameter. In connection with its distribution system, the City operates seven pumping stations which contain a total of 14 separate pumps. The City delivers an average of approximately 606 million gallons of water annually.

The City operates a number of wells that extract groundwater from the Tri Mesa groundwater basin. This water is blended with the other water available to the City in order to provide the City’s customers with a satisfactory supply at the lowest possible cost. The City also maintains nine reservoirs ranging in individual capacity from 100,000 gallons to 1,000,000 gallons of water, with an overall storage capacity of 5.2 million gallons of water.

Other City water system facilities include four connections to the Lopez Reservoir and Treatment Plant. These connections also deliver state water which is blended with the Lopez water. The Lopez allocation of 896 acre-feet (a.f.) is 19.78% of total allocation of 4,530 a.f.

The City provides sewer collection and treatment services to its residents. All water customers in the City also receive sewage service. The City’s Sewer Fund is an enterprise fund separate from its Water Fund and is not available to meet obligations under the Agreement.

Sources of Water

The City currently has three sources of water supply: groundwater pumped from Tri-Cities Mesa sub-unit of the Santa Maria Basin, a surface supply from the Lopez Reservoir, and a supply from the State Water Project.

The City currently pumps approximately 200 a.f. of groundwater per year from the Tri-Cities Mesa sub-unit of the Santa Maria Basin. Entitlements to groundwater in this basin have not been adjudicated. In 1979, the Department of Water Resources estimated the safe yield of the Tri-Cities Mesa sub-unit of the Santa Maria Basin to be approximately 9,500 a.f. The safe yield has not been exceeded in recent years and, in 1983, a “Gentlemen’s Agreement” was executed (and thus far has been complied with) by the major purveyors allotting the safe yield of the basin as follows. The Gentleman’s Agreement was incorporated into the final judgment of the Santa Maria ground water basin adjudication. The County maintains continuing jurisdiction and the amounts that follow are contained the final judgment:

| <u>Pumper</u> | <u>Allocation by Acre-Feet</u> |
|--------------------------|--------------------------------|
| Applied Irrigation | 5,300 |
| Subsurface flow to Ocean | 200 |
| City of Arroyo Grande | 1,202 |
| Grover Beach | 1,198 |
| City of Pismo Beach | 700 |
| Oceano C.S.D. | <u>900</u> |
| TOTAL | 9,500 |

Source: City of Pismo Beach.

The City holds an entitlement to 1,240 a.f. per year from the State Water Project. One hundred forty a.f. are committed to the Gragg Valley Ranch, which pays for its portion of the cost each year, when billed separately by the City. The payments are currently up to date.

Permits, Licenses and Other Regulations

The City is in compliance with all requirements of State Department of Health Services Permit Number 4010008.

Capital Improvement Plan

The City adopted a 10-year Capital Improvement Program and Major Expenditures Plan for Fiscal Years 2006-07 through 2015-16. For the six remaining years, there are approximately \$8.0 million in capital improvements planned for the Water System, including repair and replacement of waterlines, and reservoir repairs.

Billing Procedures

The City is on a bi-monthly billing cycle, sending out bills for the prior two months of service. The City alternates billing one-half of the customers each month. Payment is due by the 15th day after the billing date and is considered delinquent if not paid by that date. If payment is not received, a second notice is mailed and shut-off occurs after 30 days. Currently no accounts are delinquent. The City reports, however, that when accounts are delinquent, upon receipt of notice of delinquency almost all of its customers pay delinquent amounts within two weeks. All accounts not paid in full within 30 days of the billing date will be discontinued until full payment is made, including a \$30 reconnection fee.

Rates and Charges

The City is not subject by statute to the jurisdiction of, or regulation by, the California Public Utilities Commission. The City staff and public works commission annually determine the adequacy of the water system rate structure after full consideration of expected operations, maintenance and capital costs. The City currently sets water charges to pay water costs for purchased water, costs of groundwater pumping, current operating expenses for the water system and depreciation. System expansion is funded from connection fees and impact fees.

Single family residential units are charged a bi-monthly consumption charge of \$2.11 per hundred cubic feet (HCF) for consumption ranging between 0-12 per HCF; single family residential units are charged a bi-monthly consumption charge of 2.74/HCF for consumption above 13/HCF. All non-single family residential units are charged a bi-monthly consumption charge of 2.35/HCF. Bi-monthly fixed charges are as follows:

**Table E-8
City of Pismo Beach
Rate and Charges
Fiscal Year 2010-11**

| <u>Meter Size (Inches)</u> | <u>Bi-Monthly Fixed Meter Charge</u> |
|--------------------------------|--|
| 5/8 | \$30.52 |
| 3/4 | 30.52 |
| 1 | 61.01 |
| 1 1/2 | 102.52 |
| 2 | 164.44 |
| 3 | 310.59 |
| 4 | 509.93 |
| 6 | 1,220.74 |

Connection Charges:

- | | |
|---|---|
| A) State Water Supply Impact Fee | \$8,021.00 per equivalent dwelling unit |
| B) Special Water Tax Levy Fiscal Year 2010-11 | \$176.16 per year per equivalent dwelling unit. |

Source: City of Pismo Beach.

The City charges water impact fees for improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The City also charges for new water supply from the State Water Project. For Fiscal Year 2010-11, the supply fee is \$8,021 for an equivalent single family unit and for Fiscal Year 2009-10 was \$7,603.

Financial Information

The following table summarizes the operating results of the City Water Enterprise Fund for the last five Fiscal Years and as budgeted for the current Fiscal Year.

Table E-9
City of Pismo Beach
Summary of Water Enterprise Fund Operating Results
Fiscal Years 2005-06 through 2009-10
and as Budgeted for Fiscal Year 2010-11

| | <u>Audited</u> <u>2005-06</u> | <u>Audited</u> <u>2006-07</u> | <u>Audited</u> <u>2007-08</u> | <u>Audited</u> <u>2008-09</u> | <u>Audited</u> <u>2009-10</u> | <u>Budgeted</u> <u>2010-11</u> |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| Revenues | | | | | | |
| Operating Revenues ⁽¹⁾ | \$2,316,912 | \$2,533,205 | \$2,874,861 | \$3,176,984 | \$2,995,358 | \$3,335,000 |
| Non-Operating Revenues ⁽²⁾ | 1,046,726 | 1,135,422 | 1,167,173 | 1,200,756 | 1,213,189 | 1,279,500 |
| Interest Income | <u>121,374</u> | <u>205,001</u> | <u>171,401</u> | <u>185,272</u> | <u>106,492</u> | <u>75,000</u> |
| TOTAL REVENUE | 3,485,012 | 3,873,628 | 4,213,435 | 4,563,012 | 4,315,039 | 4,689,500 |
| Expenses | | | | | | |
| Operations & Maintenance ⁽³⁾ | \$2,898,204 | \$3,039,147 | \$3,168,278 | \$3,092,283 | \$4,140,172 | \$4,116,000 |
| Net Revenue | \$586,808 | \$834,481 | \$1,045,157 | \$1,470,729 | \$174,867 | \$573,500 |
| Lopez Dam Debt Service | \$66,785 | \$33,950 | \$34,058 | \$27,461 | \$14,370 | \$9,477 |
| Lopez Dam Debt Service Coverage | 9.79x | 25.58x | 31.69x | 54.56x | 13.17x | 61.51x |

(1) Includes Water Sales, Service Fees and other operating revenues.

(2) Voters approved (1997) tax to pay for City's portion of State Water Project.

(3) Includes Lopez Dam Debt Service related payments and State Water Contract payment but does *not* include Depreciation Expenses.

Sources: City of Pismo Beach and the San Luis Obispo County Flood Control and Water Conservation District for Lopez Dam debt service information.

Outstanding Long-Term Obligations

Water Treatment and Local Facilities Agreement. The City entered into an agreement (the "Agreement") with the San Luis Obispo County Flood Control and Water Conservation District (the "Flood Control District") wherein the Flood Control District contracted with the Central Coast Water Authority (the "Central Coast Authority") for the construction and operation of a water treatment plant and the financing of local facilities. The Central Coast Authority, in 1992, sold \$177,120,000 in revenue bonds for the purpose of constructing the aforementioned treatment plant intended to treat water from the State Water Project and to construct a transmission system to deliver such water from the treatment plant to water users who are party to the Agreement.

The Agreement is a "take-or-pay obligation" of the City, and the City is obligated to pay amounts specified in the Agreement whether or not water is treated or delivered. The amounts to be paid by the City are pledged by the Central Coast Authority as security for the repayment of its revenue bonds. The City's share of the bond financing is estimated to be about 1.355%. On November 1, 1997, the Central Coast Authority issued \$198,015,000 in refunding revenue bonds to defease the 1992 revenue bonds. The City records these joint operating costs as expenses in its water enterprise State Water Project fund.

Water Supply Agreement. The City has entered into an agreement with the Flood Control District for the purpose of obtaining additional water for municipal uses. The agreement is essentially a capacity rights agreement and the City is obligated to make payments under the agreement whether or not the City fails or refuses to accept water deliveries.

The source for such additional water supply for the Flood Control District is the California State Water Project (“SWP”). The California Department of Water Resources proceeded with the design, planning, and construction of facilities to extend the Coastal Branch of the California Aqueduct to the Central Coast and the facilities owned by the Central Coast Authority described in the preceding section entitled “Water Treatment and Local Facilities Agreement.”

The SWP has been completed and the City started receiving water in August of 1997. The City is obligated to pay to the Flood Control District (i) a Delta Water Charge, (ii) transportation charge, including a capital cost component, and (iii) operations, maintenance, power, and replacement costs, based in part on costs paid by the Flood Control District to the State of California.

The City has capitalized, in its water enterprise State Water Project fund, as deferred charges, the payments made and to be made to the Flood Control District until such time as the SWP is complete and in service. The City is amortizing the deferred charges to expense, over the estimated life of the contract, its deferred charges when the SWP is placed in service. The balance in the deferred charges account at June 30, 2010 was \$417,706.

Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to, or destruction of an asset, and errors or omissions. The City, due to a lack of availability of insurance coverage and the costs of available coverage, participated as a member of the Central Coast Cities Self-insurance Fund (“CCCSIF”) through June 2003 for general liability insurance and through June 30, 2004 for workers compensation insurance. Thereafter, the City joined the California Joint Powers Insurance Authority (California JPIA). The California JPIA provides general liability insurance to the City at \$50 million per occurrence, \$50 million per year aggregate limit and workers compensation insurance with statutory benefits and \$10 million employer’s liability coverage. The risk of loss is transferred to the California JPIA. The City is subject to retrospective premium adjustments under the arrangements. Insurance transactions are accounted for in the general fund. The City is responsible for payment of its respective claims that were outstanding with the CCCSIF at the time the City elected to insure with the California JPIA. The uninsured risk for these claims, referred to as tail-end claims, retained by the City was \$300,000 per incident for workers compensation claims, \$50,000 per incident for general liability claims, and \$5,000 per property damage claim. The CCCSIF periodically obtains actuarial studies and valuations of the tail-end claim liabilities, and the City reports such estimated amounts payable as claim liabilities in the statement of net assets.

Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends, and other economic and social factors.

Employees

The City currently employs the equivalent of six full-time persons in its water system, of whom five work in the water department and one in accounting. Most of the employees are under the Service Employees International Union, bargaining unit, and the City has not experienced any strike or other labor action. The current contract terminates June 30, 2011.

Retirement. The City is a member of the California Public Employees' Retirement System ("PERS"), a multiple-employer pension system which provides a contributory defined-benefit pension plan for substantially all City employees. Required employer and employee contributions are determined from rates established by PERS based upon various actuarial assumptions which were last revised in 2008. The City's normal pension costs, which are determined by PERS using the Entry Age Normal Actuarial Cost Method, are funded currently. PERS should be contacted directly at California Public Employees' Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225-7377 for other information, including information relating to its financial position and investments.

The City administers the City of Pismo Beach Healthcare Plan (the "Plan"), a single employer defined benefit healthcare plan. The Plan provides medical insurance benefits to eligible retirees, including retired water department employees, and their spouses. City resolutions and agreements assign the authority to establish and amend benefit provisions to the City. Separate financial statements of the Plan are not issued by the City. A separate OPEB trust or equivalent arrangement has been established by the City. Additional information regarding the OPEB trust, funding policies, annual costs, funding status and progress is contained in the audited financial statements of the City.

Audited Financial Statements

The following are extracts from the Fiscal Year 2008-09 and Fiscal Year 2009-10 audited financial statements for the City. A complete copy of the Fiscal Year 2009-10 audited financial statements for the City may be obtained from the City of Pismo Beach Finance Department at 760 Mattie Road, Pismo Beach, California 93449, Telephone: 805-773-4655.

