

MAY 8, 2013

ITEM E-1

ATTACHMENT G

NEW ISSUE — BOOK-ENTRY ONLY

RATING: S&P “ ”
(See “RATING” herein)

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



\$(principal amount)*
REVENUE CERTIFICATES OF PARTICIPATION
(Supplemental Water and Refunding 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

(BANK QUALIFIED)

Dated: Date of Delivery

Due: September 1, as shown on inside cover page

The Revenue Certificates of Participation (Supplemental Water and Refunding 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, 2022, 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) currently refund and defease the District’s Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003, (ii) fund a portion of the costs of certain capital improvements to the Enterprise, (iii) fund a Reserve Fund for the Certificates, and (iv) pay the costs of issuance relating to the execution and delivery of the Certificates.

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

THE 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 THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO MAKE THE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES ARE SECURED BY ANY SECURITY INTEREST IN, OR MORTGAGE ON, THE ENTERPRISE.

* Preliminary, subject to change.

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

The Certificates are offered when, as and if executed and delivered, subject to approval of legality by Fulbright & Jaworski L.L.P., Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by Shipsey & Seitz, Inc., San Luis Obispo, California, and Fulbright & Jaworski L.L.P., Disclosure Counsel. Delivery of the Certificates through the facilities of DTC is expected on or about June __, 2013.

CITIGROUP GLOBAL MARKETS INC. LOGO

Dated: May __, 2013

\$[principal amount]*
Revenue Certificates of Participation
(Supplemental Water and Refunding Project)
Series 2013

MATURITY SCHEDULE

\$ _____ Serial Certificates

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

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

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* Preliminary, subject to change.

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

DISTRICT/CORPORATION BOARD

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

DISTRICT/CORPORATION

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

DISTRICT ATTORNEY/AUTHORITY COUNSEL

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

SPECIAL SERVICES

Special Counsel and Disclosure Counsel

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

Financial Advisor

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

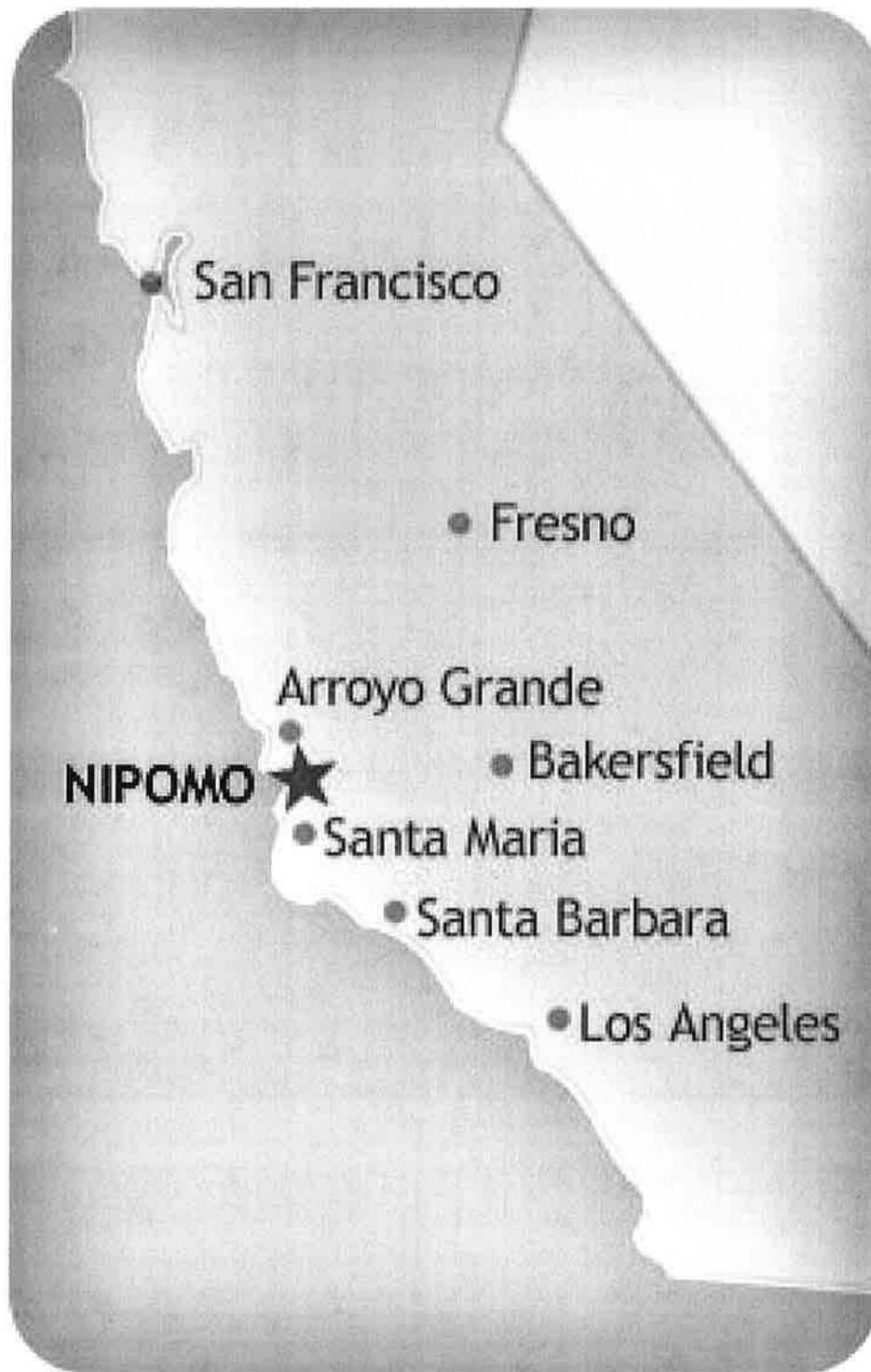
Trustee

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

Verification Agent

Barthe & Wahrman
Minneapolis, Minnesota

NIPOMO COMMUNITY SERVICES DISTRICT
Vicinity Map



GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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OFFICIAL STATEMENT

[\$principal amount]*
REVENUE CERTIFICATES OF PARTICIPATION
(Supplemental Water and Refunding 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 and Refunding 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) currently refund and defease the District's Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003 (the "Series 2003 Certificates"), (ii) fund a portion of the costs of certain capital improvements to the Enterprise, (iii) fund a Reserve Fund for the Certificates, and (iv) pay the costs of issuance relating to the execution and delivery of the Certificates. See "FINANCING PLAN."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 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 solely from 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 of all income and revenue received by the District from the operation or ownership of the Enterprise remaining after payment of Operation and Maintenance Expenses, as

* Preliminary, subject to change.

further described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein. Under no circumstances shall the District be required to advance any moneys derived from any source of income other than the funds described above, nor are any other funds or property of the District be liable for the payment of the Installment Payments.

