

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2013**NEW ISSUE — BOOK-ENTRY ONLY**

RATING: S&P “__”
BAM Insured
Underlying Rating: __
 (See “RATING” herein)

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

[\$[principal amount]*

REVENUE CERTIFICATES OF PARTICIPATION
(Supplemental Water Project) Series 2013
Evidencing the Direct, Undivided Fractional
Interest of the Owners Thereof in
Installment Payments to Be Made by the
NIPOMO COMMUNITY SERVICES DISTRICT
as the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
NIPOMO COMMUNITY SERVICES DISTRICT
PUBLIC FACILITIES CORPORATION

**Dated: Date of Delivery****Due: September 1, as shown on inside cover page**

The Revenue Certificates of Participation (Supplemental Water Project) Series 2013 (the “Certificates”) are certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in certain installment payments (the “Installment Payments”), and the interest thereon, to be made by the Nipomo Community Services District (the “District”) pursuant to the Installment Sale Agreement, dated as of June 1, 2013 (the “Installment Sale Agreement”), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the “Corporation”). Pursuant to the Trust Agreement, dated as June 1, 2013 (the “Trust Agreement”), by and among the District, the Corporation, and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”), the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured and pursuant to which the Certificates are executed and delivered. Installment Payments under the Installment Sale Agreement are payable solely from Net Revenues (as more fully described in the Trust Agreement, the “Net Revenues”) as provided in the Installment Sale Agreement, consisting first of Ad Valorem Tax Revenues (as defined herein) and second primarily from all other income and revenue received by the District from the operation or ownership of the Water System of the District (the “Enterprise”) remaining after payment of Operation and Maintenance Expenses, as further described in “SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES” herein. The right of the Corporation to receive Installment Payments from the District under the Installment Sale Agreement will be assigned to the Trustee.

The Certificates are executed and delivered as fully registered certificates in book-entry form only in denominations of \$5,000 or integral multiples thereof. The Certificates will be registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), as securities depository for the Certificates. Individual purchases are to be made in book-entry form in authorized denominations. Purchasers, as Beneficial Owners, will not receive certificates evidencing their ownership interest in such Certificates. Interest is payable semiannually each March 1 and September 1 to and including the maturity dates shown on the inside cover page, commencing September 1, 2013, unless the Certificates are prepaid. **The Certificates are subject to optional prepayment, without premium, on or after September 1, 2023, and to extraordinary prepayment and mandatory sinking account prepayment, prior to maturity, as more fully described herein.**

The proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise, (ii) fund a ¹reserve fund² for the Certificates³, including the purchase of a surety bond, and (iii) pay the costs of issuance relating to the execution and delivery of the Certificates, including the premium of a municipal bond insurance policy. A commitment of Build America Mutual Assurance Company for the issuance of a surety bond for the purpose of funding the reserve fund has been obtained by the District.

On June 11, 2013, the District issued its \$2,845,000 Water Revenue Bonds, Series 2013A payable from and secured by Net Revenues on a parity basis with the Installment Payments. The District may incur other additional obligations that have a parity claim on Net Revenues as set forth in the Installment Sale Agreement. See “SECURITY AND SOURCE OF REPAYMENT – Parity Obligations” herein.

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY.]

[INSERT BAM LOGO]

THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS IS AN IRREVOCABLE OBLIGATION OF THE DISTRICT PAYABLE SOLELY FIRST FROM AD VALOREM TAX REVENUES AND SECOND FROM OTHER NET REVENUES. BUT DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH

* Preliminary, subject to change.

OFFICIAL STATEMENT

[\$[principal amount]*
REVENUE CERTIFICATES OF PARTICIPATION
(Supplemental Water Project) Series 2013
Evidencing the Direct, Undivided Fractional
Interest of the Owners Thereof in
Installment Payments to Be Made by the
NIPOMO COMMUNITY SERVICES DISTRICT
as the Purchase Price for Certain Property Pursuant to an
Installment Sale Agreement with the
NIPOMO COMMUNITY SERVICES DISTRICT PUBLIC FACILITIES CORPORATION

INTRODUCTION

This Official Statement, including its cover page and appendices, is provided in connection with the offering of \$[principal amount]* principal amount of Revenue Certificates of Participation (Supplemental Water Project) Series 2013 (the “Certificates”). The Certificates represent direct, undivided fractional interests of the registered owners thereof in the Installment Payments (the “Installment Payments”) to be made by the Nipomo Community Services District (the “District”) pursuant to an Installment Sale Agreement, dated as of June 1, 2013 (the “Installment Sale Agreement”), by and between the District and the Nipomo Community Services District Public Facilities Corporation (the “Corporation”), as the purchase price for certain improvements relating to the District’s water system as described herein. All capitalized terms used herein, unless otherwise indicated, have the meanings ascribed to them in the Installment Sale Agreement and the Trust Agreement (as herein defined). See also “APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Definitions.”

The District currently owns and operates its water system (the “Enterprise”). The proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise, (ii) fund a ^{Δ4}reserve fund⁵ for the Certificates^{Δ6}, including the purchase of a surety bond, and (iii) pay the costs of issuance relating to the execution and delivery of the Certificates, including the premium of a municipal bond insurance policy. A commitment of Build America Mutual Assurance Company for the issuance of a surety bond for the purpose of funding the reserve fund has been obtained by the District. See “FINANCING PLAN” and “BOND INSURANCE – The Reserve Fund Insurance Policy.”

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2013 (the “Trust Agreement”), among the District, the Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). Pursuant to an Assignment Agreement from the Corporation to the Trustee, dated as of June 1, 2013 (the “Assignment Agreement”), the Corporation has assigned to the Trustee, for the benefit of the owners of the Certificates, certain of its rights under the Installment Sale Agreement, including (a) all of its right, title and interest in and to the Installment Payments made by the District under the Installment Sale Agreement, and (b) any and all other rights and remedies of the Corporation under the Installment Sale Agreement other than its rights to indemnification thereunder.