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Table E-10
City of Pismo Beach
Water Enterprise
Statement of Net Assets
Fiscal Years 2008-09 and 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$5,102,282 | \$4,806,966 |
| Receivables (net): | 483,453 | 496,865 |
| Prepayments | <u>1,316,704</u> | <u>1,393,213</u> |
| TOTAL CURRENT ASSETS | 6,902,439 | 6,697,045 |
| Noncurrent assets: | | |
| Other assets: | | |
| Restricted cash and cash equivalent | — | — |
| Debt issuance costs, net | <u>—</u> | <u>—</u> |
| TOTAL OTHER NONCURRENT ASSETS | — | — |
| TOTAL ASSETS | | |
| Capital assets: | | |
| Capital assets not being depreciated: | | |
| Land | 129,591 | 129,591 |
| Construction in progress | 198,739 | 347,727 |
| TOTAL | 328,330 | 477,318 |
| Capital assets being depreciated | | |
| Improvements and buildings | 2,753,646 | 2,972,479 |
| Motor vehicles | — | 0 |
| Distribution and collection systems | 7,801,921 | 7,801,921 |
| Parking equipment and metering systems | — | — |
| Pier | — | — |
| Capital rights | 939,838 | 939,838 |
| Less accumulated depreciation | (5,845,409) | (6,171,087) |
| Net capital assets being depreciated | 5,649,996 | 5,543,151 |
| Net capital assets | 5,978,326 | 6,020,469 |
| TOTAL NONCURRENT ASSETS | <u>5,978,326</u> | <u>6,020,469</u> |
| TOTAL ASSETS | <u>\$12,880,765</u> | <u>\$12,717,513</u> |
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | \$29,168 | 49,652 |
| Compensated absences | 7,718 | 9,748 |
| Accrued interest payable | — | — |
| Other current liabilities | 14,720 | 18,125 |
| Loans, revenue bonds and leases due in one year | <u>—</u> | <u>—</u> |
| TOTAL CURRENT LIABILITIES | 51,606 | 77,525 |
| Noncurrent liabilities: | | |
| Compensated absences | <u>15,336</u> | <u>3,557</u> |
| TOTAL NONCURRENT LIABILITIES: | <u>15,336</u> | <u>3,557</u> |
| TOTAL LIABILITIES | 66,942 | 81,082 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 5,978,326 | 6,020,468 |
| Restricted for capital improvements | — | — |
| Unrestricted | <u>6,835,497</u> | <u>6,615,962</u> |
| TOTAL NET ASSETS | <u>\$12,813,823</u> | <u>\$12,636,431</u> |

Table E-11
City of Pismo Beach
Water Enterprise
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Fiscal Year 2008-09 and 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|--|------------------|------------------|
| Operating Revenues | | |
| Sale of water | \$2,834,803 | \$2,874,984 |
| Service fees | 303,674 | 70,565 |
| Miscellaneous | <u>51,870</u> | <u>49,809</u> |
| TOTAL OPERATING REVENUES | 3,190,347 | 2,995,358 |
| Operating Expenses | | |
| Salaries and benefits | 561,768 | 555,339 |
| Purchased power | 132,033 | 90,576 |
| Services and supplies | 483,460 | 558,862 |
| Customer accounting | 53,624 | 53,624 |
| Joint operating expense | 1,861,398 | 2,881,771 |
| Depreciation and amortization | <u>316,464</u> | <u>325,678</u> |
| TOTAL OPERATING EXPENSE | 3,408,747 | 4,465,850 |
| OPERATING INCOME (LOSS) | (218,400) | (1,470,492) |
| Non-Operating Revenue (expenses) | | |
| Property and special taxes | 1,187,392 | 1,213,189 |
| Operating subsidies | - | - |
| Gain (loss) on capital assets | - | - |
| Interest and investment revenue | 185,273 | 106,492 |
| Interest expense | <u>-</u> | <u>-</u> |
| TOTAL NON-OPERATING REVENUE (EXPENSES) | 1,372,665 | 1,319,681 |
| Income (loss) before contributions and transfers | 1,154,265 | (150,811) |
| Contributions and transfers: | | |
| Capital contributions | 439,430 | 0 |
| Transfers in | - | 1,084 |
| Transfers out | <u>(27,718)</u> | <u>(27,665)</u> |
| NET CONTRIBUTIONS AND TRANSFERS | 411,712 | (26,581) |
| Change in net assets | 1,565,977 | (177,392) |
| Total net assets , July 1 | 11,247,846 | 12,813,823 |
| Total net assets, June 30 | \$12,813,823 | \$12,636,431 |

Table E-12
City of Pismo Beach
Water Enterprise
Statement of Cash Flows
Fiscal Year 2008-09 and 2009-10

| | <u>2008-09</u> | <u>2009-10</u> |
|--|--------------------|--------------------|
| Cash Flows from Operating Activities | | |
| Receipts from customers | \$3,092,838 | \$2,966,516 |
| Payments to suppliers | (2,584,682) | (3,429,093) |
| Payments to other funds for services | (140,091) | (211,765) |
| Payments to employees | <u>(552,976)</u> | <u>(561,683)</u> |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | (184,911) | (1,236,025) |
| Cash Flows from Noncapital Financing Activities | | |
| Operating subsidies | — | — |
| Property and special taxes | 1,179,616 | 1,220,413 |
| Transfers from other funds | — | 1,084 |
| Transfer to other funds | <u>(27,718)</u> | <u>(27,665)</u> |
| NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES | 1,151,898 | <u>1,193,832</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from disposal capital assets | — | — |
| Capital contributions | — | — |
| Payments on long-term debt principal | — | — |
| Interest paid on long-term debt | — | — |
| Purchases of capital assets | <u>(2,634)</u> | <u>(367,821)</u> |
| NET CASH PROVIDED BY (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES | (2,634) | (367,821) |
| Cash Flows from Investing Activities | | |
| Interest receipts | <u>206,283</u> | <u>114,698</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 206,283 | 114,698 |
| Net increase (decrease in cash and cash equivalents | 1,170,636 | (295,316) |
| Balances-beginning of the year | <u>3,931,646</u> | <u>5,102,282</u> |
| Balances-end of the year | <u>\$5,102,282</u> | <u>\$4,806,966</u> |

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APPENDIX F

INFORMATION CONCERNING COUNTY OF SAN LUIS OBISPO SERVICE AREA NO. 12

General

County of San Luis Obispo Service Area No. 12 (“CSA No. 12”) was formed in two stages: first, on April 25, 1966 and then on November 21, 1966. CSA No. 12 contracted with the Flood Control District for the acquisition and distribution of Lopez Reservoir water to the Port San Luis area. Subsequent to development of the above contract, CSA No. 12 developed subcontracts with 21 individuals and organizations for the provision of CSA No. 12 Zone 3 (“Zone 3”) water to those 21 subcontractors. These contracts were necessary because private property owners cannot contract directly with Zone 3 for Lopez Reservoir water.

Governance and Management

The CSA No. 12 Governing Board is the San Luis Obispo County Board of Supervisors, sitting as the Governing Board of County Service Area No. 12. Board members and key staff are as follows:

Board Members

Adam Hill, *Chairperson*
James R. Patterson, *Vice-Chairperson*
Bruce S. Gibson, *Board Member*
Frank R. Mecham, *Board Member*
Paul Teixeira, *Board Member*

Key Staff

Paavo Ogren, *Director of Public Works*
Will Clemens, *Public Works Department Administrator*
Ron Coleman, *Water Systems Superintendent*
Dean Benedix, *Utilities Division Manager*
Jennie Brunick, *Accountant*

Service Area and Customers

CSA No. 12 is centrally located within San Luis Obispo County, approximately four miles from the Pacific Ocean, and immediately to the north of the community of Shell Beach. CSA No. 12 serves water to a large eastern section of Avila Beach and two smaller areas located to the north and west of Avila Beach. CSA No. 12 subcontractors include individual property owners, corporations, other water utilities and the City of Pismo Beach.

Paavo Ogren, *Director of Public Works*
Dean Benedix, *Utilities Division Manager*

Will Clemens, *Public Works Department Administrator*
Ron Coleman, *Water Systems Superintendent*

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Description of Customer Base

The CSA No. 12 customer base includes both residential and non-residential users. There are currently 22 customers, 12 of whom are non-residential, and 10 of whom are residential, detailed as follows.

**Table F-1
County of San Luis Obispo Service Area No. 12
Contractors
Fiscal Year 2010-11**

| <u>Customer</u> | <u>Entitlement (in acre feet)</u> |
|----------------------------------|---------------------------------------|
| Port San Luis Harbor District | 100.00 |
| City of Pismo Beach | 92.00 |
| Avila Beach CSD | 68.31 |
| Residential Users (10 customers) | 19.75 |
| Avila Valley Mutual Water Co. | 12.00 |
| Pacific Gas and Electric | 11.00 |
| US Vacation Resort | 7.00 |
| San Luis Coastal USD | 5.00 |
| San Luis Obispo Buddhist Temple | 5.00 |
| Avila Hot Springs | 7.94 |
| Day, John | 4.00 |
| San Miguelito Partners | 4.00 |
| Terrace Hills Congregation | <u>1.00</u> |
| TOTAL | 337.00 |

Source: County of San Luis Obispo.

The five largest customers of CSA No. 12, as determined by the amount of their respective annual payments, are set forth in the table below.

**Table F-2
County of San Luis Obispo Service Area No. 12
Five Largest Customers
Fiscal Year 2009-10**

| <u>Customer</u> | <u>Water Volume (in acre-feet)</u> | <u>Annual Payment</u> |
|----------------------------|--|---------------------------|
| Port San Luis Harbor Dst | 100.00 | \$189,140.14 |
| Pismo Beach, City of | 92.00 | 167,270.41 |
| Avila Beach Co Wtr Dst | 68.31 | 100,145.34 |
| Avila Valley Mutual Wtr Co | 12.00 | 20,991.54 |
| PG&E | <u>11.00</u> | <u>19,231.85</u> |
| Subtotal | 283.31 | \$496,779.28 |
| All Others | <u>53.69</u> | <u>92,924.86</u> |
| TOTAL | 337.00 [†] | \$589,704.12 |

[†] Represents 85% of CSA No. 12 total entitlement.
Source: County of San Luis Obispo.

There are currently 22 service connections within CSA No. 12. The number of service connections has been the same for the last five years.

Facilities

CSA No. 12 water facilities consist entirely of 17,525 feet (3.32 miles) of water transmission mains ranging in diameter from six to 14 inches and the 22 water meters for each of the CSA No. 12 subcontractors.

Sources of Water

CSA No. 12 receives all of its treated drinking water from San Luis Obispo County Flood Control and Water Conservation District, Zone 3 (Lopez Project), which water comes from Lopez Lake, located approximately seven miles to the east of the community of Arroyo Grande.

Water from Lopez Reservoir is transmitted to the Lopez Terminal Reservoir via a three mile long 20 inch transmission line. The water is then detained within the terminal reservoir for at least 30 days to ensure that the water is free from potential contamination and that any bacteria and other contaminants are eliminated prior to treatment. The water is subsequently treated at the Lopez Water Treatment Plant (treatment processes include: flocculation, sedimentation, coagulation, disinfection and filtration).

Treated water is stored in a clear water reservoir until it is distributed to the Zone 3 water contractors. Delivery is through a 68,209 foot long (12.92 miles) pipeline that ranges in diameter from 33 inches to 14 inches and the CSA No. 12 pipeline.

Table F-3
County of San Luis Obispo Service Area No. 12
Total Annual Water Deliveries
Fiscal Years 2005-06 through 2009-10

| <u>Fiscal Year</u> | <u>Total Water Delivery (in acre feet)</u> |
|--------------------|--|
| 2005-06 | 337 |
| 2006-07 | 337 |
| 2007-08 | 337 |
| 2008-09 | 337 |
| 2009-10 | 337 |

Source: County of San Luis Obispo.

Billing Procedures

CSA No. 12's allocation of Flood Control Zone 3 water is 337 a.f. Zone 3 bills CSA No. 12 twice annually for this allocation. A preliminary bill is based on the Zone 3 Proposed Budget and then a revised bill follows the preliminary bill. This later bill adjusts charges to the contractors based upon actual costs incurred by Zone 3 during the fiscal year.

CSA No. 12, in turn, bills sub-contractors of Flood Control Zone 3 water once annually in advance for the total amount Zone 3 has billed CSA No. 12 for the fiscal year. The sub-contractor is billed on a proportional basis. This one billing contains the adjustment for actual costs for the prior fiscal year.

As per contract requirements, the invoices are mailed to the contractors at least 30 days prior to the payment due date.

Rates and Charges

Charges to CSA No. 12 sub-contractors of Zone 3 water correspond directly to the proportion that each contractor's a.f. entitlement bears to CSA No. 12's total 337 a.f. entitlement.