The Installment Payments due under the Installment Sale Agreement are structured to be at least sufficient in both time and aggregate amount to pay, when due, the principal of, and interest with respect to the Certificates. The Installment Payments are special limited obligations of the District payable solely from, and secured by, a pledge of and first lien on the Net Revenues. The District may incur additional obligations payable from the Net Revenues of the Enterprise on a parity with the Installment Payments securing the Certificates, subject to the terms and conditions of the Installment Sale Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Parity Obligations."

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

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 NET REVENUES BUT DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATIONS OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS UNDER THE INSTALLMENT SALE AGREEMENT CONSTITUTES A DEBT OF THE DISTRICT, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. NEITHER THE AUTHORITY NOR ITS OFFICERS OR DIRECTORS ARE LIABLE FOR PAYMENT WITH RESPECT TO THE CERTIFICATES.

Prepayment

The Certificates are subject to optional prepayment, without premium, on or after September 1, 2023, and to extraordinary prepayment and mandatory sinking account prepayment as described herein. See "THE CERTIFICATES."

Rate Covenant

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

The District

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

of Santa Maria. The District includes approximately 4,450 acres of land comprising 7 square miles. See "THE NIPOMO COMMUNITY SERVICES DISTRICT" and APPENDIX A – COUNTY OF SAN LUIS OBISPO DEMOGRAPHIC AND ECONOMIC DATA.

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

The District currently has a population of approximately 11,850, and provides water service to approximately 4,300 residential, commercial and industrial connections to the Enterprise.

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

Continuing Disclosure

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

Professionals Involved in Financing

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

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

THE CERTIFICATES

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

Payment of Principal, Prepayment Price and Interest

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

The payments of principal and prepayment price with respect to all Certificates is to be made upon presentation and surrender thereof at the corporate trust office of the Trustee. Interest is payable semiannually

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

Mandatory Sinking Fund Prepayment. The Certificates maturing on 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:

Mandatory Prepayment Dates
(September 1)

Principal Amount

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:

Mandatory Prepayment Dates
(September 1)

Principal Amount

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

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

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

Installment Payment Schedule

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

Certificate Year Ending September 1	Principal Component	Interest Component	Total Annual Installment Payment
2014			
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
Total			

ESTIMATED SOURCES AND USES OF PROCEEDS

Sources and Uses of Proceeds

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

Estimated Sources of Proceeds

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

Estimated Uses of Proceeds

Deposit to Escrow Fund	
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, 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) currently refund and defease the District's Series 2003 Certificates of Participation, (ii) fund a portion of the costs of certain capital improvements to the Enterprise, (iii) fund a Reserve Fund for the Certificates, and (iv) pay the costs of issuance relating to the execution and delivery of the Certificates.

Refunding of 2003 Certificates

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

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 increased 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 an additional source of water other than groundwater. The Phase 1 Improvements are consistent with the Stipulation. See "THE ENTERPRISE – Water Supply."

The Phase 1 Improvements consist of approximately 4,800 lineal feet of 18 inch diameter ductile iron pipe (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. Substitute projects may be financed as provided in the Installment Sale Agreement.

The final Environmental Impact Report ("EIR") covering the Phase 1 Improvements was certified by the District in April 2009 as the lead agency and the City as a responsible agency. A supplemental EIR was certified by the District in April 2012.

The design drawings and specifications were developed as three separate bid packages as follows: (i) Santa Maria River Crossing, (ii) Blosser Road Waterline, Meter, and Flow Control Station, and (iii) Joshua Street Pump Station. Design of the Project was completed to current civil, geotechnical, seismic, mechanical, electrical, and architectural standard practices. Bids have been received and are expected to be awarded on May 22, 2013.

Santa Maria River Crossing. The Santa Maria River Crossing components involve the installation of 2,600 feet of 24-inch nominal inside diameter fusion-welded high-density polyethylene (HDPE) pipe under the Santa Maria River at a maximum depth of approximately 110 feet underneath the riverbed using the horizontal directional drilling method (HDD). HDD is typically a three-stage construction method with the first stage consisting of a pilot hole excavation, the second stage consisting of reaming the hole to the required size and the third stage consisting of pulling the pipe into the stabilized hole. In addition, 333 lineal feet of 24 inch diameter DIP installed by the open trench method will connect to the 24-inch waterline.

Two (2) bids were received for the Santa Maria River Crossing component with the apparent lowest responsible bidder being ARB Inc., Lake Forest, California, with a bid of \$7,197,140. ARB Inc, a privately owned company formed in 1946, constructs water and wastewater treatment plants, power plants, compressor stations, pipeline and related facilities while providing a wide range of engineering, construction, fabrication, maintenance and replacement services to major energy, petrochemical, refining and mining companies, developers, utilities, public agencies and other customers. ARB Inc. has a specialty in underground infrastructure. They have seven (7) offices in California, as well as offices in Mexico and Ecuador.

Blosser Road Waterline, Meter and Flow Control Station. The Blosser Road Waterline, Meter and Flow Control Station components consist of the installation of 4,800 lineal feet of 18 inch DIP waterline from a connection to the north end of the City water distribution system at the intersection of Blosser Road and West Taylor Street north along Blosser Road to Atlantic Place. At Atlantic Place, the diameter changes to 24 inch DIP and continues 670 feet underneath the Santa Maria River levee to connect to the 24 inch waterline installed in previous components. The work also includes a flow meter to measure the quantity of water delivered for billing purposes and a flow control station that will regulate the delivery flow rate.

Nine (9) bids were received for the Blosser Road Waterline, Meter and Flow Control Station component with the apparent lowest responsible bidder being Specialty Construction, San Luis Obispo, California, with a bid of \$2,575,710. Specialty Construction, Inc. founded in 1996, currently has 85 employees, and three construction divisions delivering general construction, civil construction, and telecommunication construction in six counties in California from Monterey County to Los Angeles County.