Security for the Certificates

The Certificates are payable from the Installment Payments and amounts on deposit in certain funds and accounts established by the Trust Agreement. The District’s obligation to make the Installment Payments is a special obligation of the District payable from and^{Δ7} secured by a charge and lien on^{Δ8} Net Revenues (as defined hereinafter) as provided in the Installment Sale Agreement, consisting first, from the *ad valorem* property tax allocated to the District (the “Ad Valorem Tax Revenues”) and, second, primarily^{Δ9} all income and revenue received by the District from the operation or ownership of the Enterprise remaining after payment of Operation

* Preliminary, subject to change.

THE CERTIFICATES

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

Payment of Principal, Prepayment Price and Interest

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

The payments of principal and prepayment price with respect to all Certificates is to be made upon presentation and surrender thereof at the corporate trust office of the Trustee. Interest is payable semiannually each March 1 and September 1, commencing September 1, 2013. Interest on any Certificate is to be paid to the owner of such Certificate as shown on the registration books kept by the Trustee, as Paying Agent, as of the close of business on the “Record Date,” which is the fifteenth (15th) day of the calendar month preceding each Interest Payment Date, or, upon the request of an owner of at least \$1,000,000 in aggregate principal amount of Certificates, by wire transfer in immediately available funds to an account in the United States designated by such owner in writing to the Trustee prior to the Record Date. If and to the extent that there is a default in the payment of the interest due on an Interest Payment Date, and such defaulted interest is subsequently received by the Trustee, such defaulted interest is to be paid to the owners in whose names any such Certificates are registered at the close of business on a special record date as determined by the Trustee.

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

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

Prepayment

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

Optional Prepayment. The Certificates maturing on or after September 1, 2024 are subject to optional prepayment prior to maturity upon notice to the Trustee, on September 1, 2023, or any date thereafter, from any source of available funds, as a whole or in part at a price of par together with interest accrued thereon to the date of prepayment, without premium.

Mandatory Prepayment from Net ^{Δ10}Proceeds¹¹ and Unexpended ^{Δ12}Proceeds¹³. Each series of Certificates is subject to prepayment prior to its respective stated maturities, as a whole on any date or in part on any Interest Payment Date, in the order of stated maturity as directed by the District in a Written Request of the District provided to the Trustee at least 60 days prior to the prepayment date, or (in the event the District has not directed the order of stated maturity, in inverse order of stated maturity) and by lot within each stated maturity in integral multiples of \$5,000, from prepaid related Installment Payments made by the District from Net Proceeds (the proceeds of any insurance or condemnation award remaining after payment of all expenses incurred in the collection of such proceeds), and Unexpended Proceeds (unexpended proceeds following completion of the Project) upon the terms and conditions of, and as provided for in, the Installment Sale Agreement (provided that such prepayment will occur on the next Interest Payment Date subsequent to such transfer with respect to which

timely notice of prepayment can be provided) at a prepayment price equal to the principal amount thereof plus accrued interest thereon to the date fixed for prepayment, without premium.

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

<u>Mandatory Prepayment Dates</u> <u>(September 1)</u>	<u>Principal Amount</u>
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The Certificates maturing on September 1, 20__ are to be called for mandatory sinking fund prepayment prior to such maturity dates in part, by lot, at 100% of the principal amount thereof plus accrued interest to the prepayment date, as follows:

<u>Mandatory Prepayment Dates</u> <u>(September 1)</u>	<u>Principal Amount</u>
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Extraordinary Mandatory Prepayment From Unexpended Proceeds due to Abandonment of Project. The Certificates are subject to prepayment prior to their respective stated maturities, as a whole on June 1, 2016, from prepaid Installment Payments made by the District from Unexpended Proceeds and other funds of the District if prior to June 1, 2016 the District by resolution abandons the Project or otherwise fails to undertake construction of the Project due to circumstances beyond its control, provided sufficient funds are deposited in the Installment Payment Fund and credited towards prepayment made by the District, as directed by the District in a Written Request of the District provided to the Trustee at least 60 days prior to the prepayment date, at a Prepayment Price equal to _____% of ¹⁴the principal amount thereof plus accrued interest thereon to the date fixed for prepayment¹⁵.

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

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

Effect of Prepayment. Notice having been given and the money for the prepayment (including the interest to the applicable prepayment date) having been set with the Trustee, the Certificates or portions thereof to be redeemed will cease to be entitled to any benefit or security under the Trust Agreement, and the owners of such

ESTIMATED SOURCES AND USES OF PROCEEDS

Sources and Uses of Proceeds

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

Estimated Sources of Proceeds

Principal Amount of Certificates	
Plus/Less: Net Original Issue Premium/Discount	
Less: Underwriter's Discount	
Δ^{16}	
Total	

Estimated Uses of Proceeds

Deposit to Reserve Fund	
Deposit to Project Fund	
Deposit to Costs Issuance Fund ⁽¹⁾	
Total	

⁽¹⁾ Includes fees and expenses of special and disclosure counsel, trustee fees and expenses, bond insurance premium and reserve fund surety premium, costs of printing the preliminary and final official statement and rating agency fees.

FINANCING PLAN

General

A portion of the proceeds of the Certificates will be used to (i) fund a portion of the costs of certain capital improvements to the Enterprise, (ii) fund a Δ^{17} [reserve fund](#)¹⁸ for the Certificates¹⁹, including the purchase of a surety bond, and (iii) pay the costs of issuance relating to the execution and delivery of the Certificates, including the premium of a municipal bond insurance policy.

Parity Obligation

On June 11, 2013, the District issued its 2013 Bonds in the aggregate principal amount of \$2,845,000. The 2013 Bonds are payable from and secured by Net Revenues on a parity with the Installment Payments.

Phase 1 Improvements

The proposed improvements to the Enterprise (the "Phase 1 Improvements") consist of Phase 1 of the District's Supplemental Water Project. The Phase 1 Improvements will interconnect the District's water distribution system with the water distribution system of the City of Santa Maria (the "City"). The Phase 1 Improvements will be capable of initially delivering approximately 650 acre-feet per year ("AFY") on average of supplemental water to the District increasing to a potential of approximately 1,000 AFY of supplemental water depending on flow control adjustments. The Phase 1 Improvements will allow the District to reduce pumping from existing wells to slow the depletion of groundwater and reduce the potential for seawater intrusion on the Nipomo Mesa as required by the settlement agreement and the judgment related to the groundwater adjudication of the Santa Maria Groundwater Basin (the "Stipulation"). The Phase 1 Improvements will also increase the reliability of the District water supply by providing a source of water other than groundwater. The Phase 1 Improvements are consistent with the Stipulation. See "THE ENTERPRISE – Water Supply."