The charge to each contractor is calculated as follows:

$$\text{individual contract a.f. entitlement} \div (337 \text{ a.f.}) \times (\text{CSA No. 12 total costs})$$

Financial Information

The following table summarizes the operating results for CSA No. 12 for the last five Years Fiscal and budgeted for the current Fiscal Year.

Table F-4
County of San Luis Obispo Service Area No. 12
Summary of Operating Results
Fiscal Years 2005-06 through 2009-10
and Budgeted for Fiscal Year 1010-11

| | <u>2005-06</u> | <u>2006-07</u> | <u>2007-08</u> | <u>2008-09</u> | <u>2009-10</u> | <u>Budgeted 2010-11</u> |
|--|----------------|----------------|----------------|----------------|----------------|-----------------------------|
| Revenues | | | | | | |
| Operating Revenues ⁽¹⁾ | \$344,230 | \$398,456 | \$429,332 | \$491,329 | \$589,705 | \$603,247 |
| Property Tax Allocation | 4,920 | 23,565 | 24,651 | 25,117 | 24,451 | 24,214 |
| Interest Income | <u>21,299</u> | <u>30,483</u> | <u>23,913</u> | <u>12,714</u> | <u>5,025</u> | <u>12,989</u> |
| TOTAL REVENUE | 370,449 | 452,504 | 477,896 | 529,159 | 619,181 | 640,450 |
| Expenses | | | | | | |
| Operations & Maintenance ⁽²⁾ | 29,134 | 34,014 | 34,923 | 43,813 | 44,427 | 28,666 |
| Lopez Water Contract Payment O&M | 199,306 | 236,450 | 241,508 | 280,242 | 349,225 | 309,103 |
| Lopez Water Contract Payment Debt Service | 120,998 | 103,333 | 99,007 | 93,328 | 91,611 | 91,687 |
| Lopez Water Contract Payment SRF Loan | <u>8,989</u> | <u>29,760</u> | <u>87,472</u> | <u>87,472</u> | <u>50,294</u> | <u>137,115</u> |
| TOTAL EXPENSES | \$358,427 | \$403,557 | \$462,910 | \$504,855 | \$535,557 | \$566,571 |
| Net Revenue | \$12,022 | \$48,947 | \$14,986 | \$24,304 | \$83,624 | \$73,879 |
| Lopez Dam Debt Service Coverage ⁽³⁾ | 1.33x | 1.74x | 1.43x | 1.56x | 2.22x | 2.11x |

(1) CSA No. 12 costs are passed through directly to CSA No. 12 subcontractors.

(2) Does *not* include Depreciation Expenses.

(3) Debt Service Coverage incorporates net revenues, debt service payments and funded coverage account amounts equal to \$28,017.

Source: County of San Luis Obispo.

Employees

CSA 12 has no employees. The County Public Works Department operates the system and charges all labor, services, supplies and equipments necessary to maintain the system to the CSA 12 Fund as they are incurred.

Audited Financial Statements

No audited financial statements relating to CSA No. 12 are prepared. Financial information relating to CSA No. 12 is included in the audited financial statements of the County. A copy of the June 30, 2010 audited financial statements for the County may be obtained from the County.

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APPENDIX G

PROPOSED FORM OF BOND COUNSEL OPINION

June 8, 2011

SLO County Financing Authority
County Government Center
San Luis Obispo, California 93408

\$22,750,000
SLO County Financing Authority
Lopez Dam Improvement Refunding Revenue Bonds
2011 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the SLO County Financing Authority, a joint exercise of powers authority of the State of California (the "Authority"), in connection with the issuance by the Authority of \$22,750,000 aggregate principal amount of its Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A, dated June 8, 2011 (the "Bonds"), pursuant to the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law") and pursuant to an Indenture of Trust, dated as of October 1, 2000, as supplemented by the First Supplemental Indenture of Trust, dated as of November 1, 2003, and the Second Supplemental Indenture of Trust, dated as of June 1, 2011 (collectively, the "Indenture"), each by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). We have examined the Law and such certified proceedings and other papers as we deem necessary to render this opinion.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the Authority in connection with the issuance of the Bonds. We have also examined and relied upon such certificates of officers of the Authority and others as we have considered necessary for the purposes of this opinion. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Indenture.

Based upon the foregoing, we are of the opinion that:

1. The Bonds constitute valid and binding limited obligations of the Authority as provided in the Indenture, and are entitled to the benefits of the Indenture. The Bonds are payable from Revenues (as such term is defined in the Indenture).

2. The Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the enforceability thereof against the Trustee, constitutes the legally valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms. The Indenture creates a valid pledge, to secure the payment of principal of and interest on the Bonds, of the Revenues and other amounts held by the Trustee in the funds and accounts established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for other purposes and on the terms and conditions set forth therein.

3. 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 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 gross income retroactive to the date of issue of the Bonds. The Authority has covenanted in the Indenture to maintain the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the aforementioned covenant, interest on the Bonds, as defined in section 61 of the Code, is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals. We call to your attention that interest on the Bonds, owned by a corporation (other than an “S” corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), financial asset securitization investment trust (FASIT), real estate investment trust (REIT)) is includable in its adjusted current earnings for purposes of calculating its 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 is computed.

Except as stated in the preceding two paragraphs, we express no opinion as to any federal or state tax consequences of the ownership or disposition of the Bonds. Furthermore, we 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 bond counsel.

The opinions expressed in paragraphs 1 and 2 above are qualified to the extent the enforceability of the Bonds and the Indenture may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. The enforceability of the Bonds and the Indenture is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

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

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 result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

APPENDIX H

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture and the Installment Purchase Agreement and is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement. This summary does not purport to be comprehensive or definitive and reference should be made to such documents for full and complete statements of their respective provisions. All capitalized terms used but not otherwise defined in this Appendix shall have the meanings assigned to such terms in the Indenture and the Installment Purchase Agreement.

DEFINITIONS

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California.

“Additional Bonds” means those bonds authorized and issued under the Indenture, on a parity with the Bonds, subsequent to the issuance of the Bonds, in accordance with the Indenture.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated August 15, 2000, by and between the County and the District, and as it may be duly amended and supplemented from time to time, creating the Authority for the purposes, among other things, of assisting the County and the District in the financing and refinancing of Public Capital Improvements, as such term is defined in the Bond Law.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds in any Bond Year and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

“Authority Bond Counsel” means the law firm of Fulbright & Jaworski L.L.P., Los Angeles, California, and any successor firm or any other firm of nationally recognized bond counsel acceptable to the Authority.

“Authority Bonds” means, collectively and following the 2011A Effective Date, (1) the aggregate principal amount of SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A, a portion of which will be applied to fund the acquisition of the Installment Purchase Agreement (the “Series 2011A Bonds”); (2) any Additional Bonds; and (3) any bonds issued to refund such Authority Bonds.

“Authority’s Property Interests” means all right, title and interest of the Authority in and to any real or personal property comprising a portion of the Facilities, including any fee, leasehold or other interest therein existing.

“Authorized Denomination” means, as to any Bond, the principal amount as applicable, of \$5,000 or any integral multiple thereof.

“Authorized Representative” means: (a) with respect to the Authority, its Chairman, Vice Chairman, Executive Director or Secretary, or any other Person designated as an Authorized Representative of the Authority by a certificate of the Authority signed by its Chairman and filed with each Local Agency, the Authority and the Trustee; (b) with respect to the County, the Chairman of the Board of Supervisors, its Auditor or Treasurer, or any other Person designated as an Authorized Representative of the County by a certificate signed on behalf of the County by its Chairman and filed with the Authority and the Trustee; (c) with respect to the District, the Authorized Representative of the County, or any other Person designated as an Authorized Representative of the County by a certificate signed on behalf of the District by the Chairman and filed with the Authority and the Trustee; and (d) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, any Senior Authorized

Officer or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee. An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

“Bonds” means the SLO County Financing Authority Lopez Dam Improvement Revenue Bonds, issued and at any time Outstanding pursuant to the Bond Law and the Indenture, including Additional Bonds. **“2000 Bonds”** shall mean the Authority’s Lopez Dam Improvement Revenue Bonds, 2000 Series A; and **“2011 Bonds”** shall mean the Authority’s Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A.

“Bond Counsel” means Authority Bond Counsel.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584), as amended from time to time.

“Bond Purchase Contract” means an agreement to purchase the Bonds by and between the Authority and the Original Purchaser of the Bonds.

“Bond Year” means each twelve-month period beginning on August 1 of each year and ending on July 31 of the following year. With respect to the 2000 Bonds, the first such Bond Year shall begin on the Closing Date and end on July 31, 2001. With respect to the 2011 Bonds, the first such Bond Year shall begin on the 2011 Closing Date and end on July 31, 2011.

“Business Day” means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, or in any state in which the Principal Office of the Trustee is located, or the New York Stock Exchange are closed. If any payment under the Indenture is due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day with the same effect as if made on such previous day.

“2011 Closing Date” means the date of initial delivery of the 2011 Bonds.

“Contracts” means the Installment Agreement and any amendments and supplements thereto, and all contracts authorized and executed by the Purchaser, the Installment Payments under which are on a parity with the Series 2011A Installment Payments and which are secured by a pledge and lien on the Net Revenues.

“Cost of Delivery” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Purchaser which are related to the authorization, execution and delivery of the Installment Agreement, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by them, filing fees, initial fees and charges of the Trustee, fees and charges of the Authority, if any, legal fees and charges, fees and expenses of consultants and professionals, fees and expenses of any financial advisor, fees and charges for preparation, execution, delivery and safekeeping of the Installment Agreement, the premium for any policy of municipal bond insurance applicable thereto, and any other charge, cost or fee in connection with the original execution and delivery of the Indenture.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority relating to the authorization, issuance, sale and delivery of the Bonds and the Local Obligations, including but not limited to underwriter’s discount, printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges and first annual administrative fee of the Trustee and fees of its counsel, fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Bonds and the Local Obligations, and any other cost, charge or fee in connection with the original issuance of the Bonds and the Local Obligations.

“County” means the County of San Luis Obispo, California.

“Date of Operation” means, with respect to any uncompleted component of a Project, the estimated date by which such component will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the Purchaser.

“Debt Service” means, for any period of calculation, the sum of: (i) the interest accruing during such period on all outstanding Installment Payments are paid as scheduled (except to the extent that any Installment Payment is to be paid from the proceeds of sale thereof); (ii) those portions of the principal amount of all Installment Payments scheduled in such period and in the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts; (iii) those portions of the principal amount of all Installment Payments required to be prepaid or paid in such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts, and (iv) those portions of the Installment Payments required to be made during such period and during the next succeeding period of calculation accruing during such period, in each case computed as if such Installment Payments were deemed to accrue daily during such period in equal amounts (except to the extent the interest evidenced and represented thereby is to be paid from the proceeds of the sale of any subsequent certificates of participation in such Installment Payments): provided that, as to any such Installment Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be assumed to be the highest of: (i) the actual rate on the date of calculation, or if the Contracts or Obligations are not yet outstanding, the initial rate (if established and binding), (ii) if the Contracts or Obligations have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(1) if interest on the Contracts or Obligations are excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published *Bond Buyer 25 Bond Revenue Index* (or comparable index if no longer published), or (2) if interest is not so excludable, the interest rate on direct United States Treasury obligations with comparable maturities, plus fifty (50) basis points; provided further that if any series or issue of such Contracts or Obligations have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the period of determination as if the principal of and interest on such series or issue of such Contracts or Obligations were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of thirty (30) years from the date of calculation; and provided further that, as to any such Contracts or Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Contracts or Obligations or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and provided further that the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Contracts and Obligations for which such debt service reserve fund was established and to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in descending order, until such amount is exhausted. “Debt Service” shall also include any amounts owed by the Purchaser to the provider of a Reserve Fund Credit Instrument as a result of a draw thereon or a claim thereunder, as appropriate, if and to the extent the Purchaser chooses to satisfy the Series 2011A Reserve Fund Requirement with a Reserve Fund Credit Instrument.

“Defeasance Obligations” means only (1) cash, (2) non-callable direct obligations of the United States of America, or (3) pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively (or any combination thereof).

“District Revenues” means those revenues of the Purchaser more particularly described in Article 14(A) of the Water Supply Contracts.

“2011 Effective Date” means the date of delivery of the 2011 Bonds.

“Enterprise” means the whole and each and every part of the Lopez Dam water containment and supply facilities, including, without limitation, its appurtenant water delivery structures and lines, its recreational facilities and all additions, betterments, extensions and improvements thereto or any part thereof thereafter acquired or constructed.

“Event of Bankruptcy” means, with respect to any Person, the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning

insolvency, reorganization or bankruptcy by or against such Person as debtor, other than any involuntary proceeding which has been finally dismissed without entry of an order for relief or similar order as to which all appeal periods have expired.

“Event of Default” means any of the events of default specified in the Indenture.