Joshua Road Pump Station. The Joshua Road Pump Station includes construction of 1,723 feet of 24-inch diameter waterline to connect the pump station to the existing 12-inch diameter waterline in Santa Maria Vista, construction of a two pump, 400 gallon per minute booster pump station and related facilities, and installation of chloramination equipment at the District's Sundale, Eureka, Via Concha and Blacklake #4 wells.

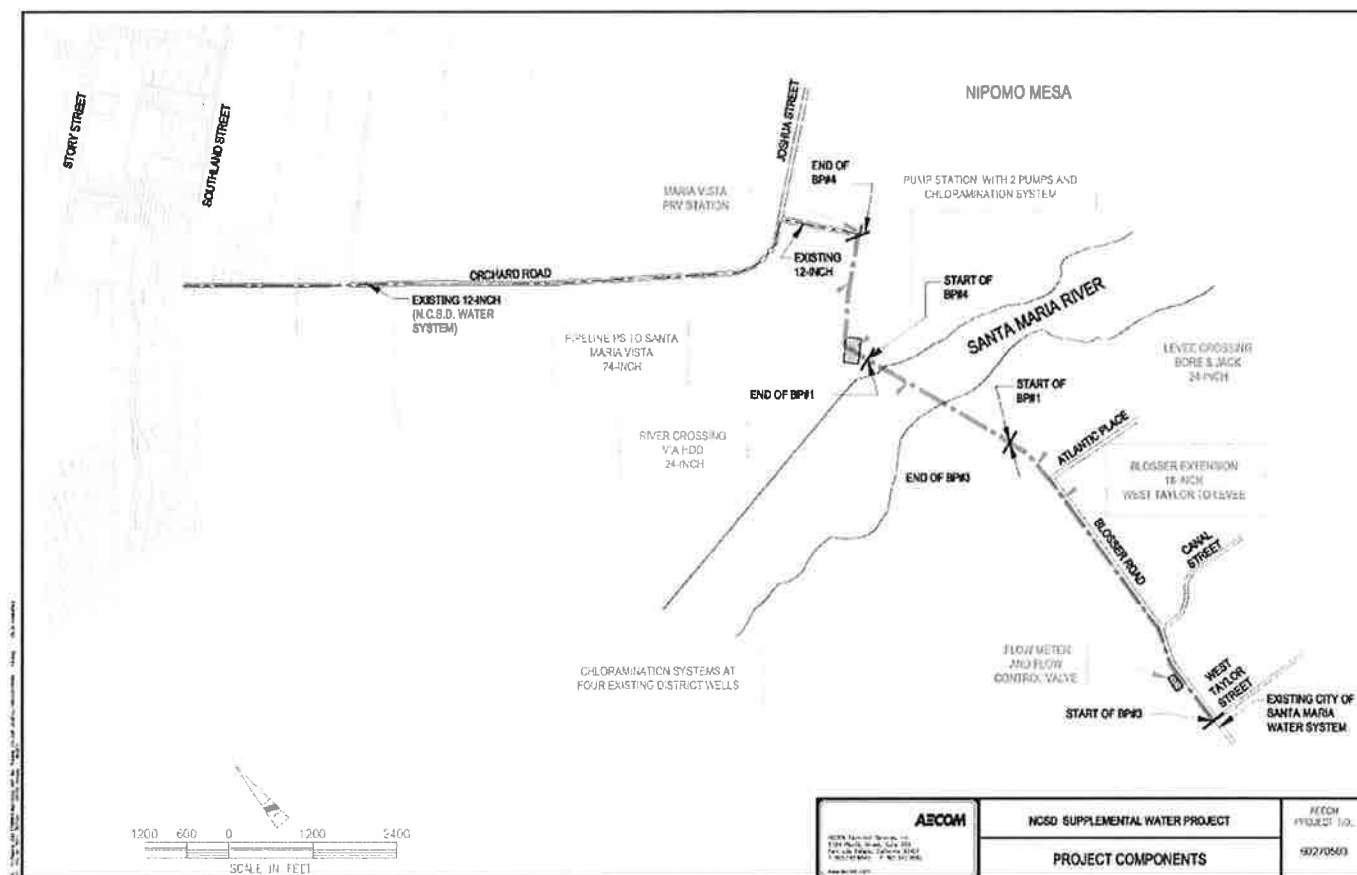
Five (5) bids were received for the Joshua Road Pump Station component with the apparent lowest responsible bidder being Spiess Construction Co., Inc. ("Spiess"). Spiess, located in Santa Maria, California, is a family owned and operated underground utility construction contractor specializing in municipal, 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>705,000</u>
Construction Total	\$14,822,560
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 \$5,000,000, 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, \$1,000,000 in existing funds Supplemental Water Capital Fee Fund and \$4,000,000 in existing funds from the Water Funded Replacement Fund (or, alternatively, in light of a potential challenge to the use of Water Funded Replacement Funds, \$4,000,000 from existing funds redesignated or on loan from the Water Funded Replacement Fund or from an interfund loan of existing funds in the Sewer Replacement Fund) for a total amount of \$17,503,160 from funds of the Enterprise, are allocated to complete Phase 1 Improvements. District Counsel, in response to the recent potential challenge made known to the District to the use of funds in the Water Funded Replacement Funds, has opined that use of such funds as described above for the Phase 1 Improvements is consistent with the purposes for which such Fund exists. Should a loan from any of the funded replacement funds be necessary, such loan costs will need to be included in future rate and capacity charge studies as an increased cost component of the Enterprise.

The District currently intends that the future 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.



SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

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

Source of Payment for the Certificates; Net Revenues

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

the Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES — Reserve Fund."

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

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

Gross Revenues include the Ad Valorem Tax Revenues, all amounts derived by the District from the sale, furnishing and supplying of water or other services related to the Enterprise, all standby or water availability charges, development fees and connection charges collected by the District, and including investment earnings on all such amounts and the District's general reserves, all as more particularly described in the definition of Gross Revenues in APPENDIX C hereto. Net Revenues are defined as all Gross Revenues less Operating and Maintenance Costs.