Five (5) bids were received for the Joshua Road Pump Station component with the apparent lowest responsible bidder being Spiess Construction Co., Inc. (“Spiess”). Spiess, located in Santa Maria, California, is a family owned and operated underground utility construction contractor specializing in municipal, residential, commercial and industrial construction. They install and repair both sanitary and storm sewer mains in addition to watermain mainlines of any length and size.

Below are the estimated costs of construction for the Phase 1 Improvements based on noticed bids received by the District.

	COST ESTIMATE
Construction Costs (Based on Bid)	
Santa Maria River Crossing	\$ 7,197,140
Blosser Road Waterline, Meter and Flow Control Station	2,575,710
Joshua Road Pump Station	4,344,710
Construction Contingency	<u>706,000</u>
Construction Total	\$14,823,560
Right-of-Way Acquisition	250,000
Design-Phase Engineering	450,000
Construction Management	1,736,000
Non-Construction Contingency	<u>243,600</u>
Non-Construction Total	\$ 2,679,600
Supplemental Water Phase 1 Improvements Estimated Total	<u>\$17,503,160</u>

The net proceeds of the Certificates in the amount of \$9,000,000, along with a \$2,200,000 grant from the California Department of Water Resources, \$2,400,000 in existing funds from the Property Tax Fund, \$1,403,160 in existing funds from the Water Capacity Fund, \$1,500,000 in existing funds from the Water Fund, and \$1,000,000 in existing funds from the Supplemental Water Capital Fee Fund for a total amount of \$17,503,160 from funds of the Enterprise, are allocated to complete Phase 1 Improvements.

Alternative Financing Plans and Litigation Relating to the Supplemental Water Project

In 2012, the District undertook to form an assessment district within its jurisdiction and the jurisdictions of ²⁰three other ²¹water purveyors on the Nipomo Mesa ²²to finance a portion of the Supplemental Water Project. On May 9, 2012, a majority protest existed (approximately 52% of the weighted Proposition 218 ballots) thus defeating the use of assessments to finance the Supplemental Water Project.

On April 24, 2013, and on May 8, 2013, the District adopted and amended a financing plan for the Phase 1 Improvements to encompass the current plan described above. The original financing plan included \$4,000,000 in existing funds from the Water Funded Replacement Fund. On May 3, 2013, a complaint for writ of mandate and injunctive relief was filed against the District in County of San Luis Obispo Superior Court alleging improper use of the Water Funded Replacement Fund for the Phase 1 Improvements (Case No. CV 130222, *Mesa Community Alliance V. Nipomo Community Services District; Nipomo Community Services District Board Of Directors*). The suit seeks to invalidate approval of Phase 1 Improvements and the use of moneys in the Water Funded Replacement Fund and for injunctive relief against any action of the District with respect to the Supplemental Water Project. On June 5, 2013, plaintiff’s motion for a preliminary injunction was denied. The District believes the adoption of its original financing plan, as well as the amended financing plan, are legal and

reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for administration, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums and other similar costs, and all other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the Certificates or of the Installment Sale Agreement or Parity Obligations, but excluding in all cases, depreciation and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature.

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

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

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

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

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

Issuance of Parity Obligations

In addition to the 2013 Bonds, the District may at any time incur Parity Obligations, ^{Δ23}[by executing](#)²⁴ any Contract or ^{Δ25}[issuing](#)²⁶ any Parity Debt, as the case may be, provided:

- (a) No Event of Default has occurred and is continuing, and the District will deliver a certificate to that effect to the Trustee;

(b) The Net Revenues calculated in accordance with accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred twenty-five percent (125%) of the amount of Maximum Annual Debt Service;

(c) The Net Revenues derived from subsections (1) through (4) of the definition of Gross Revenues ⁽²⁷⁾excluding development fees and connection fees), calculated in accordance with accounting principles consistently applied, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent twelve (12) month period selected by the District, plus (at the option of the District) the Additional Revenues, shall be at least equal to one hundred ten percent (110%) of the amount of Maximum Annual Debt Service;

(d) There will be established upon the execution of such Contract or the issuance of such Parity Debt a reserve fund for such Parity Obligation in an amount equal to the lesser of (i) the maximum amount of debt service required to be paid by the District with respect to such Parity Obligation during any Fiscal Year, or (ii) the maximum amount then permitted under the Code; and

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

The provisions of subsections (b) and (c) above will not apply to any Parity Obligation if all of the proceeds of such Parity Obligation (other than proceeds applied to pay costs of executing such Contracts or issuing such Parity Debt and to make a reserve fund deposit required pursuant to subsection (d) above) shall be deposited in an irrevocable escrow account ²⁸for the purpose of paying the principal of and interest and premium (if any) on any Installment Payments or on any outstanding Contracts or Parity Debt. For purposes of this section, Net Revenues will include investment earnings on the Reserve Fund transferred to the Trustee for deposit in the Installment Payment Fund.

Rate Stabilization Fund

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

The District has previously funded the Rate Stabilization Fund and, as of ²⁹June³⁰ 1, 2013, the amount on deposit in the Rate Stabilization Fund is \$³¹[400,160].³²

Installment Payments

Installment Payments are required to be made by the District under the Installment Sale Agreement on the fifth (5th) day prior to each Interest Payment Date (or if such date is not a Business Day the next preceding

wastewater regulation and operations. Mr. LeBrun spent twelve years working with the California Regional Water Quality Control Board.

Lisa S. Bognuda, Finance Director. Lisa S. Bognuda has served as Finance Director for the District for more than 20 years. Prior to 1993, she was a Tax Accountant with Glenn, Burdette, Phillips & Bryson, CPA firm for 6 years. Ms. Bognuda became a Certified Public Accountant in 1988. She received a Bachelor of Science degree in Business Administration with a concentration in accounting from California Polytechnic State University, San Luis Obispo in 1985.