“Facilities” means all those facilities more particularly described on Exhibit B to the Installment Agreement, commonly known as “Lopez Dam,” which is the subject matter thereof and for which the Purchase Price is being paid.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period thereafter selected and designated as the official fiscal year period of the Authority and certified to the Trustee in writing by an Authorized Representative of the Authority.

“Indenture” means that certain Indenture of Trust, dated as of October 1, 2000, by and between the Authority and the Trustee, pursuant to which the Authority Bonds were issued, as amended as of November 1, 2003, and as of June 1, 2011, and as it may from time to time be further amended or supplemented in accordance with its terms.

“Independent Accountant” means any nationally recognized firm of certified public accountants or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by the Authority, and who, or each of whom: (a) is in fact independent and not under domination of the Authority, the County or the District; (b) does not have any substantial interest, direct or indirect, with the Authority, the County or the District; and (c) is not connected with the Authority, the County or the District as an officer or employee of the Authority, the County or the District, but who may be regularly retained to make reports to the Authority, the County or the District.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Purchaser, each of whom is independent of the Purchaser and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Independent Financial Consultant” means any financial consultant or firm of such financial consultants appointed by the Authority and who, or each of whom: (a) is judged by the Authority to have experience with respect to the financing of public capital improvement projects; (b) is in fact independent and not under the domination of the Authority, the County or the District; (c) does not have any substantial interest, direct or indirect, with the Authority, the County or the District; and (d) is not connected with the Authority, the County or the District as an officer or employee of the Authority, the County or the District, but who may be regularly retained to make reports to the Authority, the County or the District.

“Installment Agreement” means the Installment Purchase Agreement, by and between the Purchaser and the Authority, dated as of October 1, 2000, as originally executed, as amended as of June 1, 2011, and as it may from time to time be amended or supplemented in accordance with the Indenture.

“Installment Payment Date” means each date on which Installment Payments are scheduled to be paid by the Purchaser under and pursuant to any Contract, and, as of the 2011 Effective Date, means the fifth day prior to each Interest Payment Date, or if said date is not a Business Day, then the preceding Business Day.

“Installment Payments” means the installment payments of interest and principal scheduled to be paid by the Purchaser under and pursuant to the Contracts. The term “Series 2000A Installment Payments” means the Installment Payments scheduled to be paid by the Purchaser under and pursuant to the Installment Agreement. “Series 2011A Installment Payments” means the Installment Payments scheduled to be paid by the Purchaser under and pursuant to the First Amendment to the Agreement.

“Installment Sale Agreement” means that certain Installment Sale Agreement, dated as of October 1, 2000, as amended as of June 1, 2011, and any amendments thereto, by and between the Purchaser and the Authority, whereby the Authority purchases the Facilities from the Purchaser.

“Interest Account” means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as prescribed in the Indenture.

“Interest Payment Date” means February 1 and August 1, commencing August 1, 2001. For the 2011 Bonds, the interest payments will commence on February 1, 2012.

“Local Obligations” means: (i) the San Luis Obispo County Flood Control and Water Conservation District, Zone 3, General Obligation Bonds, 2000 Election, Series A (the “General Obligation Bonds”); and (ii) the Installment Agreement.

“Maximum Annual Debt Service” means, as of any date of calculation, the largest Annual Debt Service, during the current or any future Bond Year.

“Mello-Roos Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Sections 53311 *et seq.*

“Minimum Rating” means a rating of “Aa” or better by Moody’s or “AA” or better by S&P, determined without regard to whether such rating is qualified by a provisional or conditional modifier. With respect to the Minimum Rating on any particular Permitted Investment, in the event the rating system of Moody’s or S&P does not include any such rating categories equivalent to “Aa” and “AA” or better, the Minimum Rating with respect to such Permitted Investment shall mean one of the two highest general rating categories equivalent to “Aa” and “AA” or better applicable to such Permitted Investment (determined without regard to any refinement or gradation of such rating category by a numerical modifier, a plus or a minus sign, or otherwise) assigned by Moody’s or S&P, as applicable.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys fees) incurred in the collection of such proceeds.

“Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

“Obligations” means any financing secured by the Net Revenues of the Enterprise, including revenue bonds or notes, certificates of participation and any other obligation authorized to be issued by or on behalf of the Purchaser pursuant to State law, whether such Obligations are to be paid on a parity or subordinate basis with the Installment Payments.

“Operation and Maintenance Costs” means (1) costs spent or incurred for maintenance and operation of the Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, security expenses, and administrative costs of the Purchaser that are charged directly or apportioned to the Enterprise, including but not limited to salaries and wages of employees, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and (2) all other reasonable and necessary costs of the Purchaser or charges (other than debt service payments) required to be paid by it to comply with the terms of the Installment Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Obligations, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and capital improvements for the betterment of the Enterprise requiring amortization pursuant to the Internal Revenue Code.

“Operating Fund” means the fund by that name established pursuant to the Installment Agreement.

“2011 Original Purchaser” means Wedbush Securities Inc.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds of a Series of the Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including particular Bonds (or portions of Bonds) described in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” or **“Bond Owner,”** whenever used in the Indenture with respect to a Bond, means the Person in whose name the ownership of such Bond is registered on the Registration Books.

“Participating Agencies” shall initially mean San Luis Obispo County Services District No. 13, the City of Pismo Beach, the City of Grover Beach and the City of Arroyo Grande, and shall include any additional agencies as may enter into a Water Supply Contract with the Purchaser.

“Permitted Investments” means the investments set forth under the definition thereof in the Indenture. Section E of EXHIBIT C – LIST OF PERMISSIBLE INVESTMENTS FOR INDENTURED FUNDS of the Indenture is amended and replaced with the following:

“Unsecured certificates of deposit, time deposits and bankers’ acceptance of any bank the short-term obligations of which are rated on the date of purchase “A-1+” or better by S&P and “P-1” by Moody’s and or certificates of deposit (including those of the Trustee, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase A-1 or better by S&P, Moody’s and Fitch.”

“Principal Account” means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

“Principal Office” means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the Authority, initially being Los Angeles, except that with respect to presentation of Bonds for payment or for registration of transfer or exchange or maintenance of the Registration Books, such term shall mean the office of the Trustee at which its corporate agency business shall be conducted.

“Principal Repayments” means any amounts received by the Trustee representing a repayment of principal of any issue of Local Obligations, whether at maturity of such issue of Local Obligations or upon the prior redemption, prepayment or acceleration thereof.

“Proceeds” when used with respect to the Bonds, means the face amount of the Bonds, plus accrued interest and original issue premium, if any, less original issue discount, if any.

“Project” means the seismic improvements to Lopez Dam, and related safety and water quality improvements, to be financed with the proceeds of the Local Obligations, more particularly described in the Installment Agreement.

“Proportionate Share” means Proportionate Share as such term is defined in the Fiscal Agent Agreements with respect to the Local Obligation, as appropriate.

“Purchase Price” means the principal amount, plus interest thereon, owed by the Purchaser to the Authority under the terms of the Installment Agreement.

“Record Date” means the fifteenth (15th) day (whether or not such day is a Business Day) preceding each Interest Payment Date.

“Redemption Account” means the account by that name established with the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

“Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Bonds pursuant to the Indenture.

“Requisition” means a written requisition in the form attached to the Indenture.

“2011 Reserve Account” means the account established within the Reserve Fund in which the 2011 Reserve Requirement shall be deposited, held and invested.

“Reserve Fund” means the fund by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

“Reserve Requirement” means, as of any date of calculation, an amount equal to the least of (a) 125% of the average annual debt service on the Installment Agreement for that and any subsequent Bond Year, (b) 100% of the maximum annual debt service on the Installment Agreement for that or any subsequent Bond Year, or (c) 10% of the issue price of the Bonds (within the meaning of section 148 of the Code) attributable to the Installment Agreement. No Reserve Requirement is established for the General Obligation Bonds.

“Revenue Fund” means the fund by that name established and held by the Trustee with respect to the Bonds pursuant to the Indenture and to be administered as provided in the Indenture.

“Revenues” means, with respect to the Bonds: (a) all amounts derived from the Local Obligations and (b) investment income with respect to the funds and accounts established except for investment earnings on the Reserve Fund which will be allocated as provided in accordance with the Installment Agreement.

“S&P” means Standard & Poor’s, its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 22nd Floor, New York, New York 10041, Fax (212) 855-8440; and, in accordance with then current guidelines of the securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Series 2000A Reserve Fund Requirement” means, as of any date of calculation, the least of (1) ten percent (10%) of the sale proceeds of the Bonds (within the meaning of Section 1.148-1 of the Tax Regulations), being the Purchase Price, or (2) maximum annual Series 2000A Installment Payments for that or any subsequent Bond Year, or (3) one hundred twenty-five percent (125%) of the average annual Series 2000A Installment Payments for that and any subsequent Bond Year.

“Series 2011A Reserve Fund Requirement” means, as of any date of calculation, the least of (a) ten percent (10%) of the sale proceeds hereof (within the meaning of Section 1.148-1 of the Tax Regulations), being the Purchase Price, or (b) maximum annual Series 2011A Installment Payments for that or any subsequent Bond Year, or (c) one hundred twenty-five percent (125%) of the average annual Series 2011A Installment Payments for that and any subsequent Bond Year.

“Special Record Date” means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on the Bonds, if any.

“Supplemental Indenture” means a Supplemental Indenture of Trust providing for any matter in the Indenture authorized, entered into by and between the Authority and the Trustee pursuant to the provisions of the Indenture.

“**Tax Code**” means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall include the applicable Regulations promulgated with respect to such provision.

“**Tax Regulations**” means temporary and permanent regulations promulgated under Section 103 and related sections of the Tax Code.

“**Water Supply Contracts**” means those certain Water Supply Contracts entered into as of various dates, by and between the Purchaser and the Participating Agencies, pursuant to which the water produced by the Project is sold.

“**Written Certificate**” and “**Written Request**” of the Authority or the District, mean, respectively, a written certificate or written request signed in the name of the Authority by its Authorized Representative or in the name of the District by its Authorized Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such certificate or request shall include the statements provided for in the Indenture.

THE INDENTURE

Pledge of Revenues; Funds and Accounts

Pledge and Assignment. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Bonds by the Trustee and the Revenues and other items pledged under the Indenture shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act.

Subject to the provisions of the Indenture, the Authority pledges and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues all of the monies, and securities in the funds and accounts created under the Indenture, as their interests appear and other amounts pledged in paragraph (a) above and all of the right, title and interest of the Authority in the Local Obligations. The Authority shall collect and receive, or cause to be collected and received by the Trustee, all such Revenues, and Revenues collected or received by the Authority, or collected and received by the Trustee on behalf of the Authority, shall be deemed to be held, and to have been collected or received, by the Authority, in trust, and shall be paid to the Trustee as set forth in the Indenture. The Trustee also shall be entitled to and may take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, by itself, all of the rights of the Authority and all of the obligations of the District under and with respect to its Local Obligations.

Establishment of Revenue Fund; Allocation of Revenues. The Authority shall establish with the Trustee a special fund designated the “Revenue Fund” which the Trustee shall maintain and hold in trust. Within the Revenue Fund the Trustee shall establish special accounts designated as the “Principal Account” and the “Interest Account.” Such fund and accounts shall be held and maintained as separate and distinct funds and accounts. All Revenues, except for investment earnings on the Reserve Accounts which shall be applied according to the Indenture shall be promptly transferred to the Trustee by the Authority and deposited by the Trustee upon receipt thereof into the “Revenue Fund” which the Trustee shall maintain and hold in trust. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. On each Interest Payment Date, the Trustee shall transfer all Revenues then in the Revenue Fund into the following funds and accounts 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 Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority. The Trustee shall deposit into the Interest Account an amount which, together with the amounts then on deposit therein, (including, with respect to amounts, if any, attributable to the Installment Agreement transferred by the Trustee from the Reserve Fund pursuant to the Indenture), is sufficient to cause the aggregate amount on deposit

in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amount of interest previously due and unpaid. The Trustee shall deposit into the Principal Account, if necessary, an amount which, together with the amounts then on deposit therein, including amounts, if any, transferred from the Reserve Account(s) of the Reserve Fund pursuant to the Indenture is sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal or mandatory sinking account payment coming due and payable on the Bonds within the Bond Year and any amount of principal previously due and unpaid.

Application of Interest Account. Subject to the provisions of the Indenture, all amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable or, at the Written Request of the Authority filed with the Trustee, to apply to the payment of accrued interest on any Bonds purchased by the Authority pursuant to the Indenture in lieu of redemption pursuant to the Indenture. Any amounts on deposit in the Interest Account on any Interest Payment Date which are not required to pay interest then due and payable on the Bonds shall be transferred to the Revenue Fund.