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

In order to carry out and effectuate the pledge and lien contained in the Installment Sale Agreement, the District agrees and covenants that (i) all Gross Revenues (other than Ad Valorem Tax Revenues) will be received by the District and deposited in a special fund designated as the "Water Enterprise Fund", and (ii) all Ad Valorem Tax Revenues will be received by the District and deposited in the "Ad Valorem Tax Account of the Water Enterprise Fund," which fund and account the District agrees and covenants to maintain and to hold in trust separate and apart from other funds so long as any Installment Payments or Parity Obligations remain unpaid. The District will, from the moneys in the Water Enterprise Fund other than the Ad Valorem Tax Account, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. Thereafter, all moneys in the Ad Valorem Tax Account and all remaining moneys in the Water Enterprise Fund will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority; first, on or before each Installment Payment Date during the term of the Installment Sale Agreement, the District will withdraw, first from moneys in the Ad Valorem Tax Account and second from other remaining moneys in the Water Enterprise Fund, and transfer to the Trustee, for deposit in the Installment Payment Fund, the full amount then required to be deposited for the payment of the Installment Payments, and to the trustee for any Parity Obligations, for deposit in such fund or account equivalent to the Installment Payment Fund, to pay the principal of and interest on any Parity Obligations; second, the District will reimburse amounts advanced under any Reserve Fund Credit Facility; third, the District will pay to the Trustee the amount of any deficiency in the Reserve Fund or any deficiency in the Reserve Fund of any Parity Obligations; fourth, the District will pay to the provider thereof interest on amounts advanced under any Reserve Fund Credit Facility; and fifth, the District may transfer an

amount, if any, of the remaining Net Revenues (“surplus”) for deposit to the Rate Stabilization Fund, for the payment of Additional Payments, for the payment of any subordinate obligations or any unsecured obligations of the District, for the acquisition or construction of extensions or betterments to the Enterprise, for the prepayment of any other obligations of the District relating to the Enterprise; or for the payment of any other lawful purpose of the District, in such order, and in the amounts as determined by the District.

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

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

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

Revenues; Related Covenants

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

The term “Gross Revenues” under the Installment Sale Agreement means for any period of computation, all gross charges received for, and all other gross income and revenues derived by the District from, the ownership or operation of the Enterprise or otherwise arising from the Enterprise during such period, including but not limited to, without duplication, (a) Ad Valorem Tax Revenues, (b) all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Enterprise, (c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to the Enterprise (d) all receipts derived from the investment of funds held by the District or the Trustee under the Trust Agreement and receipts from the Rate Stabilization Fund, (e) all moneys received by the District from other public entities whose inhabitants are served pursuant to contracts with the District, (f) moneys deposited in the Installment Payment Fund, the Water Enterprise Fund or other fund to secure the Certificates or Parity Obligations or to provide for the payment of the principal of or interest with respect to the Certificates or Parity Obligations, (g) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Enterprise as permitted in the Installment Sale Agreement, provided, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District and any proceeds of taxes or assessments restricted by law to be used by the District to pay bonds or other obligations.

The term “Operation and Maintenance Costs” means the reasonable and necessary costs of maintaining and operating the Enterprise, calculated on sound accounting principles, including (among other things) the reasonable expenses of management, personnel, services, equipment, repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and reasonable amounts for

administration, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums and other similar costs, and all other reasonable and necessary costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the 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

The District may at any time incur Parity Obligations, including execute any Contract or issue 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 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 for the purpose of paying the principal of and interest and premium (if any) on any Installment Payments or on any outstanding Contracts or Parity Debt. For purposes of this section, Net Revenues 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 April 1, 2013, the amount on deposit in the Rate Stabilization Fund is \$400,160.

Installment Payments

Installment Payments are required to be made by the District under the Installment Sale Agreement on the fifth (5th) day prior to each Interest Payment Date (or if such date is not a Business Day the next preceding Business Day) (each an "Installment Payment Date"). The Trust Agreement requires that Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on

each Interest Payment Date, the Trustee is to use the moneys deposited to the Installment Payment Fund (i) to pay the interest then due with respect to the Certificates on such Interest Payment Date, and (ii) to pay the principal, if any, coming due and payable or required to be prepaid for mandatory sinking fund prepayment on such Interest Payment Date or to be prepaid at the direction of the District. See "APPENDIX C — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement — *Installment Payment Fund*."

Reserve Fund

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

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

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

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

Assignment

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

Investments

Money held by the Trustee in any fund or account under the Trust Agreement will be invested by the Trustee as the Corporation will direct in writing after consultation with the District in Permitted Investments pending application as provided in the Trust Agreement, so long as all investments mature, or are subject to redemption or disposition by the Trustee, not later than the date when the amounts will foreseeably be needed

for purposes of the Trust Agreement. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement.

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

NIPOMO COMMUNITY SERVICES DISTRICT

General

The District was formed in 1965 and currently provides 11,850 residents of the Nipomo area with one or more services including water, wastewater, street lighting, solid waste disposal or limited drainage services. The District is a California Community Services District organized pursuant to Government Code Sections 61000 *et seq.* The District is located off of Highway 101 on the central coast of California mid-way between San Francisco and Los Angeles, in the rural area of San Luis Obispo County, south of the City of San Luis Obispo and north of the City of Santa Maria. The District's service area overlies the southern portion of the community of Nipomo, nine miles south of the City of Arroyo Grande, seven miles north of the City of Santa Maria and twelve miles from Pismo Beach. The Nipomo community is located at the foot of the Temetate Ridge and is on a coastal mesa averaging an elevation of 380 feet above sea level. Appropriately, the name Nipomo is derived from the Chumash Indian word "Nepomah" meaning "foot of the hills." The District includes approximately 4,450 acres of land comprising seven square miles. The District's authority does not include legislative or executive powers over zoning or land use.

The District currently provides water service to approximately 4,300 residential, commercial and industrial connections. Most of the customers reside in single family homes, but service is also provided to multi-family residential homes and commercial and light industrial users.

The District population is expected to grow from approximately 11,850 to approximately 15,700 people by 2030. Approximately 4,000 acres of land within the District are currently developed, of which approximately 3,300 acres are residential, 400 acres are commercial, and 300 acres are recreational.

Governance and Management

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

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

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

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

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

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

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

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

Budget Process

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

Employees and Employee Benefits

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

Retirement Programs

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

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

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

Post-Employment Benefits

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

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

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

Deferred Compensation and Compensated Absences

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

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

Risk Management

The District is a member of the Special District Risk Management Authority, an intergovernmental risk sharing joint powers authority, created pursuant to California Government Code Sections 6500 et. seq. In becoming a member of the Special District Risk Management Authority, the District elected to participate in the risk financing programs for the program periods July 1, 2012 through June 30, 2013, including general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$500 deductible for property claims, automobile general liability and property insurance with coverage of \$10,000,000 per occurrence with a \$1,000 deductible, public officials and employee errors insurance with coverage of \$10,000,000 per occurrence and workers compensation insurance with statutory coverage and employer's liability insurance with coverage of \$5,000,000 per occurrence. Members are subject to dividends and/or assessments. No such dividends have been

declared, nor assessments levied. As of June 30, 2012, there are no known refund or credit due to the District, nor has there been any reduction in insurance coverage from the prior year. Insurance settlements have not exceeded insurance coverage for each of the past three fiscal years.