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

Budget Process

Pursuant to Government Code Section 61110, prior to June 30 of each year, the Board of Directors adopts a³³ final budget that conforms to generally accepted accounting and budgeting procedures for special districts. Prior to June 30, the District also adopts a resolution establishing the appropriation's limit for the successive fiscal year and authorizing its annual audit. Based on the rates, charges and fees adopted by the District, and other revenue sources of the District, the General Manager prepares a District budget for each fiscal year. The budget for Fiscal Year 2013 was adopted on June 13, 2012.

Employees and Employee Benefits

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

Retirement Programs

All regular full-time and part-time employees of the District, unless specifically excluded, are covered under the Public Employees' Retirement System (PERS) of the State of California, a defined benefit plan. Pension costs are funded by monthly contributions from the District. Participants are required to contribute 8% of their annual covered salary. The District makes the contribution required of District employees on their behalf and for their account for employees hired prior to June 18, 2011. Employees hired on or after June 18, 2011, are required to contribute 8% on their own behalf.

The District is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the fiscal year ended June 30, 2012 was 20.296% of annual covered payroll. Benefit provisions and all other requirements are established by state statute, and the employer contribution rate is established and may be amended by PERS. The District is also required to contribute all remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the Board of Administration. The District's contribution to PERS for the fiscal year ending June 30, 2012 was \$215,945, equal to 100% of the required contribution for such fiscal year.

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

Post-Employment Benefits

The District currently provides post-retirement health care benefits through PERS. Employees who retire on or after attaining age 50 and are vested, are eligible for District paid health insurance. Governmental Accounting Standards Board (“GASB”) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)” requires public agencies to plan and account for unfunded OPEB liability. On January 1, 2010, the District conducted an actuarial valuation to determine the required funding for this health benefits program. The actuarial liability for the District’s retiree health benefits program as of June 30, 2012, was determined to be \$1,328,814, based on a discount rate of 7.61%. The District’s funding policy is to fund 100% of the annual required contribution determined through the California Employers’ Retiree Benefit Trust (CERBT). Based on this valuation, the District contributed \$103,000 to an irrevocable trust to meet its³⁴ current obligation ^Δ³⁵to³⁶ this program and to fully fund the annual liability. ^Δ³⁷Five³⁸ (5) retired employee are receiving 100% paid health care benefits totaling \$4,762 a month as of June 30, 2012.

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

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

Deferred Compensation and Compensated Absences

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

Depending on the length of continuous services, a range of 10-20 vacation days³⁹ and 12 sick leave days⁴⁰ per year may be accumulated by each employee. The District accrues a liability for compensated absences, which have been earned but not taken.

Risk Management

The District is a member of the Special District Risk Management Authority, an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq. In becoming a member of the Special District Risk Management Authority, the District elected to participate in the risk financing programs for the program periods July 1, 2012 through June 30, 2013, including general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$500 deductible for property claims, automobile general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$1,000 deductible,

public officials and employee errors insurance with coverage of \$10,000,000 per occurrence and workers compensation insurance with statutory coverage and employer's liability insurance with coverage of \$5,000,000 per occurrence. Members are subject to dividends and/or assessments. No such dividends have been declared, nor assessments levied. As of June 30, 2012, there are no known refund or credit due to the District, nor has there been any reduction in insurance coverage from the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

Outstanding Indebtedness.

Water Obligations. Other than the 2013 Bonds, there [are](#)⁴¹ is no other obligations of the Water Enterprise. See "THE FINANCING PLAN –Parity Obligation" for a description of the proposed 2013 Certificates.

Sewer Obligations. The District has entered into a loan agreement, dated as of April 30, 1998, by and between the District and the State Water Resources Control Board (the "1998 SWRCB Loan") for the construction of the Southland Wastewater Treatment Plant Expansion - Phase I. The outstanding balance of this loan as of June 30, 2012 was \$244,079, and is payable over 20 year at zero interest rate and annual payments of \$34,868 commencing May 1, 2000. This loan is payable from wastewater revenues and not the Net Revenues.

The District has entered into a second loan agreement, dated as of February 24, 1999, by and between the District and the State Water Resources Control Board (the "1999 SWRCB Loan") for the construction of the Southland Wastewater Treatment Plant Expansion - Phase II. The outstanding balance of this loan as of June 30, 2012 was \$337,442. The loan is payable over 20 year at zero interest rate and annual payments of \$42,180 starting March 1, 2001. This loan is payable from wastewater revenues and not the Net Revenues.

On April 1, 2009, the District entered into an inter-fund loan from the Property Tax Fund to the Blacklake Division Sewer Enterprise Fund in the principal amount of \$275,000 at 3.5% interest, of which \$148,399 is outstanding as of June 30, 2012. **The inter-fund loan is not secured by Net Revenues**⁴². Bi-monthly surcharges are applied to Blacklake Division customers' sewer utility bills for a period of 10 years to repay the amount. Customers were given the opportunity to prepay their share of the loan and thereby avoid interest costs and the bi-monthly surcharge.

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

Special Assessment Debt. In July, 1994, the District issued its Assessment District No. 93-1 Bonds in the amount of \$1,752,938. The balance outstanding as of June 30, 2012 was \$516,000. These bonds are secured by assessments on certain parcels within the District and not from Net Revenues pledged under the Installment Sale Agreement.

THE ENTERPRISE

History and Management

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

The Enterprise serves the District encompassing approximately 7 square miles. The District currently employs twelve people full time, and operates one shift, five days a week to operate and maintain the Enterprise. There is 24-hour support provided to the enterprise year round through on-call operational staffing. The District's Finance Department is responsible for billing and collecting all water utility bills.

NMMA, based on both water quality measures at coastal sentinel wells and an index of well levels measured across the area. With the past rainfall year being among all-time lows in NMMA, a drop in the well index is not unexpected. Should the well index trigger Severe criterion, the Technical Group will evaluate further actions, up to and including mandatory pumping reductions. The intent of the Stipulation was to impose a physical solution establishing the legal and practical means for ensuring the long-term sustainability of the Santa Maria Groundwater Basin. The Stipulation requires the District to develop additional water supplies to serve current and future customers. Phase 1 of the Supplemental Water Project financed by the Certificates is in response to this need. The Supplemental Water Project will increase the reliability of the District water supply by providing an additional source other than groundwater.