Application of Principal Account. Subject to the provisions of the Indenture, all amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal or maturity amount, as applicable, of the Bonds upon the stated maturity thereof or upon any prior redemption of the Bonds with the proceeds of mandatory sinking payments. Any amounts on deposit in the Principal Account on any Interest Payment Date which are not required to pay the principal amount or maturity amount, as applicable, then due and payable on the Bonds shall be transferred to the Revenue Fund.

Establishment and Application of Redemption Account. The Authority shall establish special accounts within the Revenue Fund designated as the "Redemption Account," which account the Trustee shall maintain and hold in trust as a separate and distinct account within such fund. The Trustee shall deposit in the Redemption Account any amounts required or permitted to be applied to the redemption of Bonds pursuant to the Indenture. Subject to the provisions of the Indenture, all amounts deposited in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming the Bonds in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has been given and at the redemption prices then applicable. At any time prior to selection of Bonds for such notice of redemption, the Trustee may, at the Written Request of the Authority, apply amounts on deposit in the Redemption Account to the purchase of the Bonds, for cancellation, at public or private sale, as and when and at prices not exceeding the par amount thereof (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account).

Establishment and Application of Reserve Fund.

Reserve Fund. The Authority shall establish a special fund, which fund the Trustee shall maintain and hold in trust as a separate trust fund designated as the "Reserve Fund." In the event that on any Interest Payment Date, the full amount of the interest, principal or redemption price attributable to the Installment Agreement required to be deposited on such Interest Payment Date pursuant to the Indenture in the Interest Account, Principal Account or Redemption Account, as applicable, is not then on deposit therein, the Trustee shall on such Interest Payment Date withdraw from the Reserve Fund an amount equal to any such deficiency and shall notify the Authority of any such withdrawal. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in such order of priority, in the event of any deficiency at any time in any of such Accounts or for the retirement of all the Bonds then Outstanding attributable to the Installment Agreement, except that so long as the Authority is not in default under the Indenture, any amount in the Reserve Fund in excess of the Reserve Requirement shall be withdrawn from the Reserve Fund semiannually at least two (2) Business Days prior to each Interest Payment Date and be deposited in the Interest Account and credited to the obligations of the District under the Installment Agreement. The Trustee shall notify the Authority of the amount of any such transfer not later than the second Business Day prior to the applicable Interest Payment Date. Notwithstanding anything in the Indenture to the contrary, investment earnings on funds held within the Reserve Fund shall first be applied to restore the Reserve Fund to the Reserve Requirement if a deficit exists. Investment earnings on amounts in the Reserve Fund shall be deposited to the following funds and accounts and transferred in the following order:

FIRST: The Reserve Fund to the level of the Reserve Requirement;

SECOND: Interest Account;

THIRD: Principal Account.

Notwithstanding any provision of the Indenture to the contrary, all or any portion of the Reserve Requirement may be satisfied by the provision of a policy of insurance, a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, that, together with moneys on deposit in the Reserve Fund, provides an aggregate amount equal to the Reserve Requirement; provided, that the delivery of such policy of insurance, surety bond, letter of credit or other comparable credit facility will only be permitted so long as its inclusion does not cause the then-prevailing rating on the Bonds to be lowered or given a negative qualifier. Upon deposit of a surety bond, a letter of credit or other comparable credit facility, or a combination thereof, the Trustee shall transfer any excess amounts then on deposit in the Reserve Fund into a segregated account of the Revenue Fund, which monies shall be applied either (i) to the payment within one year of the date of transfer of capital expenditures of the Authority or the District permitted by law, or (ii) to the redemption of Bonds on the earliest succeeding date on which such redemption is permitted by the Indenture, and pending such application shall be held either not invested in investment property (as defined in section 148(b) of the Code), or invested in such property to produce a yield that is not in excess of the yield on the Bonds; *provided, however*, that the Authority may by written direction to the Trustee cause an alternative use of such amounts if the Authority shall first have obtained a written opinion of nationally recognized bond counsel substantially to the effect that such alternative use will not adversely affect the exclusion pursuant to section 103 of the Code of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

The Trustee will establish the 2011 Reserve Account within the Reserve Fund and maintain separate records as to investments and earnings within such Accounts, in order to facilitate compliance by the District with the Tax Certificate and the Agreement.

Investment of Moneys. Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established pursuant to the Indenture shall be invested by the Authority solely in Permitted Investments, or, if such fund or account is held by the Trustee solely in Permitted Investments, as directed in writing by the Authority two (2) Business Days prior to the making of such investment. Such investment instructions shall certify that the investment is a Permitted Investment. Permitted Investments may be purchased at such prices as the Authority shall determine. All Permitted Investments shall be acquired subject to any restrictive instructions given to the Trustee pursuant to the Indenture and such additional limitations or requirements consistent with the foregoing as may be established by the Written Request of the Authority. Moneys in any funds and accounts shall be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture. Absent timely written direction from the Authority, the Trustee shall invest any funds held by it in Permitted Investments described in clause (7) of the definition thereof.

Except as provided in the Indenture with respect to the Reserve Fund, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture shall be deposited in the Interest Account. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investments equal to the amount of accrued interest, if, any, paid as part of the purchase price of such Permitted investments shall be credited to the fund from which such accrued interest was paid.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture shall be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at the lesser of cost or market value exclusive of accrued interest, if any, paid as part of the Purchase Price. The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee therefor. Upon the Written Request of the Authority, or as required for the purposes of the provisions of the Indenture, the Trustee shall sell or present for redemption, any Permitted Investments so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investments is credited, and the Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the

Indenture. Investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity, except in the case of Permitted Investments qualifying as guaranteed investment contracts, of not greater than five years.

Application of Proceeds of the Bonds; Establishment of Program Fund. The net proceeds received from the sale of the 2011 Bonds shall be deposited in trust with the Trustee, who shall set aside such proceeds as follows: (a) The Trustee shall deposit into that certain Costs of Issuance Fund for the 2011 Bonds which amount is net of any Bond Insurance premium to be paid by the Original Purchaser directly to the Bond Insurer; as applicable; (b) The Trustee shall deposit into the 2011 Reserve Account the amount of the 2011 Reserve Requirement; and (c) The Trustee shall transfer the remainder of the proceeds of sale of the 2011 Bonds to the 2000 Trustee for deposit into that certain Redemption Account for the 2011 Bonds (the “Bond Proceeds Deposit”).

To the extent the Bond Proceeds Deposit exceeds the amount required to fund the Redemption Account, the 2000 Trustee shall transfer such excess amount of the Bond Proceeds Deposit back to the Trustee for deposit into the Revenue Fund.

The Trustee may, in its discretion, establish a temporary fund or account to account for and facilitate the foregoing deposits and transfers.

Program Fund. The Trustee shall establish and maintain a separate fund to be known as the “Program Fund” into which shall be deposited a portion of the proceeds of the sale of the Bonds pursuant to the Indenture. The Trustee shall use such proceeds of the Bonds in the Program Fund to purchase the obligations attributable to the Installment Agreement of the District on the Closing Date as directed in writing by the Authority; the portion of the purchase price of the Bonds attributable to the purchase price of the General Obligation Bonds deposited with the Treasurer shall be deemed credited to and withdrawn from the Program Fund for the acquisition of the General Obligation Bonds.

Project Fund and Costs of Issuance Fund. The Trustee shall establish and maintain a separate fund to be held by the Trustee known as the “Project Fund” into which shall be deposited the amounts set forth in the Indenture comprising the remainder of the proceeds of the Bonds attributable to the Installment Agreement, which moneys shall be applied to authorized purposes which relate to the acquisition or improvement of the Water Enterprise upon receipt of a Requisition of the District on behalf of the Authority. The Authority designates the District as its agent in connection with the construction of the Project. The Trustee shall establish and maintain a separate fund to be held by the Trustee known as the “Costs of Issuance Fund” into which shall be deposited the amounts set forth in the Indenture. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time upon receipt of a Requisition of the Authority.

Additional Bonds

In addition to the Bonds, the Trustee shall, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of bonds secured by the pledge made under the Indenture equally and ratably with any Bonds previously issued and delivered, in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture and any additional requirements set forth in the applicable Supplemental Indenture, which are made conditions precedent to the execution and delivery of Additional Bonds: (a) no Event of Default shall have occurred and be then continuing; (b) the Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (i) to provide moneys needed to acquire Local Obligations by depositing into the Proceeds Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds theretofore outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the Authority with respect to the purchase of Local Obligations. Such supplement to the Indenture may, but shall not be required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other obligations of the Authority, expenses incident to calling, redeeming, paying

or otherwise discharging the amounts to be paid off with the proceeds of the Additional Bonds; (c) the Authority shall deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement for all Bonds and Additional Bonds to be then Outstanding; (d) the Additional Bonds shall be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months; (e) fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such series on or before their respective maturity dates; (f) the aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture; (g) the Trustee shall be the Trustee for the Additional Bonds.

Whenever the Authority shall determine to file its Written Request with the Trustee for the execution and delivery of Additional Bonds, the Authority shall authorize the execution and delivery of a Supplemental Indenture, specifying the aggregate principal amount and describing the forms of Bonds and providing the terms, conditions, distinctive designation, denominations, date, maturity date or dates, interest rate or rates (or the manner of determining same), Interest Payments and payment dates, redemption provisions and place or places of payment of principal or redemption price, if any, and interest represented by such Additional Bonds not inconsistent with the terms of the Indenture. Before any series of Additional Bonds may be executed and delivered by the Trustee, the Authority shall file the following documents with the Trustee: (a) an executed copy of the applicable Supplemental Indenture; (b) a statement of the Authority to the effect that the requirements of the Indenture have been met; (c) in the case of a series of Additional Bonds delivered for the purpose described in the Indenture, irrevocable instructions to the Trustee to give notice of redemption of all Bonds to be redeemed in connection therewith; and (d) an opinion or opinions of Special Counsel, to the effect that the execution and delivery of the Additional Bonds, the supplement to the Indenture and related supplements or amendments have been duly authorized by the Authority and meet the requirements of the Indenture; and that the execution and delivery of such Additional Bonds will not, in and of themselves, cause the interest on the Bonds to become included within gross income for purposes of Federal income taxation.

Particular Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture and received by the Authority or the Trustee.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal, of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are outstanding, except the pledge and assignment created by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves” the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues, the Local Obligations and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding

special obligations of the Authority in accordance with their terms, and the Authority and the Trustee, subject to the provisions of the Indenture, shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all Persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the Bond proceeds, the Revenues, the Local Obligations and all funds and accounts established with the Trustee pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority, the Independent Financial Consultant, the Original Purchaser, and the District, during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Authority shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions relating to the Bond proceeds, the Revenues, the Local Obligations and all funds and accounts established pursuant to the Indenture (other than those records and accounts kept by the Trustee). Such books of record and account shall be available for inspection by the Trustee, the Independent Financial Consultant and the District, during regular business hours and upon twenty-four (24) hours, notice and under reasonable circumstances as agreed to by the Authority.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time thereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Tax Covenants. The following terms have the following meanings: “*Code*” means the Internal Revenue Code of 1986, as amended. “*Computation Date*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations. “*Gross Proceeds*,” with respect to the issue comprising the Bonds, means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of that issue. “*Investment*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations. “*Nonpurpose Investment*” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of any series of Bonds are invested and that is not acquired to carry out the governmental purposes of that series of Bonds. “*Rebate Amount*,” with respect to the Bonds, has the meaning set forth in section 1.148-1(b) of the Tax Regulations. “*Tax Regulations*” means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code, or section 103 of the 1954 Code, as applicable. “*Yield*” of any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and with respect to any Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

The Authority shall not use, permit the use of, or omit to use Gross Proceeds of Bonds or any other amounts (or any property the acquisition, construction or improvement of which was or is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, could cause the interest on any Bond to fail to be excluded pursuant to section 103(a) of the Code from the gross income of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion of the interest on any Bond from the gross income of the owner thereof for federal income tax purposes, the Authority, respectively, shall comply with each of the specific covenants in this provision.

Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations, the Authority shall assure that the County at all times previously did and shall prior to the final cancellation of the last of the Bonds to be retired: (i) exclusively own, operate and possess all property the acquisition, construction or improvement of which was or is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including through any contractual arrangement with terms different than those applicable to the general public) or of any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and (ii) not directly or indirectly impose or

accept any charge or other payment by any person or entity who was or is treated as using Gross Proceeds of the Bonds or any property acquired, constructed or improved with such Gross Proceeds, other than taxes of general application within its jurisdiction.