Outstanding Indebtedness.

Water Obligations. Other than the Series 2003 Certificates, there are no other obligations of the Water Enterprise.

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

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

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

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

Special Assessment Debt. In July, 1994, the District issued its Assessment District No. 93-1 Bonds in the amount of \$1,752,938. The balance outstanding as of June 30, 2012 was \$516,000. These bonds are secured by assessments on certain parcels within the District and not from Net Revenues pledged under the 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 thirteen people full time, and operates one shift, five days a week to operate and maintain the Enterprise. There is 24-hour support provided to the enterprise year round through on-call operational staffing. The District's Finance Department is responsible for billing and collecting all water utility bills.

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

The Enterprise originally consisted of two divisions including the Town Division and the Blacklake Division which were merged in 2009. Along with normal maintenance, the District has implemented a preventative well maintenance program where a well is taken out of service each year and refurbished. The District

anticipates that this will prevent downtime of any of the wells in the Enterprise. The Board of Directors of the District has implemented a funded cost replacement program. Replacements are scheduled as needed and the budgeted replacement program costs are incorporated into the user rates. Even with a cost replacement program, the District has maintained one of the lowest water rates in the County.

Existing Facilities

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

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

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

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

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

Water Supply

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

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

Wholesale Water Agreement. In order to comply with the Stipulation, the City and the District entered into a wholesale water agreement dated January 5, 2010, and amended May 7, 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 an 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 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.

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.

The Phase 1 Improvements will be capable of initially delivering approximately 650 AFY on average of supplemental water to the District increased 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.

The overall costs to construct the Supplemental Water Project is currently estimated at \$25,500,000. The Phase 1 Improvements will constitute the first phase of the Supplemental Water Project. Future 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. Future 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. Each future phase is estimated to cost approximately \$4 million. **The District does not intend to issue bonds or incur any additional indebtedness for these future phases but rather to fund Phase 2 and Phase 3 on a pay-as-you-go basis from the Supplemental Water Fees derived from future development within the District.**

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.

Historical and Projected Water Supply

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. Set forth below is a summary of the District's sources of water supply for the last five fiscal years. The amount of pumped water is impacted by building activity, rainfall and consumer use. Since 2008, water usage has declined primarily due to decreased construction and development in the region, conservation efforts by the District and the downturn in the economy in general. This trend is anticipated to reverse in the near future as building activity and development expands and new connections increase. See table 5 for projected connections based on capacity fee information.

TABLE 1
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORIC GROUNDWATER PUMPED
(IN ACRE-FEET PER YEAR)

Fiscal Year Ended June 30	Pumped Water	Percent Change
2012	2,489	2.8%
2011	2,421	(5.1)
2010	2,550	(6.6)
2009	2,729	(4.0)
2008	2,844	--

Source: Nipomo Community Service District.

Set forth below is a summary of the District's projection of water sources for the current and four succeeding fiscal years, less amounts projected to be sold to other water purveyors pursuant to the Stipulation. See "THE ENTERPRISE – Water Supply."

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

Supplemental Water				
Fiscal Year Ended June 30	Pumped Water	Received by District ⁽¹⁾	Sold to Purveyors ⁽²⁾	Total Water
2013	2,482	0		2,482
2014	2,475	0		2,475
2015	2,103	430	(65)	2,468
2016	1,782	800	(120)	2,462
2017	1,785	1,000	(330)	2,455

1. Minimum purchases are 430 AFY for fiscal year 2014-15 (partial year 1 at 645 AFY) and 800 AFY for years 2 -5.
2. Assumes 15% of supplemental water will be purchased by water purveyors beginning in November 2015, increasing to 33% in fiscal year 2016-17.

Source: Nipomo Community Service District.

Historical and Projected Water Connections

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

TABLE 3
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORIC WATER CONNECTIONS

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

Source: Nipomo Community Service District.

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

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

Source: Nipomo Community Service District.

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

TABLE 5
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
PROJECTED CONNECTIONS

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

1. Based on Capacity Fees already paid.

2. Based on projected Capacity Fees.

Source: Nipomo Community Services District.

Historical Water Deliveries

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. The following table presents a summary of historical water deliveries for the Enterprise in acre-feet per year for the five most recent fiscal years.

TABLE 6
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORICAL WATER DELIVERIES
(IN ACRE-FEET PER YEAR)

Fiscal Year Ended June 30	Water Deliveries	Percent Change
2012	2,348	0.2%
2011	2,297	(3.4)
2010	2,375	(8.3)
2009	2,591	(7.0)
2008	2,787	(1.3)

Source: Nipomo Community Service District.

Historical Water Sale Revenues

As of February 28, 2013, the District has received \$2,273,922 in revenues from water sales, up from the \$2,067,697 in revenues received over the same period last year. The following table shows annual water sale revenues from water sales in the service area for the five most recent fiscal years. The increases in water sales revenues reflect both increased connections as well as rate increases.

TABLE 7
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORICAL WATER SALES REVENUES

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

Source: Nipomo Community Service District.

Ad Valorem Property Taxes

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

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

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

The County Auditor-Controller has estimated the adjusted assessed valuation for property within the District for fiscal year 2012-13 as \$1,264,043,259 (\$1,267,470,721 for secured, \$13,406,138 for unsecured and \$16,833,600 for homeowners’ exemption), with estimated revenues of \$492,986 (\$468,876 in secured taxes, \$11,788 in unsecured taxes, \$4,135 in homeowners’ exemption revenue and \$8,187 in unitary revenues). The table below sets forth the secured and unsecured assessed valuations for property in the District, along with the ad valorem tax revenues received by the District for the fiscal years 2008 through 2012.

TABLE 8
NIPOMO COMMUNITY SERVICES DISTRICT
HISTORICAL ASSESSED VALUATION & PROPERTY TAX REVENUES

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

(1) Share of 1% General Fund Apportionment.

Source: County of San Luis Obispo Assessor.