In 2008, the Court confirmed the Stipulation and incorporated its terms as part of the Final Judgment. The Court has retained on-going jurisdiction to make orders enforcing the rights of the respective parties and the provisions of the Stipulation. Two separate non-stipulating parties to the litigation filed appeals of the Final Judgment to the California Court of Appeals. Oral argument was heard in the spring of 2012. On November 21, 2012, the Appellate Court ruled and, among other things, upheld the Stipulation. The non-stipulating parties then petitioned the Supreme Court of California for review. The Stipulation has been finally adjudicated, and on February 13, 2013, the California Supreme Court denied the petition for review. Petition for review to the U.S. Supreme Court has been made concerning matters other than the Stipulation, but no further action to contest the Stipulation may be taken.

The Stipulation requires, among other things, that the District is to deliver 2500 AF of supplemental water per year to the Nipomo Mesa Management Area (NMMA) of which the District is a part, and to that end, that the following parties will participate in the District's purchase of the first 2,500 AF of supplemental water per year from the City of Santa Maria in the following percentages: District at 66.68%, Woodlands Mutual Water Company ("Woodlands") at 16.66%, Golden State Water Company ("Golden State") at 8.33% and Rural Water Company ("Rural") at 8.33%. If the District purchases more than 2,500 AF of supplemental water in any year then the three water purveyors do not have any obligation to purchase any of the supplemental water over 2,500 AFY.

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

△⁴³

On April 24, 2013, and on May 8, 2013, the District adopted and amended a financing plan for the Phase 1 Improvements, which included funding as follows: net proceeds of proposed 2013 Certificates in the amount of △⁴⁴ \$9,000,000, a \$2,200,000 grant from the California Department of Water Resources, \$2,400,000 in existing funds from the Property Tax Fund, \$1,403,160 in existing funds from the Water Capacity Fund, \$1,500,000 in existing

funds from the Water Fund, \$1,000,000 in existing funds from the Supplemental Water Capital Fee Fund, for a total amount of \$17,503,160.⁴⁵

The District anticipates that Phase 2 and Phase 3 improvements for the Supplemental Water Project will be funded on a pay-as-you-go basis from the Supplemental Water Fees derived from future development within the District and the District has no plans to incur any additional bonded indebtedness for these future phases.⁴⁶

Phase 1 Improvements. Phase 1 of the Supplemental Water Project consists of the Phase 1 Improvements which will interconnect the District's water distribution system with the water distribution system of the City of Santa Maria. The Phase 1 Improvements consist of approximately 4,800 lineal feet of 18 inch diameter DIP waterline, 2,600 lineal feet of 24 inch nominal inside diameter high-density polyethylene (HDPE) pipe under the Santa Maria River, 2,726 lineal feet of 24 inch diameter DIP waterline, a flow meter and flow control station, a 400 gallon per minute (gpm) pump station with two (2) pumps, a chloramination system, and related power, back-up power, controls and instrumentation systems, a pressure reducing station, and chloramination systems at four (4) existing District production wells. [See THE ENTERPRISE – Water Supply - Supplemental Water Project.](#)⁴⁷

The Phase 1 Improvements will be capable of initially delivering approximately 650 AFY on average of supplemental water to the District increasing to a potential of approximately 1,000 AFY of supplemental water depending on flow control adjustments. The Phase 1 Improvements will allow the District to reduce pumping from existing wells to slow the depletion of groundwater and reduce the potential for seawater intrusion on the Nipomo Mesa as required by the Stipulation. ⁴⁸[See “THE FINANCING PLAN”](#)⁴⁹ Phase 1 Improvements⁵⁰.⁵¹

Prior Financing Alternatives and Litigation Relating to the Supplemental Water Project. Prior to the current financing plan involving the execution and delivery of the Certificates, the District undertook to form an assessment district within its jurisdiction and the jurisdictions of the three water purveyors within certain unincorporated County areas to finance a portion of the Supplemental Water Project. On May 9, 2012, the assessment district was defeated in a Proposition 218 majority protest proceeding wherein approximately 52% of the weighted ballots were in protest of the formation of the assessment district and the levy of assessments to finance the Supplemental Water Project.

On April 24, 2013, and on May 8, 2013, the District adopted and amended ⁵²[the](#)⁵³ financing plan for the Phase 1 Improvements to encompass the current plan described above. The original financing plan included \$4,000,000 in existing funds from the Water Funded Replacement Fund. On May 3, 2013, a complaint for writ of mandate and injunctive relief was filed against the District in County of San Luis Obispo Superior Court alleging improper use of the Water Funded Replacement Fund for the Phase 1 Improvements (Case No. CV 130222, *Mesa Community Alliance V. Nipomo Community Services District; Nipomo Community Services District Board Of Directors*). The suit seeks to invalidate approval of Phase 1 Improvements and the use of moneys in the Water Funded Replacement Fund and for injunctive relief against any action of the District with respect to the Supplemental Water Project. On June 5, 2013, plaintiff's motion for a preliminary injunction was denied. The District believes the adoption of its original financing plan, as well as the amended financing plan, are legal and valid actions of the District and are mandated by the Stipulation, and the District is currently defending such positions in court.

Wholesale Water Agreement. In order to comply with the Stipulation, the City and the District entered into a wholesale water agreement dated June 5, 2010, and amended May 6, 2013 (the “Wholesale Water Agreement”), in which the City agreed to reserve and sell supplemental water to the District, and the District agreed to purchase such supplemental water, following completion of the Phase 1 Improvements. Following completion of the Phase 1 Improvements, the District is required to purchase the following minimums: 645 AFY of water during year 1, 800 AFY during years 2 through 5, 1,000 AFY during years 6-10, and 2,500 AFY during years 11 through 2035. Under the Wholesale Water Agreement, if the District does not take the minimum amounts, the City may bill the District for the balance. The cost of the water will be the Base Rate of the City's Water Consumption Rates plus an Base Energy Cost equal to \$206.85 per AF. The City and the District expect to enter into a Operation Memorandum of

Understanding required by the water agreement for the operation of the interconnect facilities. The District has based its projected purchase of supplemental water on the following schedule: 430 AFY for fiscal year 2014-15 (based on 645 AFY partial year following completion of Phase 1 Improvements), 800 AFY for fiscal year 2015-16 and 1,000 AFY thereafter for fiscal years 2015-16 and 2016-17. The District expects to pass along [to the three water purveyors the](#)⁵⁴ costs of water [acquired from the City of Santa Maria and the purveyors](#),⁵⁶ fair share of costs of constructing, operating and maintaining the Phase 1 Improvements.