Except as would not cause any Bond to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the County nor the Authority has used or will use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (a) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (b) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (c) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan. Except as would not cause such Bonds to become “arbitrage bonds” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the County nor the Authority did or shall, at any time prior to the final cancellation of the last Bond of that series to be retired, directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of the Bonds of such series within the meaning of said section 148. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the County nor the Authority has taken, omitted to take, or shall take or omit to take, any action that would cause any Bond to be “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

The Authority shall timely file any information required by section 149(e) of the Code with respect to the Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations, with respect to the Bonds: (i) the County or the Authority, as the case may be, shall account for all Gross Proceeds of the Bonds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Bond of the series is discharged. However, to the extent permitted by law and not otherwise restricted by covenant, each the County and the Authority may commingle Gross Proceeds of Bonds with its other monies, provided that it separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith; (ii) not less frequently than each Computation Date with respect to the Bonds, the County shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder. The County promptly shall report to the Authority the results of such calculation, including the basis therefor, in sufficient detail and on a timely basis in order that the Authority be able to comply with its covenants in the Indenture. The Authority shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date; (iii) in order to assure the excludability of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes, the Authority timely shall make such payments to the United States as are required under section 148(f). In order to facilitate the ability of the Authority to make such payments, County shall pay to the Authority monies in amounts and at times sufficient to permit the Authority timely to pay to the United States the amount that when added to the future value of previous rebate payments made for the Bonds of the series equals (i) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Tax Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the Authority at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder for execution and filing by the Authority; (iv) the County shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (b) and (c), and if an error is made, to discover, report to the Authority and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Tax Regulations.

Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, neither the County nor the Authority did or shall, at any time prior to the final cancellation of the last of the Bonds to be retired, enter into any transaction that reduces the amount required to be paid to the United States with respect to such Bonds pursuant to this provision because such transaction resulted or results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yields on the Bonds not been relevant to either party.

The Authority represents that none of the Bonds is or will become a "hedge bond" within the meaning of section 149(g) of the Code. Also without limitation of the foregoing, (a) the Authority reasonably expects and believes (upon appropriate investigation) that the County expects that at least 85% of the spendable proceeds of the Bonds will be expended within the three-year period commencing on the date of issuance of the Bonds, and (b) no more than 50% of the proceeds of the Bonds were invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

Collection of Revenues. The Authority shall cause to be collected and paid to it all Revenues payable with respect to the Local Obligations promptly as such Revenues become due and payable, and shall vigorously enforce and cause to be enforced all rights of the Authority and the Trustee under and with respect to the Local Obligations. Upon any failure of the Authority to perform such covenant, the Trustee shall, subject to the provisions of the Indenture, take appropriate actions to collect and cause the Revenues to be paid to the Trustee.

Events of Default and Remedies

The following events shall be Events of Default: (i) if default by the Authority shall be made in the due and punctual payment of the principal of any Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for sinking fund redemption, by acceleration, or otherwise; (ii) if default shall be made in the due and punctual payment of any installment of interest on any Bonds when and as the same shall become due and payable; (iii) if default shall be made by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof which grace period shall not be extended beyond sixty (60) days, Trustee or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding as determined in the Indenture; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected; and (iv) the occurrence of an Event of Bankruptcy with respect to the Authority; or (v) the occurrence of a default under any Local Obligation.

No Acceleration. The Bonds are not subject to acceleration.

Remedies of Bond Owners. Subject to the provisions of the Indenture, any Bond Owner shall have the right, for the equal benefit and protection of all Bond Owners similarly situated: (i) by mandamus, suit, action or proceeding, to compel the Authority and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority and the fulfillment of all duties imposed upon it by the Bond Law; (ii) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Bond Owners, rights; or (iii) upon the happening of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its members and employees to account as if it and they were the trustees of an express trust.

Application of Revenues and other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Authority shall immediately upon receipt by the Authority be transferred by the Authority to the Trustee and be deposited by the Trustee in the Revenue Fund and all amounts held in the Revenue Fund by the Trustee and all Revenues and any other funds then held or thereafter received by the Authority or the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order: (i) to the payment of any fees and expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges

and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under, the Indenture; (ii) to the payment of the principal of and interest then due with respect to the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows: First: to the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and Second: to the payment to the Persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective Bonds on the date of maturity or redemption, and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the Persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. Subject to the provisions of the Indenture, the Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond owners, the Trustee in its discretion may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the applicable Supplemental Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture, or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Subject to the provisions of the Indenture, the owners of a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant thereto, shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction.

Limitation on Bond Owners' Right to Sue. No owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Agreement, the Bond Law or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have made written request upon the Trustee to exercise the powers granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that not one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Bond Law or other applicable law, with respect to the Bonds, except in the manner provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets in the Indenture pledged therefor and received by the Authority or the Trustee, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, object to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy in the Indenture conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or thereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into with the written consent of the owners of a majority in aggregate principal amount of all Bonds then Outstanding, as determined pursuant to the Indenture, which shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof, or extend the time of payment, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or (iii) permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this provision, the Trustee shall cause to be mailed a notice (the form of which shall be furnished to the Trustee by the Authority), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Indenture, to the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and any Supplemental Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into without the consent of any Bond Owners, for any one or more of the following purposes: (a) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority; (b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Indenture, or as to any other provisions of the Indenture as the Authority may deem necessary or desirable, in any case which do not have a material and adverse affect on the security for the Bonds granted under the Indenture; (c) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; (d) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to be excludable, or remain, from gross income for purposes of federal income taxation by the United States of America; and (e) to modify or amend any provision of the Indenture with any effect and to any extent whatsoever permissible by law, provided that any such modification or amendment shall apply only to series of the Bonds issued and delivered subsequent to the execution and delivery of the applicable Supplemental Indenture.

Defeasance

Discharge of Indenture. The Bonds or any portion thereof may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority: (i) by paying or causing to be paid the principal of and interest and premium, if any, on the Series of the Bonds or any portion thereof, as and when the same become due and payable; (ii) by irrevocably depositing with the Trustee, in trust (pursuant to an escrow agreement), at or before maturity, money or Defeasance Obligations in the necessary amount to pay or redeem all or any portion of the Bonds of the Series of the Bonds then Outstanding; or (iii) by delivering to the Trustee, for cancellation by it, all or any portion of the Bonds of the Series of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority including without limitation any compensation or other amounts due and owing the Trustee under the Indenture, then and in that case, at the election of the Authority (evidenced by a Written Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the Authority, and upon receipt of a Written Certificate of an Authorized Representative of the Authority and an opinion of Bond Counsel acceptable to the Trustee, each to the effect that all conditions precedent provided for relating to the discharge and satisfaction of the obligations of the Authority have been satisfied, the Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture and the applicable Supplemental Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the Authority.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be: (i) lawful money of the United States of America, in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount of such Bonds, premium, if any, and all unpaid interest thereon to the redemption date; or (ii) noncallable Defeasance Obligations described in clause (a) of the definition thereof, the principal of, premium, if any, and interest on which when due will provide money sufficient to pay the principal of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal and interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the indenture or by Written Request of the Authority) to apply such funds to the payment of such principal and interest with respect to such Bonds.

Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any Bonds (other than amounts provided by Treasurer) and remaining unclaimed for two (2) years, after the principal of all of the Bonds has become due and payable (whether at maturity or upon call for redemption or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the Bonds became due and payable, shall be repaid to the Authority free from the trusts created by the Indenture and the applicable Supplemental Indenture, and all liability of the Trustee, as applicable, with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee shall at the Written Request of the Authority and at the cost of the Authority, mail, by first class mail, postage prepaid, to the Owners of Bonds which have not yet been paid, at the respective addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee, as applicable, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof.

THE INSTALLMENT PURCHASE AGREEMENT

Representations by the Purchaser

In the Installment Agreement, the Purchaser makes the following representations: (i) the Purchaser is a flood control and water conservation district duly organized and existing under and pursuant to the laws of the State of California; (ii) the Purchaser has full legal right, power and authority to enter into the Installment Agreement and carry out and consummate its obligations under the Installment Agreement, to carry out and consummate all other transactions on its part contemplated by the Installment Agreement, and the Purchaser has complied with the provisions of the applicable law in all matters relating to such transactions; (iii) by proper action, the Purchaser has duly authorized the execution, delivery and due performance of the Installment Agreement; (iv) the execution and delivery of the Installment Agreement and the consummation of the transactions contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Purchaser is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Purchaser; (v) the Purchaser will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the Facilities under the terms of the Installment Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California income taxation; and (vi)

the Purchaser has determined that it is necessary and proper that the Purchaser sell and purchase the Project in the manner provided for in the Installment Agreement.

Representations and Warranties by the Authority

The Authority makes the following representations and warranties: (i) the Authority is a joint exercise of powers authority duly organized and in good standing under the laws of the State of California; (ii) the Authority has full legal right, power and authority to enter into the Installment Agreement and to carry out and consummate all transactions on its part contemplated by the Installment Agreement; (iii) by proper action, the Authority has duly authorized the execution and delivery and due performance of the Installment Agreement; (iv) the execution and delivery of the Installment Agreement and the consummation of the transactions in the Indenture contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority; and (v) the Authority will not take or permit any action to be taken which results in interest paid for the installment purchase of the Facilities under the terms of the Installment Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California income taxation.

Sale of the Facilities

The parties confirm that the District, by its execution of the Installment Sale Agreement, has purchased the Facilities from the Purchaser. The Authority agrees to sell the Project and the Facilities, as and when constructed, improved and equipped, to the Purchaser for a price equal to the aggregate principal amount of the Installment Payments, plus accrued interest with respect thereto to the delivery date of the Authority Bonds.

Purchase of the Facilities and the Authority's Property Interests

As consideration for the Purchaser's agreement to make Installment Payments in accordance with the Installment Agreement, the Authority agrees to provide only the Facilities. All of the Purchaser's right, title and interest in and to the Net Revenues shall be transferred and assigned to the Trustee for the benefit of the Owners of the Authority Bonds, from time to time, immediately upon the execution of the Installment Agreement. All right, title and interest in each discrete component of the Facilities and the Authority's Property Interests shall vest in the Purchaser following payment of all Installment Payments and upon expiration of the statutory twenty-day period of notice to the Attorney General of the State of California. Such vesting shall occur without further action by the Authority or the Purchaser, and the Authority shall, if requested by the Purchaser or if necessary to assure such automatic vesting, deliver any and all documents required to assure such vesting.

Purchase Price

The Purchase Price to be paid by the Purchaser under the Installment Agreement to the Authority is the sum of the principal amount of the Purchaser's obligations under the Installment Agreement, plus the interest to accrue with respect to the unpaid balance of such principal amount from the effective date of the Installment Agreement over the term of the Installment Agreement, subject to prepayment as provided in the Installment Agreement. The principal amount of the payments to be made by the Purchaser under the Installment Agreement on each Installment Payment Date is set forth in the Installment Agreement; provided however, that the amount payable by the Purchaser to the Authority on each Installment Payment Date shall be reduced by the amount, if any, then on deposit in the Certificate Payment Fund and available or to be available for the payment on such Installment Payment Date as a result of any prepayment effected in accordance with the Installment Agreement. The interest to accrue with respect to the unpaid balance of such principal amount is as specified in the Installment Agreement, and shall be paid by the Purchaser as and constitute interest paid with respect to the principal amount of the Purchaser's obligations under the Installment Agreement.

Installment Payments. The Purchaser shall, subject to any rights of prepayment provided in the Installment Agreement, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts relating to each Installment Payment Date. Each Installment Payment shall be paid to the Authority in lawful money of the United States of America. In the event the Purchaser fails to make any of the payments required to be made by it under this provision, such payment shall continue as an obligation of the Purchaser until such amount shall have been fully paid; and the Purchaser agrees to pay the same with interest accruing with respect thereto at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Installment Payments, if paid in accordance with their terms. As security for its obligation to make Installment Payments, the Purchaser has executed the Assignment Agreement in favor of the Trustee for the benefit of the Owners of the Authority Bonds. The obligation of the Purchaser to make the Installment Payments from the Net Revenues is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made), the Purchaser will not discontinue or suspend any Installment Payments required to be made by it when due, whether or not the Facilities or the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part and such payments shall not be subject to reduction whether by offset, abatement or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

Pledge of Net Revenues

All Net Revenues and all amounts on deposit in the Operating Fund are irrevocably pledged to the payment of the Installment Payments as provided in the Installment Agreement and Net Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; *provided*, that out of Net Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Installment Agreement. This pledge shall constitute a lien on Net Revenues and, subject to application of Net Revenues and all amounts on deposit in the Operating Fund as permitted in the Installment Agreement, the Operating Fund and other funds and accounts created under the Installment Agreement for the payment of the Installment Payments and all other Contracts and Obligations in accordance with the terms of the Installment Agreement.