State Legislative Shift of Property Tax Allocation. Beginning in 1992-93, the State has required that local agencies including special districts remit a portion of property taxes received to augment school funding, shifting approximately 42% of the District’s 1% property tax levy away from the District to school districts. These funds are deposited in each county’s Education Revenue Augmentation Fund (“ERAF”). These property taxes are permanently excluded from the District’s property tax revenues. The estimated ERAF payment to be deducted

from the District's property tax revenues for fiscal year 2012-13 is \$346,096. On July 24, 2009, the California legislature approved amendments to the 2009-10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments include borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008-09 property related tax revenues from local agencies tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State must repay with interest within three years. The District bonded its share of Proposition 1A receivables in November 2009 utilizing the California Statewide Communities Development Authority Proposition 1A Securitization program for upfront payments in January 2010 and May 2010 totaling \$43,882.

It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the Ad Valorem Property Taxes paid to the District. Given the recent shortfalls that exist in the State's budget, it is possible that the State will again look to shift property taxes away from certain local agencies in an effort to arrive at a balanced budget. Proposition 1A, however, generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. See "LIMITATIONS ON TAXES AND REVENUES – Proposition 1A." Additionally, the Ad Valorem Property Taxes are specifically pledged to payment of Installment Payments which may limit the ability of the State to reduce or eliminate such revenues.

Assessed Valuation Appeals. [to follow]

Tax Levies and Delinquencies. In accordance with the California Revenue and Taxation Code, the County tax collector collects secured tax levies for each Fiscal Year. Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December to and April to, respectively, and a ten percent penalty attaches to any delinquent payment and interest accrues at 18% per annum from and after the July 1 following the delinquency date. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one- and one-half (1-1/2) percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the: County Treasurer-Tax Collector.

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

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

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

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

TABLE 9
NIPOMO COMMUNITY SERVICES DISTRICT
PROPERTY TAX RATES
Typical Total Tax Rates (TRA52-98)

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

Source: California Municipal Statistics, Inc.

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

TABLE 10
NIPOMO COMMUNITY SERVICES DISTRICT
DIRECT AND OVERLAPPING DEBT STATEMENT
May ___, 2013

[to follow]

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

TABLE 11
NIPOMO COMMUNITY SERVICES DISTRICT
TWENTY PRINCIPAL TAXPAYERS
April 2013

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

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

Source: California Municipal Statistics, Inc.

Largest Customers

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

TABLE 12
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
TEN LARGEST ENTERPRISE CUSTOMERS BASED ON PAYMENT
FISCAL YEAR ENDED JUNE 30, 2012

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

Source: Nipomo Community Service District.

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

Water Rates and Charges

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

Water Service Rates. The District requires meters for all its customers. The existing water service rates and approved increases were adopted pursuant to Resolution No. 2011-1235, became effective on November 1, 2011 and are presented in Table 13. The revised rates reflect an overall revenue goal of 9.5% increase annually through fiscal year 2015-16. The District has followed Proposition 218 proceedings in relation to the notice, hearing and protest procedures in connection with recently increased rates and plans to follow such procedures in connection with future rate increases. See "LIMITATIONS ON TAXES AND REVENUES –Article XIIC and Article XIID of the California Constitution." Prior to the adoption of Resolution No. 2011-1235, the last increase in rates for the Enterprise occurred in 2009.

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

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

In response to the Phase 1 Improvements and the Supplemental Water Project, the District has begun the process to obtain a new rate study for both its water rates and capacity charges. The District anticipates that procedures to increase the water rates and the Supplemental Water Capacity Fee will commence shortly following the review of the rate study, with the new Supplemental Water Capacity Fee effective immediately thereafter and the revised water rates passing through the higher cost of the supplemental water effective following the completion of the Phase 1 Improvements, or during fiscal year 2015-16.

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

TABLE 13
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
CURRENT RATE STRUCTURE

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

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

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

Residential Water Commodity Rates
(per Unit¹)

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

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

Nonresidential Water Commodity Rates

Varies and is dependent on meter size

Source: Nipomo Community Service District.

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

Table 14 below sets forth a comparison of current effective water rates for other communities and service areas in the surrounding region. A bi-monthly bill comparison was prepared showing bi-monthly bills of water purveyors in San Luis Obispo County and other local communities. The comparison shown in Table 15 was prepared by applying the District's average single-family water consumption of 40 Ccf to each of the water purveyor's single-family water rate schedules for water rates in effect as of April 1, 2013. The table indicates that the District's bi-monthly bill at 40 Ccf, with the November 1, 2012 rates excluding Litigation Charges, is in the lower half of the agencies listed.

TABLE 14
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
REGIONAL COMPARISON OF WATER RATES
(Bi-monthly charges)

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

Source: Nipomo Community Services District.

Capacity Charges

Pursuant to Resolution 2008-1102, the District currently charges developers or other new customers connecting to the Enterprise two separate one-time charges for capacity in the system for the purposes for which the fees were adopted. The Water Capacity Fee can be used for all capital projects, and the Supplemental Water Capacity Fee can be used only for the Supplemental Water Project. Since the Phase 1 Improvements constitute the first phase of the Supplemental Water Project, both the Water Capacity Fees and the Supplemental Water Fees are available for making Installment Payments and are described herein. Water capacity charges are based on meter size and reflect the potential demand on the Enterprise that each new connection could impose. Capacity charges are paid at the time of a Will Serve letter, which is prior to the issuance of building permits by the County. There may be a significant lag time between the collection of these charges and the generation of new connections for the District.

Commencing July 1, 2009, and each fiscal year thereafter, the capacity charges shall be increased to reflect the increase in the costs of the construction of District facilities. The determination of whether there has been an increase in costs and the amount of the increase in costs shall be determined by the percentage increase in the 20-Cities Construction Cost Index published by the Engineering News Record using the July, 2008, value of 8,293 as the basis and the Index value for May of each year to calculate the increase. The Index value for May 2011 is 9,290. Water Capacity Fees are deposited into Water Capacity Fund of the Enterprise and Supplemental Water Fees are deposited into the Supplemental Water Fund of the Enterprise. Current and historical capacity charge revenues are summarized in the tables below. The current Water Capacity Fee effective July 1, 2012 is \$3,385 for 1 inch meter. The current Supplemental Water Fee effective July 1, 2012 is \$15,015 for 1 inch meter. The District has begun the process to obtain a new rate study, including an analysis of and anticipated increase to the Supplemental Water Capacity Fees to reflect the cost of the Phase 1 Improvements.