The District has not yet entered into any water sale agreements with the three water purveyors who are required to purchase supplemental water from the District. In a letter dated April 2, 2013, the water purveyor Woodlands acknowledged its responsibility for paying for 16.66% of the supplemental water. The three water purveyors affected by the Stipulation, Woodlands, Golden State and Rural, may need to construct infrastructure improvements to their systems to receive supplemental water and/or implement rate increases to generate sufficient revenues to purchase their percentage share of supplemental water once the Phase 1 Improvements have been completed. Rate increases for Woodlands is a function of its board approval, while Golden State and Rural are subject to California Public Utilities Commission regulation and approval for rate increases.

Historical and Projected Water Supply and Deliveries

As of February 28, 2013, the District has pumped 1,603 acre-feet for the current fiscal year, down from 1,681 acre-feet for the same period last year. As of February 28, 2013, the District has delivered 1,544 acre-feet of water for the current fiscal year, down slightly from 1,597 acre-feet for the same period last year. Set forth below in Table 1 is a summary of the amount of historical groundwater pumped and deliveries by the District for the last five fiscal years. The amount of pumped water and deliveries is impacted by building activity, rainfall and consumer use. The District's historic high year of production was⁵⁷ in 2007 at approximately 2,900 AF. Since 2008, water usage has declined primarily due to decreased construction and development activity in the region, conservation efforts by the District and the downturn in the economy in general. This trend is anticipated to reverse in the near future as building activity and development expands and new connections increase. See Table 5 for projected connections based on capacity fee information. For purposes of the District's financial projections, however, the District has conservatively estimated amounts of pumped groundwater for the current and four succeeding fiscal years as set forth in Table 2.

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

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

Source: Nipomo Community Service District.

**TABLE 15
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
PROJECTED CAPACITY FEES**

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

Source: Nipomo Community Services District.

Supplemental Water Sales Revenues

The Stipulation requires that Woodlands, Golden State and Rural participate in the District's purchase of the first 2,500 AFY of⁵⁸ supplemental water purchased by the District⁵⁹ from the City of Santa Maria in the following percentages: Woodlands at 16.66%, Golden State at 8.33% and Rural at 8.33%⁶⁰ purchased by the District^{61, 62} at the ⁶³price⁶⁴ of the supplemental water cost⁶⁵ plus administration charges. **The District anticipates entering into water sale agreements with each such purveyor but to date no contracts have been executed.** Woodlands has acknowledged its responsibility for paying for 16.66% of the supplemental water in a letter dated April 2, 2013. In order to pay for its share of supplemental water, it is expected that the water purveyors will need to raise their rates. Rate increases for Woodlands is a function of its board approval, while Golden State and Rural are subject to California Public Utilities Commission regulation and approval for rate increases.

The projected supplemental water sales revenues were estimated assuming 15% of supplemental water purchased by the District would be sold to the water purveyors commencing in November 2014, increasing to 33% in fiscal year 2016-17. The three water purveyors are not required to participate in supplemental water costs paid for by the District for supplemental water over 2,500 AFY.

Capital Improvement Program

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

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

Project	Source of Funds	2012-13	2013-14	2014-15	2015-16	2016-17
Supplemental Water	Supp Water Fund		1,000,000			
	Prop Tax Fund		2,400,000			
	Grant		2,200,000			
	Certificate Proceeds		9,000,000			
	Cap Fund		Δ ⁶⁶ 1,403,160 ⁶⁷			
	Water Fund		1,500,000			
New Tank Site	Cap Fund			400,000	1,200,000	400,000
Willow Road Water Line	Cap Fund	100,000				
SCADA Upgrades	Cap Fund	140,000	50,000			
Standpipe Mixing	Cap Fund		250,000			
Water Master Plan	Cap Fund			200,000		
Standpipe Upgrade & Rehab	Replace Fund		150,000			
Fire Hydrant Replacement	Replace Fund	72,600	72,600	72,600	72,600	72,600
Valve Replacements	Replace Fund	184,000	184,000	184,000	184,000	184,000
Air Vac Replacements	Replace Fund	16,500	16,500	16,500	16,500	16,500
Well Refurb. - BL No. 4	Replace Fund	200,000	200,000			
TOTAL (uninflated)		\$713,100	\$Δ ⁶⁸ 18,426,260 ⁶⁹	\$873,100	\$1,473,100	\$673,100
TOTAL (with 3.5% inflation)		\$713,100	\$Δ ⁷⁰ 18,458,693 ⁷¹	\$935,300	\$1,633,300	\$772,300

Source: Nipomo Community Services District.

The District's capital improvement program is a five-year plan, revised annually. Consequently, projects planned for future years may be cancelled, and new projects not presently anticipated may be undertaken. The planned proceeds of the proposed 2013 Certificates have been incorporated into the above table for the Phase 1 Improvements. New capital improvements and upgrades, other than the Phase 1 Improvements, are funded from capacity funds, surplus property tax revenues not utilized for payment of Debt Service, and replacement reserves. Maintenance of the capital components of the Enterprise are funded from revenues of the Enterprise.

Billing and Collection Procedures

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

The District has historically had [a](#)⁷² very low, if any, annual delinquency rate on the collection of its utility charges. Currently, the delinquency rate is 0%. If delinquencies occur, service is discontinued and liens are placed on the parcels and collected on the property tax roll.

Water Treatment

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

Water Quality

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

Conservation

The District adopted its Water Conservation Program in February 2008 with the primary goal of reducing water use by 15% through core and non-core measures. Core measures include public outreach and education, advertising, technical assistance (leak detection and water audits) and [a](#)⁷³ conservation-based, multi-tiered water rate structure. Example of non-core measures include plumbing retrofits, high efficiency clothes washers, removal of [a](#)⁷⁴ [lawns](#)⁷⁵, and installation of 'smart' irrigation controllers.