Allocation of Revenues

In order to carry out and effectuate the pledge and lien contained in the Installment Agreement, the Purchaser agrees and covenants that all Revenues shall be received by the Purchaser in trust under the Installment Agreement and shall be deposited in accordance with this provision when and as received in a special fund designated as the "Operating Fund," which fund is created and established and which fund the Purchaser agrees and covenants to maintain and to hold in trust separate and apart from other funds so long as any Installment Payments remain unpaid. Moneys in the Operating Fund shall be used and applied by the Purchaser solely as provided in the Installment Agreement. Investment earnings received by the Trustee from the investment of moneys on deposit in the Bond Payment Fund and the Reserve Fund are to be retained therein until applied by it as provided for in the Installment Agreement. The Purchaser shall, from the moneys in the Operating Fund, pay all Operation and Maintenance Costs as they become due and payable. Thereafter, all remaining moneys in the Operating Fund shall be set aside or transferred by the Purchaser at the following times for the following respective purposes in the following order of priority:

Principal and Interest Payments. At least five (5) days before each Installment Payment Date until the Authority Bonds have been paid or provision for their payment has been made as provided in the Indenture, the Purchaser shall, transfer from the Operating Fund, or cause to be deposited directly with the Trustee as a credit to the Principal Account and the Interest Account established under the Indenture an amount equal to the Installment Payment due and payable on that Installment Payment Date. The Purchaser shall also, from the moneys in the Operating Fund, transfer to the Trustee or other fiduciary for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Obligation or Contract. Any deposit with the Trustee as and for an Installment Payment shall be reduced to the extent amounts on deposit in the Principal Account and/or the Interest Account are then available for application to the Installment Payment due and payable on said Installment Payment Date. All moneys in the Principal Account and the Interest Account shall be invested, used and withdrawn by the Trustee in accordance with the Indenture.

Reserve Fund. On or before each Installment Payment Date until the Authority Bonds have been paid or provision for their payment has been made as provided in the Indenture, the Purchaser shall, from the remaining moneys in the Operating Fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee as provided in the Indenture for deposit in the Reserve Fund and such other reserve funds and/or accounts, if any, as may have been established in connection with Contracts other than the Installment Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement and/or such other reserve funds or accounts to an amount equal to the amount required to be maintained therein; provided, however, that the Purchaser may provide for the Reserve Fund by means other than cash and Permitted Investments pursuant to the Indenture. No transfer of moneys for deposit to the Reserve Fund in connection with the Installment Payments need be made if the amount contained therein is at least equal to the Reserve Fund Requirement.

Surplus. Moneys on deposit in the Operating Fund not necessary to make any of the payments required above may be expended by the Purchaser at any time for any purpose permitted by law.

Additional Contracts and Obligations

The Purchaser may at any time execute any Contract or issue any Obligations, as the case may be, *provided:* (i) the estimated Rates and Charges of each Participating Agency for the then-current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project to be financed with the proceeds of such Contracts or Obligations, as evidenced by a certificate and a report of an Independent Financial Consultant on file with the District, plus (after giving effect to the completion of all such uncompleted projects) an allowance for estimated Rates and Charges for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed and received through operation of such Participating Agency's Water Enterprise, shall produce a sum at least equal to (A) the costs of operating and maintaining such Participating Agency's Water Enterprise, plus (B) such Participating Agency's Total Contract Payments, including (C) such Participating Agency's Proportionate Share of Debt Service, plus (D) the Coverage Factor for the Debt Service portion of such Participating Agency's Contract Payment; and (ii) the estimated Net Revenues for the then-current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project to be financed from proceeds of such Contracts or Obligations, as evidenced by a certificate and a report of an Independent Financial Consultant on file with the Purchaser, plus (after giving effect to the completion of all such uncompleted projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed and received through operation of the Enterprise and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the Purchaser and a report of an Independent Financial Consultant on file with the Purchaser, shall produce a sum equal to at least one hundred percent (100%) of the estimated Debt Service for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Obligations estimated to be required to be executed or issued to pay the costs of completing any uncompleted Project within such Fiscal Years, assuming that all such Contracts and Obligations have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Obligations last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Project; and (iii) no Event of Default shall have occurred and be continuing. For purposes of this provision, "Net Revenues" shall include investment earnings on the Reserve Fund maintained by the Trustee.

Investments. All moneys held by the Purchaser in the funds and accounts under the Installment Agreement shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund or account, except as otherwise provided in the Installment Agreement.

Covenants of the Purchaser

Compliance with Installment Purchase Agreement and Ancillary Agreements. The Purchaser will punctually pay the Installment Payments in strict conformity with the terms of the Installment Agreement, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Installment Agreement required to be observed and performed by it, and will not terminate the Installment Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute

failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained in the Installment Agreement required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with the Installment Agreement or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities. The Purchaser will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Tax Certificate and Agreement executed in connection with the issuance of the Authority Bonds, as may be required to be observed and performed by it; and it is expressly understood and agreed by and between the parties to the Installment Agreement that, subject to the provisions thereof, each of the agreements, conditions, covenants and terms contained in each of the Installment Agreement and the Tax Certificate and Agreement is an essential and material term of the purchase of and payment for the Facilities by the Purchaser pursuant to, and in accordance with law. The Purchaser will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Obligations as such may from time to time be executed or issued, as the case may be.

Against Encumbrances. The Purchaser will not make any pledge of or place any lien on Revenues or the moneys in the Operating Fund except as provided in the Installment Agreement. The Purchaser may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Revenues or any moneys in the Operating Fund as may from time to time be deposited therein; provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided in the Installment Agreement. The Purchaser will not issue any evidences of indebtedness or incur other Obligations which are payable from and secured by a pledge of and lien on Revenues senior to the pledge of and lien on Revenues of the Installment Payments.

Against Sale or Other Disposition of Property. The Purchaser will not enter into any agreement or lease which, at the time such agreement or lease is entered into, is reasonably expected to impair the long-term operation of the Facilities or any part thereof necessary to secure adequate Net Revenues for the payment of the Installment Payments, or which would otherwise impair the rights of the Authority under the Installment Agreement or the operation of the Facilities. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Facilities, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the Purchaser to pay the Installment Payments and if the proceeds of such sale are deposited in the Operating Fund.

Nothing in the Installment Agreement shall restrict the ability of the Purchaser to sell any portion of the Facilities if such portion is immediately repurchased by the Purchaser and if such arrangement cannot by its terms result in the purchaser of such portion of the Facilities exercising any remedy which would deprive the Purchaser of or otherwise interfere with its right to own and operate such portion of the Facilities.

Maintenance and Operation of the Facilities. The Purchaser will maintain and preserve the Facilities in good repair and working order at all times and will operate the Facilities in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Payment of Claims. The Purchaser will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Revenues or the funds or accounts created under the Installment Agreement or under the Indenture or on any funds in the hands of the Purchaser pledged to pay the Installment Payments or to the Owners prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments, except that if the Purchaser desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Purchaser will forthwith pay or cause to be paid and discharged such judgment.

Insurance. The Purchaser will procure and maintain or cause to be procured and maintained insurance relating to the Facilities with responsible insurers in such amounts and against such risks (including damage to or

destruction of the Facilities) as are usually covered in connection with facilities similar to the Facilities, so long as such insurance is available from reputable insurance companies at reasonable costs. In the event of any damage to or destruction of the Facilities caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Facilities. The Purchaser shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Project shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Facilities, and/or the cost of the construction of additions, betterments, extensions, reconstruction or improvements to the Facilities, then the excess Net Proceeds shall be applied in part to the prepayment of Installment Payments as provided in the Installment Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Obligations and Contracts in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Obligations and Contracts. If such Net Proceeds are sufficient to enable the Purchaser to retire the entire obligation evidenced by the Installment Agreement prior to the final due date of the Installment Payments as well as the entire obligations evidenced by Obligations and Contracts then remaining unpaid prior to their final respective due dates, the Purchaser may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Facilities, and/or not to construct other additions, betterments, extensions or improvements to the Facilities; and thereupon such Net Proceeds shall be applied to the prepayment of Installment Payments as provided in the Installment Agreement and to the retirement of such Obligations and Contracts. Any insurance required to be maintained by paragraph (a) above may be maintained under a self-insurance and/or pooling program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with facilities similar to the Facilities and is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained in the Installment Agreement shall provide that the Authority and the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Accounting Records; Financial Statements. The Purchaser will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Facilities and the Project, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

The Purchaser will prepare and file with the Trustee annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2000); financial statements of the Purchaser for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and a detailed report as to all insurance policies maintained and self-insurance programs maintained by the Purchaser with respect to the Facilities and the Project, as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

Protection of Security and Rights of the Authority. The Purchaser will preserve and protect the security of the Installment Agreement and the rights of the Authority to the Installment Payments under the Installment Agreement and will warrant and defend such rights against all claims and demands of all persons.

Payment of Taxes and Compliance with Governmental Regulations. The Purchaser will pay and discharge all taxes, assessments and other governmental charges which may be lawfully imposed upon the Facilities, or any part thereof or upon Revenues when the same shall become due. The Purchaser will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Facilities, or any part thereof, but the Purchaser shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Amount of Rates and Charges. The Purchaser shall use its best efforts to prescribe and collect rates and charges for the operation of the Enterprise which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to Debt Service for such Fiscal Year. The Purchaser may make adjustments from time to time in

such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this section. For purposes of this provision, "Net Revenues" shall include investment earnings on the Proceeds Fund transferred to the Trustee for deposit in the Bond Payment Fund.

Collection of Rates and Charges. The Purchaser will have in effect at all times by-laws, rules and regulations concerning the prompt collection of all fees, rates and charges due and payable from the operation of the Enterprise and providing for the billing thereof and for a due date and a delinquency date for each bill, including, but not limited to, those revenues derived and to be derived from the Water Supply Contracts. The Purchaser covenants and agrees to enforce its rights under the Water Supply Contracts to require the Participating Agencies to establish and collect rates and charges from their respective water enterprise. The Purchaser will not enter into a Water Supply Contract with any Participating Agency other than the Participating Agencies as of the date of execution and delivery of the Installment Agreement if the entering into of such Water Supply Contract would have the effect of reducing the payment obligations of the Participation Agencies on the date of the execution and delivery of the Installment Agreement.

Eminent Domain Proceeds. If all or any part of the Facilities shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows: If (1) the Purchaser files with the Authority and the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the Purchaser by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the Facilities proposed to be acquired and constructed by the Purchaser from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the Purchaser, on the basis of such certificate filed with the Authority and the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the Purchaser to meet its obligations under the Installment Agreement will not be substantially impaired (which determination shall be final and conclusive), then the Purchaser shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the Purchaser for such purpose shall be deposited in the Operating Fund. If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Purchaser in part to the prepayment of Installment Payments as provided in the Installment Agreement and in part to such other fund or account as may be appropriate and used for the retirement of Contracts and Obligations in the same proportion which the aggregate unpaid principal balance of Installment Payments then bears to the aggregate unpaid principal amount of such Contracts and Obligations.

Events of Default and Acceleration of Maturities

If one or more of the following Events of Default shall happen, that is to say – (i) if default shall be made in the due and punctual payment of any Installment Payment or any Contract or Obligation when and as the same shall become due and payable; (ii) if default shall be made by the Purchaser in the performance of any of the agreements or covenants required in the Installment Agreement to be performed by it, and such default shall have continued for a period of sixty (60) days after the Purchaser shall have been given notice in writing of such default by the Authority; provided, however, if in the reasonable opinion of the Purchaser the failure stated in the notice can be corrected, but not within such sixty (60) day period, such failure shall not, constitute an Event of Default if corrective action is instituted by the Purchaser within such sixty (60) day period and the Purchaser shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or (iii) if the Purchaser shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Purchaser seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the Purchaser or of the whole or any substantial part of its property; provided, however, that a petition filed without the consent of the Purchaser shall not constitute an Event of Default if such petition is dismissed within sixty (60) days of the filing thereof; then and in each and every such case during the continuance of such Event of Default specified in clause (3) above, the Authority shall, and for any other such Event of Default the Authority

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

Application of Funds. Upon Acceleration, the date of the declaration of acceleration as provided in the Installment Agreement, all Revenues thereafter received shall be applied in the following order - First, to the payment, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, of the fees, costs and expenses of the Authority and Trustee, if any, in carrying out the provisions of this provision, including reasonable compensation to its accountants and counsel; Second, to the payment of the Operation and Maintenance Costs; and Third, to the payment of the entire principal amount of the unpaid Installment Payments and the unpaid principal amount of Contracts and Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Installment Payments and such Contracts and Obligations, respectively, if paid in accordance with their respective terms.

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

Notwithstanding anything contained in the Installment Agreement, the Authority shall have no security interest in or mortgage on the Facilities or any other real property of the Purchaser and no default under the Installment Agreement shall result in the loss of the Facilities or any other real property of the Purchaser. This limitation on remedies of the Authority shall be binding on successors in interest to the Authority's rights under the Installment Agreement.