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

TABLE 15
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORICAL CAPACITY FEES

Fiscal Year Ended June 30	Water Capacity Fee Revenues	Supplemental Water Capacity Fee Revenues	Total Capacity Fee Revenues
2012	\$ 3,293	\$ 14,605	\$ 17,898
2011	31,913	136,288	168,201
2010	41,469	48,758	90,227
2009	744,817	13,750	758,567
2008	1,595,013	1,660,040	3,255,053

Source: Nipomo Community Service District.

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

TABLE 16
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	\$143,815	\$331,200	\$791,200	\$1,376,313	\$276,000
Estimated Projected Revenue (based on 50% discount)	\$143,815	\$165,600	\$395,600	\$ 688,156	\$138,000

Source: Nipomo Community Services District.

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 supplemental water from the City of Santa Maria in the following percentages: Woodlands at 16.66%, Golden State at 8.33% and Rural at 8.33% of supplemental water purchased by the District at the cost of the supplemental water 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 17
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			
	Cert Proceeds		5,000,000			
	Replace Fund		4,000,000			
	Cap Fund		1,384,000			
	Water Fund		1,500,000			
New Tank Site	Cap Fund			400,000	1,200,000	400,000
Willow Road Water Line	Cap Fund	100,000				
SCADA Upgrades	Cap Fund	140,000	50,000			
Standpipe Mixing	Cap Fund		250,000			
Water Master Plan	Cap Fund			200,000		
Standpipe Upgrade & Rehab	Replace Fund		150,000			
Fire Hydrant Replacement	Replace Fund	72,600	72,600	72,600	72,600	72,600
Valve Replacements	Replace Fund	184,000	184,000	184,000	184,000	184,000
Air Vac Replacements	Replace Fund	16,500	16,500	16,500	16,500	16,500
Well Refurb. - BL No. 4	Replace Fund	200,000	200,000			
TOTAL (uninflated)		\$713,100	\$18,407,100	\$873,100	\$1,473,100	\$673,100
TOTAL (with 3.5% inflation)		\$713,100	\$18,439,500	\$935,300	\$1,633,300	\$772,300

Source: Nipomo Community Services District.

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

Billing and Collection Procedures

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

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

Water Treatment

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

Water Quality

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

Conservation

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

In 2004, water use per person per day within the District peaked at 257 gallons. In 2007, the year prior to District adoption of its Conservation Program, per capita water use stood at 226 gallons per day. In 2011, District per capita use was 182 gallons per day – a near 20% decrease since 2007 and a near 30% decrease from the 2004 peak usage rate. The District has maintained compliance with the ever-evolving California Urban Water Conservation Council requirements and Best Management Practice recommendations. In 2013, a five-year review of the District's Water Conservation Program will be undertaken. The California Urban Water Conservation Council requires a formal review of District compliance with its recommended Best Management Practices be provided by April 2013. However, the Water Conservation Council has not yet provided a directive on conducting this required review and has extended the due date. This review of Management Practices will provide the basis for comprehensive program review.

Historical Financial Operations

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

TABLE 18
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
HISTORICAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For Fiscal Years Ended June 30

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

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

Source: Nipomo Community Services District.

TABLE 19
NIPOMO COMMUNITY SERVICES DISTRICT
WATER ENTERPRISE
COMBINING STATEMENT OF NET ASSETS
For Fiscal Years Ended June 30

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

Source: Nipomo Community Services District.

Projected Operating Results and Debt Service Coverage

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

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

	2011-12 <u>Actual</u>	2012-13 <u>ESTIMATE</u>	2013-14 <u>ESTIMATE</u>	2014-15 <u>ESTIMATE</u>	2015-16 <u>ESTIMATE</u>	2016-17 <u>ESTIMATE</u>
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	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	\$ 42,700	\$ 40,300	\$ 16,100	\$ 15,400	\$ 16,100
Water Capacity Charges	3,293	23,700	30,500	72,800	126,500	25,400
Supplemental Water Capacity Charges	14,605	120,100	135,100	322,800	561,600	112,600
Cell Site	36,809	37,700	38,000	38,800	39,600	40,400
Total Non-Operating Revenue (Expense)	\$ 100,480	\$ 224,200	\$ 243,900	\$ 450,500	\$ 743,100	\$ 194,500
Pledge of Property Tax Revenue	488,300	493,000	502,900	513,000	523,300	533,800
TOTAL NET REVENUES AVAILABLE FOR DEBT SERVICE	\$1,457,553	\$1,697,100	\$1,688,000	\$1,722,100	\$1,777,000	\$1,440,500
Series 2003 Debt Service	\$ 246,000					
Series 2013 Debt Service *		\$ 502,000	\$ 502,000	\$ 502,000	\$ 502,000	\$ 502,000
COVERAGE	593%	338%	336%	343%	354%	287%
Beginning Combined Fund Balances		\$11,691,000	\$12,090,200	\$4,324,500	\$4,482,700	\$3,983,000
Ending Combined Fund Balances		\$12,090,200	\$ 4,324,500	\$4,482,700	\$3,983,000	\$3,992,600

* Preliminary, subject to change..

Source: Nipomo Community Services District.

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

- Fiscal year 2012-13 figures are based on budget amounts.
- Projected revenues are based on the current existing rate structure and 28 new connections each year. The last approved rate increase is Nov 1, 2015, with no assumed rate increase in fiscal year 2016-17, and without regard to the intention of the District to conduct a rate study and increase rates and capacity fees prior to such date. See "THE ENTERPRISE – Water Rates and Charges" and "RISK FACTORS – State Constitutional Amendment."
- Water sales to purveyors equals 15% of supplemental water sold to District, increasing to 33% in fiscal year 2016-17.
- Water Capacity Charge and Supplemental Water Capacity Charge projections are based on Table 16, including assumptions made in Table 5, without regard to the intention of the District to conduct a rate study to increase rates and capacity fees. See LIMITATIONS ON TAXES AND REVENUES – Article 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.
- The District will purchase Supplemental Water in the amount of 645 ac-ft beginning November 1, 2014 (430 ac-ft for the fiscal year), increased to 800 ac-ft in fiscal year 2015-16, and 1,000 ac-ft in fiscal year 2016-17 (Wholesale Water Agreement sets minimum for 2016-17 at 800 AFY).
- Cost of purchase of Supplemental Water for District from the City of Santa Maria increases at approximately 4.5% annually.
- Transfers to the Replacement Fund for annual capital replacement are based on District Policy and includes an additional \$350,000 beginning in November 2014 for replacement related to the Phase 1 Improvements.
- District policy is to maintain an estimated 180 days of operation and maintenance expense as an operating reserve.