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

Total Revenues	\$4,829,128	\$3,879,912	\$3,656,915	\$3,602,692	\$3,622,163
OPERATING AND MAINTENANCE EXPENSE					
Water Treatment	21,086	23,241	24,432	32,713	39,313
Transmission and Distribution	1,653,733	1,816,948	1,434,596	1,208,621	1,321,782
Administrative and General	1,113,019	1,096,844	1,013,497	1,404,068	955,653
Total Operating and Maintenance Expense	\$2,787,838	\$2,937,033 ^{*76}	\$2,472,524	\$2,645,402	\$2,316,748
NET REVENUES	\$2,041,290	\$ 942,879 ^{*77}	\$1,184,391	\$ 957,290	\$1,305,415
1978 Revenue Bonds Debt Service	15,450	16,000	15,500	15,000	0
2003 Certificates Debt Service	248,133	246,199	243,989	246,425	243,545
DEBT SERVICE COVERAGE	774%	360% ^{*78}	456%	366%	536%

* Fiscal year 2008-08 includes depreciation which was not included in past or subsequent fiscal years. If depreciation was excluded, Total Operating and Maintenance Expenses for fiscal year 2008-09 would be \$2,396,853, resulting in Net Revenues of \$1,483,059 and Debt Service Coverage of 566%.

⁷⁹Source: Nipomo Community Services District.

The following table sets forth the projected revenues, expenses and debt service coverage of the Enterprise for the previous and current Fiscal Year and the next five Fiscal Years.

TABLE 20
NIPOMO COMMUNITY SERVICES DISTRICT WATER ENTERPRISE
PROJECTED REVENUES, EXPENSES AND DEBT SERVICE COVERAGE
(assuming issuance of Parity Obligation 2013 Certificates)
For Fiscal Years Ended June 30

	2011-12 <u>Actual</u> ⁸⁰	2012-13 <u>ESTIMATE</u>	2013-14 <u>ESTIMATE</u>	2014-15 <u>ESTIMATE</u>	2015-16 <u>ESTIMATE</u>	2016-17 <u>ESTIMATE</u>
OPERATING REVENUES						
Charges for Services	\$ 2,978,557	\$ 3,310,800	\$ 3,623,500	\$ 3,965,400	\$ 4,340,100	\$ 4,500,300
Supplemental Water Sales Revenue	-	-	-	231,000	398,700	1,029,800
Miscellaneous	47,259	47,200	50,900	54,100	54,300	54,500
Total Operating Revenues	\$ 3,025,816	\$ 3,358,000	\$ 3,674,400	\$ 4,250,500	\$ 4,793,100	\$ 5,584,600
OPERATING EXPENSES						
Water Purchases	\$ -	\$ -	\$ -	\$ 781,800	\$ 1,519,400	\$ 1,984,100
Salaries and Benefits	789,387	825,000	1,131,800	1,178,800	1,228,000	1,279,500
Utilities 440,880	450,000	455,000	412,400	412,400	363,500	378,700
Chemicals	17,171	20,000	21,500	18,000	15,700	16,200
Lab Testing	22,142	22,000	45,000	47,300	49,700	52,200
Supplies	35,438	30,000	31,000	32,600	34,200	35,900
Fees and Permits	12,402	13,000	14,000	14,700	15,400	16,200
Repairs and Maintenance	96,815	135,000	135,000	141,800	148,900	156,300
Outside Services	51,549	85,000	90,000	94,500	99,200	104,200
General And Administration	572,560	586,200	654,000	606,100	636,400	668,300
Other Expenses	118,699	211,900	155,900	163,900	172,100	180,800
Total Operating Expenses	\$ 2,157,043	\$ 2,378,100	\$ 2,733,200	\$ 3,491,900	\$ 4,282,500	\$ 4,872,400
OPERATING INCOME (LOSS)	\$ 868,773	\$ 979,900	\$ 941,200	\$ 758,600	\$ 510,600	\$ 712,200
NON-OPERATING REVENUE (EXPENSES)						
Interest Income	\$ 45,773	\$ 41,800	\$ 36,800	\$ 27,900	\$ 26,300	\$ 27,300
Supplemental Water Capacity Charges	14,605	120,100	135,100	322,800	561,600	112,600
Cell Site	36,809	37,700	38,000	38,800	39,600	40,400
Total Non-Operating Revenue (Expense)	\$ 97,187	\$ 199,600	\$ 209,900	\$ 389,500	\$ 627,500	\$ 180,300
Pledge of Property Tax Revenue	\$ 488,300	\$ 493,000	\$ 502,900	\$ 513,000	\$ 523,300	\$ 533,800
TOTAL NET REVENUES AVAILABLE FOR DEBT SERVICE	\$ 1,454,260	\$ 1,672,500	\$ 1,654,000	\$ 1,661,100	\$ 1,661,400	\$ 1,426,300
Series 2003 Debt Service	\$ 246,000					
2013A Bonds Max Annual Debt Service		\$ 228,800	\$ 228,800	\$ 228,800	\$ 228,800	\$ 228,800
2013 Certificates Debt Service*		-	\$ 575,000	\$ 575,000	\$ 575,000	\$ 575,000
Total Debt Service*	\$ 246,000	\$ 228,800	\$ 803,800	\$ 803,800	\$ 803,800	\$ 803,800
COVERAGE	591%	731%	206%	207%	207%	177%
Beginning Combined Fund Balances		\$ 11,691,000	\$ 12,090,200	\$ 8,020,100	\$ 7,899,300	\$ 7,130,000
Ending Combined Fund Balances		\$ Δ ⁸¹ <u>12,090,200</u> ⁸²	\$ 8,020,100	\$ 7,899,300	\$ 7,130,000	\$ 6,880,800

1. Fiscal year 2011-12 includes reclassification of administrative costs from audited financials.⁸³

*⁸⁴ Preliminary, subject to change.

Source: Nipomo Community Services District.