Non-Waiver. Nothing in the Installment Agreement shall affect or impair the obligation of the Purchaser, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Operating Fund and the other funds in the Installment Agreement pledged for such payment, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Agreement. A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by law or by this provision may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority. If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Authority, the Purchaser and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy in the Installment Agreement conferred upon or reserved to the Authority or the Owners, or as provided in the Indenture, is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Agreement or under the Indenture or now or thereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

Discharge of Obligations

When all or any portion of the Installment Payments shall have become due and payable in accordance with the Installment Agreement or a written notice of the Purchaser to prepay all or any portion of the Installment Payments shall have been filed with the Trustee; and there shall have been deposited with the Trustee at or prior to the Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Installment Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (i)(a) or (d) of the definition thereof, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such Installment Payments to their respective Installment Payment Dates or prepayment date or dates as the case may be; and provision shall have been made for paying all fees and expenses of the Trustee, then and in that event, if an opinion of Special Counsel acceptable to the Trustee is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this provision shall not adversely affect the tax-exempt status of the interest portion of the Installment Payments, the right, title and interest of the Authority in the Installment Agreement and the obligations of the Purchaser under the Installment Agreement shall, with respect to all or such portion of the Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the rights of the Trustee as assignee of the Authority and the obligation of the Purchaser to have such moneys and such Permitted Investments applied to the payment of such Installment Payments).

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

Liability of Purchaser Limited to Net Revenues

Notwithstanding anything contained in the Installment Agreement, the Purchaser shall not be required to pay or advance any moneys derived from any source of income other than Net Revenues, the Operating Fund and the other funds provided in the Installment Agreement and in the Indenture for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Agreement. The Purchaser may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Purchaser for such purpose.

The obligation of the Purchaser to make the Installment Payments is a special obligation of the Purchaser payable solely from Net Revenues, the Operating Fund and other funds described in the Installment Purchase Agreement and in the Indenture, and does not constitute a debt of the Purchaser or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

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APPENDIX I

FORMS OF CONTINUING DISCLOSURE AGREEMENTS

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of June 8, 2011, is executed and delivered by the San Luis Obispo County Flood Control and Water Conservation District (the “District”) in connection with the execution and delivery of \$22,750,000 aggregate principal amount of SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A (the “Bonds”). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of October 1, 2000, as supplemented by the First Supplemental Indenture of Trust, dated as of November 1, 2003 and, as further amended and supplemented by the Second Supplemental Indenture of Trust dated as of June 1, 2011 (collectively, the “Indenture”), by and between the SLO County Financing Authority and U.S. Bank National Association, as trustee. The District covenants and agrees as follows:

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

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

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

“Disclosure Representative” shall mean the Chairman of the District or such other official as may be designated in writing to the Dissemination Agent (if other than the District) from time to time.

“Dissemination Agent” shall mean the District, 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.

“Filing Date” shall mean March 15 of each Fiscal Year of the District (or the next succeeding business day if such day is not a business day), commencing March 15, 2012.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement dated May 12, 2011 relating to the Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

“Specified Event” shall mean any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide, not later than the Filing Date, to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Disclosure Agreement. If the fiscal year of the District changes, it shall give notice of such change in the same manner as for a Specified Event under this Disclosure Agreement.

(b) Not later than fifteen (15) Business Days prior to the Filing Date, the District shall provide the Annual Disclosure Report to the Dissemination Agent (if other than the District). The District shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) If the District is unable to provide to the Annual Disclosure Report to the MSRB by the date required in subsection (a), the District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) If not previously filed by the District, send a notice to the MSRB in substantially the form attached as Exhibit A, if the District is unable to provide to the Annual Disclosure Report to the MSRB by the date required in subsection (a).

(ii) File a report with the District certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Annual Disclosure Report shall contain or include by reference the following:

(a) The audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial

statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

- (b) The principal amount of the Bonds outstanding.
- (c) The balances of all funds and accounts established by the Indenture as of the end of the next preceding fiscal year.
- (d) Assessed valuation, secured tax charges and delinquencies information with respect to real property within the District for the fiscal year most recently concluded.
- (e) The presentation and format of the Annual Disclosure 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 to reflect changes in the business, structure, operations, legal form of the District or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided that any such modifications shall comply with the requirements of the Rule.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB website. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Specified Events.

- (a) Pursuant to the provisions of this Disclosure Agreement, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) business days after the occurrence of the event:
 - (i) Principal and interest payment delinquencies;
 - (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;
 - (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
 - (iv) Substitution of credit or liquidity providers, or their failure to perform;
 - (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
 - (vi) Tender offers;
 - (vii) Defeasances;
 - (viii) Rating changes; or
 - (ix) Bankruptcy, insolvency, receivership or similar event of the obligated person. This event is considered to occur upon the happening of any of the following: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of

the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice to the MSRB of the occurrence of any of the following events described in this Section 5(b) with respect to the Bonds, if material, not later than ten (10) business days after the occurrence of the event:

(i) Unless described in Section 5(a)(v) above, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) Modifications to rights of the Bond holders;

(iii) Optional, unscheduled or contingent Bond calls;

(iv) Release, substitution, or sale of property securing repayment of the Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The District acknowledges that it is required to make a determination whether a Specified Event in I in Section 5(b) above is material under applicable federal securities laws in order to determine whether a filing with the MSRB is required under Section 5(b). Notwithstanding the foregoing, notice of Specified Events described in Section 5(a)(vii) and Section 5(b)(iii) above need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

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

SECTION 7. 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 thirty (30) days written notice to the District.

The initial Dissemination Agent shall be the District.

SECTION 8. 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 Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery 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 Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Disclosure 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 Specified Event, and (ii) the Annual Disclosure 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 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, 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 Disclosure Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Specified Event.

SECTION 10. Default. This Disclosure Agreement shall be solely for the benefit of the holders and beneficial owners from time to time of the Bonds. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the District to comply with its obligations under this Disclosure Agreement, *provided* that any holder or

beneficial owner seeking to require the District to comply with this Disclosure Agreement shall first provide at least thirty (30) days prior written notice to the District of the failure of the District, giving reasonable detail of such failure. Failure by the District to comply with any provision of this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with the terms of this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

SECTION 13. Record Keeping. The District shall maintain records of Annual Disclosure Reports and notices of Specified Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Party: San Luis Obispo County Flood Control and Water Conservation District

Name of Bonds: SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds 2011 Series A

Date of Delivery: June 8, 2011

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 8, 2011, with respect to the Bonds. [The District anticipates that the Annual Disclosure Report will be filed by _____.]

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____

[cc: District]

**2011 BONDS PARTICIPATING AGENCY
CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of June 8, 2011, is executed and delivered by the [] (the “Participating Agency”) and the San Luis Obispo County Flood Control and Water Conservation District (the “District”) in connection with the execution and delivery of \$22,750,000 aggregate principal amount of SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds, 2011 Series A (the “Bonds”). The Bonds are being executed and delivered pursuant to an Indenture of Trust, dated as of October 1, 2000, as supplemented by the First Supplemental Indenture of Trust, dated as of November 1, 2003, and as further amended and supplemented by the Second Supplemental Indenture of Trust dated as of June 1, 2011 (collectively, the “Indenture”), by and between the SLO County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee. The Participating Agency covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Participating Agency for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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 Disclosure Report” shall mean any Annual Disclosure Report provided by the Participating Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“Disclosure Representative” shall mean the [] of the Participating Agency or such other official as may be designated in writing to the Dissemination Agent (if other than the Participating Agency) from time to time.

“Dissemination Agent” shall mean the District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Participating Agency and which has filed with the Participating Agency a written acceptance of such designation.

“Filing Date” shall mean January 15 of each Fiscal Year of the District (or the next succeeding business day if such day is not a business day), commencing January 15, 2012.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement dated May 12, 2011 relating to the Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Participating Agency shall, not later than the Filing Date, provide to the Dissemination Agent an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in the Disclosure Agreement.

(b) The Participating Agency shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished under the Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) Not later than the Filing Date, the Dissemination Agent shall provide written notice confirming whether or not such Annual Disclosure Report has been furnished by the Participating Agency. The District shall use its best efforts to assist the Participating Agency in preparing the Annual Disclosure Report for delivery to the Dissemination Agent no later than March 10 of each year.

(d) If the Participating Agency is unable to provide the Annual Disclosure Report to the Dissemination Agent by March 10 of each year commencing March 10, 2012, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

- (i) If not previously filed by the Participating Agency, send a notice to the MSRB if the Participating Agency, is unable to provide to the Annual Filing to the MSRB by the date required in subsection (a); and
- (ii) to the extent information is known to it, file a report with the Participating Agency certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Annual Disclosure Report shall contain or include by reference the following:

(a) The audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

- (b) Changes in the service area and customer base for its Water Enterprise;
- (c) Five largest customers of the Water Enterprise;
- (d) Statement of connections and sales revenues for its Water Enterprise;
- (e) Water tax and impact fee revenues for its Water Enterprise (for the City of Grover Beach and the City of Pismo Beach only);
- (f) Water deliveries for the Water Enterprise; and
- (g) Rates and Charges for water deliveries for the fiscal year most recently concluded.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participating Agency or related public entities, which have been made available to the public on the MSRB website. The Participating Agency shall clearly identify each such other document so included by reference.

The presentation and format of the Annual Disclosure Reports may be modified from time to time as determined in the judgment of the Participating Agency to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Participating Agency to reflect changes in the business, structure, operations, legal form of the Participating Agency or any mergers, consolidations, acquisitions or dispositions made by or affecting the District; provided that any such modifications shall comply with the requirements of the Rule.

SECTION 5. Termination of Reporting Obligation. The obligations of the Participating Agency under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Participating Agency shall give notice of such termination to the MSRB.

SECTION 6. Dissemination Agent. The Participating Agency 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 thirty (30) days written notice to the Participating Agency.

The initial Dissemination Agent shall be the District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Participating Agency 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 Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery 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 Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Participating Agency shall describe such amendment in the next Annual Disclosure 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 Participating Agency. 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 Specified Event, and (ii) the Annual Disclosure 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 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Participating Agency from disseminating any other information, 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 Disclosure Report in addition to that which is required by this Disclosure Agreement. If the Participating Agency chooses to include any information in any Annual Disclosure Report in addition to that which is specifically required by this Disclosure Agreement, the Participating Agency shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report.

SECTION 9. Default. This Disclosure Agreement shall be solely for the benefit of the holders and beneficial owners from time to time of the Bonds. In the event of a failure of the Participating Agency to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the Participating Agency to comply with its obligations under this Disclosure Agreement, *provided* that any holder or beneficial owner seeking to require the participating Agency to comply with the Disclosure Agreement shall first provide at least thirty (30) days prior written notice to the Participating Agency of the failure of the Participating Agency, giving reasonable detail of such failure. Failure by the Participating Agency to comply with any provision of this Disclosure Agreement shall not be deemed an Event of Default under the indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Participating Agency to comply with the terms of this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Participating Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the

Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Participating Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Participating Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Notices. Any notices or communications to the Participating Agency or the District may be given as follows:

Participating Agency:

Attention: _____

Phone: _____

Dissemination Agent:

San Luis Obispo Flood Control and Water Conservation District
County Government Center
1055 Monterey Street
San Luis Obispo, CA 93408
Attention: Auditor-Controller
Phone: 805-781-5040

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

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

SECTION 13. Record Keeping. The Participating Agency shall maintain records of Annual Disclosure Reports, including the content of such disclosure and the date of filing of such disclosure.

PARTICIPATING AGENCY

By: _____
[Title of Signing Officer]

AGREED AND ACCEPTED:

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT,
as Dissemination Agent

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Party: Participating Agency

Name of Bonds: SLO County Financing Authority Lopez Dam Improvement Refunding Revenue Bonds 2011 Series A

Date of Delivery: June 8, 2011

NOTICE IS HEREBY GIVEN that the Participating Agency has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of June 8, 2011, with respect to the Bonds. [The Participating Agency anticipates that the Annual Disclosure Report will be filed by _____.]

Dated: _____

PARTICIPATING AGENCY

By: _____
[Title of Signing Officer]

cc: Participating Agency
District

APPENDIX J

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2011 Bonds, payment of principal, redemption premium, if any, and interest with respect to the 2011 Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2011 Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The Authority, the Trustee and the Underwriter understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2011 Bonds. The 2011 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 the 2011 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 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 2011 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 the 2011 Bonds, except in the event that use of the book-entry system for the 2011 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 the 2011 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 2011 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. Beneficial Owners of the 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the 2011 Bonds may wish to ascertain that the nominee holding the 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the 2011 Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2011 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2011 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 Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2011 Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2011 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority 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.

The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the Authority, the Underwriter or the Trustee take any responsibility for the accuracy thereof.

NONE OF THE AUTHORITY, THE UNDERWRITER OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

None of the Authority, the Underwriter or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the 2011 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

The Authority, the Underwriter and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2011 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Authority, the Underwriter or the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2011 Bonds or an error or delay relating thereto.

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APPENDIX K

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