To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

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

- Fiscal year 2012-13 figures are based on budget amounts.
- Projected revenues are based on the current existing rate structure and 28 new connections each year. The last approved rate increase is Nov 1, 2015, with no assumed rate increase in fiscal year 2016-17, and without regard to the intention of the District to conduct a rate study and increase rates and capacity fees prior to such date. See “THE ENTERPRISE – Water Rates and Charges” and “RISK FACTORS – Voter Initiatives - State Constitutional Amendment.”
- Capacity Charge projections are based on Table 15, including assumptions made in Table 5, without regard to the intention of the District to conduct a rate study to increase rates and capacity fees. Capacity Charges projections include Supplemental Water Capacity Charge. See LIMITATIONS ON TAXES AND REVENUES – Article XIIC and Article XIID of the California Constitution.”
- Cell Site lease revenue increases at two percent (2%) annually.
- Interest income is based on an interest rate of 0.35% on the average fund balances.
- Property Tax Revenue of \$493,000 in fiscal year 2012-13 are based on County estimates, and are inflated at two percent (2%) in future years.
- Operation and Maintenance expenses are inflated at the following annual rates: Salaries - 3.0%; Benefits - 6%; Chemicals (per Ccf) - 3%, and Electricity (per Ccf) - 4%. All other expenses are inflated at 5% annually. Operation and Maintenance expenses includes the District’s purchase of Supplemental Water beginning in November 2014.
- Transfers to the Replacement Fund for annual capital replacement are based on District Policy.
- District policy is to maintain an estimated 180 days of operation and maintenance expense as an operating reserve.
- Water sales to purveyors equals 15% of supplemental water sold to District, increasing to 33% in fiscal year 2016-17.
- The District will purchase Supplemental Water in the amount of 645 ac-ft beginning November 1, 2014 (430 ac-ft for the fiscal year), ^{Δ85}increasing⁸⁶ to 800 ac-ft in fiscal year 2015-16, and 1,000 ac-ft in fiscal year 2016-17 (Wholesale Water Agreement sets minimum for 2016-17 at 800 AFY).
- Cost of purchase of Supplemental Water^{Δ87} from the City of Santa Maria increases at approximately 4.5% annually.
- Transfers to the Replacement Fund includes an additional \$350,000 beginning in November 2014 for replacement related to the Phase 1 Improvements.

To the extent that actual future conditions vary from those assumed in preparing the projections, the actual results will vary from those set forth herein.

Delinquencies

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

Enterprise Accounting

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

The District uses the accrual basis of accounting for its "proprietary funds," including the Enterprise funds. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. All assets and liabilities for these funds are included on the balance sheet^{Δ88}. Fund equity (net total assets) is segregated into contributed capital and retained earnings components.

The proprietary funds apply all applicable GASB pronouncements as well as applicable pronouncements of the Financial Accounting Standard Board, Accounting Principles Board and^{Δ89} Accounting Research Bulletins, unless they conflict with or contradict GASB pronouncements.

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

RISK FACTORS

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

Enterprise Demand and Growth

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

Santa Maria, the District is required, if the Supplemental Water Project is financed and built,⁹⁰ to ultimately purchase up to 2,500 acre feet of water by 2023. The cost of this water will require significant water rate increases beyond what has already been approved. There can be no assurance that these rate increases can be implemented or implemented in time to meet the District's water purchase obligations.

Limitations on the District's existing water facilities due to potential seawater intrusion or continuation of drought conditions may impact the local supply available for water service and thereby impact the level of demand if the Supplemental Water Phase 1 Improvements are not built.

Enterprise Expenses

There can be no assurance that the District's expenses for the Enterprise will be consistent with the historic levels described in this Official Statement, and with the completion of the Phase 1 Improvements, it is expected that the District's expenses for the Enterprise shall increase. Further, changes in technology, new State and federal regulatory requirements including environmental regulations, increases in the cost of energy or other expenses could reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenants in the Installment Sale Agreement. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Installment Sale Agreement — *Amount of Rates; Fees and Charges.*" Such rate increases could increase the likelihood of nonpayment.

Voter Initiatives -- State Constitutional Amendment

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

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

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

Under Article XIII D, revenues derived from a "fee" or "charge" may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "fee" or "charge" may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners." In addition, in order for a "fee" or "charge" to be imposed or

Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Limited Obligations

No fund, other than Ad Valorem Tax Revenues and the fund comprised of the net revenues of the Enterprise (as defined herein) is liable for the payment of the Certificates or their interest or premium, if any, nor is the credit or taxing power of the District pledged for the payment of the Certificates or their interest or premium, if any. The Owners of the Certificates shall not compel the exercise of the taxing power by the District or the forfeiture of any of its property. The principal of and interest on the Certificates and any premiums upon the redemption of any thereof are not a debt of the District nor a legal or equitable pledge, charge, lien, or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues, except the Net Revenues which are, under the terms of the Installment Sale Agreement, pledged to the payment of the Certificates and interest, and any Parity Obligations, including the 2013 Bonds. The District may (but is not legally obligated to) advance funds for the payment of interest or principal or for the performance of any covenants, provided that such funds are derived from a source legally available for such purpose and may be used by the District for such purpose without incurring indebtedness.

Loss of Tax-Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates, the District has covenanted in the Trust Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code of 1986. The interest with respect to the Certificates⁹¹ could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates, as a result of acts or omissions of the District in violation of covenants in the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to acceleration, redemption or any increase in interest rates and will remain Outstanding until maturity or until redeemed under one of the redemption provisions contained in the Trust Agreement. See “TAX EXEMPTION” herein.

Forecasts

Although the District believes that the projections herein of future operating results of the Enterprise are reasonable, there can be no assurance that operating results will match the projections due to changes in general economic conditions and similar factors. The District has not awarded bids for the construction of the Phase 1 Improvements; however,⁹² ⁹³Board approval is ⁹⁴scheduled for ⁹⁵June 20, ⁹⁶2013.⁹⁷ The District has not yet entered into any water sale agreements relating to the supplemental water with the three water purveyors which are required to purchase supplemental water. In addition, the Enterprise and economic development within the service area of the District are subject to federal, State and local regulations. There can be no assurance that the Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the District. Under the Water Purchase Agreement with the City of Santa Maria, the District is required, if the Supplemental Water Project is financed and built to ultimately purchase up to 2,500 acre feet of water by 2023. The cost of this water will require significant water rate increases beyond what has already been approved. There can be no assurance that these rate increases can be implemented or implemented in time to meet the District’s water purchase obligations.

Environmental Laws and Regulations

The Enterprise is subject to a wide variety of local, State, and federal health and environmental laws. Among the types of regulatory requirements faced by such facilities are air and water quality control