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

Delinquencies

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

Enterprise Accounting

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

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

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

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

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of 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 connection to the Enterprise.

Enterprise Expenses

There can be no assurance that the District's expenses for the Enterprise will be consistent with the historic levels described in this Official Statement, 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 wastewater service charges, will be subjected to the initiative process or the outcome of any initiative proceedings with respect to such fees or charges. If fees or charges charged or collected by the District for its wastewater services are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, the ability of the District to generate Net Revenues sufficient to comply with its covenants under the Installment Sale Agreement may be adversely affected.

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

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

majority protest. If such a majority protest occurs, the ability of the District to generate Net Revenues sufficient to comply with its covenants under the Installment Sale Agreement may be adversely affected.

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

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

Constitutional Limitations on Appropriations

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

Limitations on Remedies Available

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

Limited Obligations

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

Loss of Tax-Exemption

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

Forecasts

Although the District believes that the projections herein of future operating results of the Enterprise are reasonable, there can be no assurance that operating results will match the projections due to changes in general economic conditions and similar factors. The District has not yet entered into any water sale agreements relating to the supplemental water with the three water purveyors which are required to purchase supplemental water. In addition, the Enterprise and economic development within the service area of the District are subject to federal, State and local regulations. There can be no assurance that the Enterprise will not be adversely affected by future economic conditions, governmental policies or other factors beyond the control of the District.

Environmental Laws and Regulations

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

Loss of Ad Valorem Property Taxes

The State has previously altered the method of allocating the 1% property tax levy to local agencies. It cannot be predicted if future legislation will be introduced to further reduce, or entirely eliminate, the percentage of the Ad Valorem Property Taxes paid to the District. Proposition 1A, however, generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of

both houses of the Legislature. See “LIMITATIONS ON TAXES AND REVENUES – Proposition 1A.” The Ad Valorem Property Taxes are specially pledged to the Installment Payments and if such property taxes are reallocated or reapportioned, Net Revenues available to make Installment Payments may be adversely affected.

Casualty Risk; Earthquakes

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

Secondary Market

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

LIMITATIONS ON TAXES AND REVENUES

Article XIII A of the California Constitution

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

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed

according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

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

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

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

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

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

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

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by a District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the District's appropriations limit was

based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the District's appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect. The District does not anticipate that any such appropriations limitations will impair its ability to make Installment Payments as required by the Installment Sale Agreement.

Proposition 1A

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

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

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

Article XIII C and Article XIII D of the California Constitution

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

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any "fee" or "charge" subject to its provisions. A "fee" or "charge" subject to Article XIII D includes any levy, other than an *ad valorem* tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or

charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) ("*Richmond*"), and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) ("*Bighorn*") have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIID to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIID because a water connection fee is not a property-related fee or charge because it results from the property owner's voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed "as an incident of property ownership" within the meaning of Article XIID, rejecting, in *Bighorn*, the water agency's argument that consumption-based water charges are not imposed "as an incident of property ownership" but as a result of the voluntary decisions of customers as to how much water to use.

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

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

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

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

Pursuant to the Installment Sale Agreement, the District will, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the Water Services furnished by the Enterprise during each Fiscal Year, that are sufficient, along with other Net Revenues, to yield during each Fiscal Year Net Revenues that are at least equal to one hundred twenty-five percent (125%) of all 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. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and

charges then in effect unless the Gross Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Installment Sale Agreement. In the event that service charges are determined to be subject to Article XIID, and proposed increased service charges cannot be imposed as a result of a majority protest, such circumstances may adversely affect the ability of the District to generate revenues in the amounts required by the Trust Agreement, and to make Installment Payments as provided in the Installment Sale Agreement. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Net Revenues.

Other Initiative Measures

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

THE CORPORATION

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

The Corporation is a separate legal entity from the District. It is governed by a five member Board of Directors. The Corporation has no employees. All staff work is performed by employees of the District. The members of the Corporation's Board of Directors are the Board of Directors of the District. The District's General Manager and other District employees are available to provide staff support to the Corporation.

FORWARD-LOOKING STATEMENTS

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

ABSENCE OF LITIGATION

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

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the

District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District's ability to make Installment Payments.

TAX EXEMPTION

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

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

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

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

Special Counsel has not undertaken to advise in the future whether any events after the date of execution and delivery of the Installment Sale Agreement and the Certificates may affect the tax status of the Interest Components or the Certificate Interest Distributions. No assurance can be given that future legislation,

if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of such amounts from personal income taxation by the State of California or of the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes. Furthermore, Special Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Installment Sale Agreement, the Certificates, the Interest Components or Certificate Interest Distributions, if any action is taken with respect to the Installment Sale Agreement, the Certificates or the proceeds thereof, or the Trust Agreement predicated or permitted upon the advice or approval of other counsel.

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

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

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

Although Special Counsel is of the opinion that Interest Component, and Certificate Interest Distributions in respect of a Certificate, are exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax

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

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

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

UNDERWRITING

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

RATING

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

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and beneficial owners of the Certificates (a) to provide certain financial information and operating data (the "Annual Report") relating to the District and the property in the District not later than eight months after the end of the District's Fiscal Year (which currently would be March 1), commencing with the report for the 2012-13 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Trustee on behalf of the District, with the Municipal Securities Rulemaking Board. The notices of enumerated events will be filed by the Trustee on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12 (the "Rule"). During the past five years, the District has never failed to comply in all material respects with any previous undertaking with respect to the Rule to provide annual reports or notices of enumerated events.

LEGAL MATTERS

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

FINANCIAL ADVISOR

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

FINANCIAL STATEMENTS

The general purpose financial statements of the District for the fiscal year ended June 30, 2011 included in Appendix B to this Official Statement, have been included in reliance upon the report of Crosby Company, Certified Public Accountant (the "Auditor"), San Luis Obispo, California, independent certified public accountant, and upon the authority of such as an expert in accounting and auditing. The Auditor was not

requested to consent to the inclusion of its report in Appendix B and it has not undertaken to update financial statements included in Appendix B. No opinion is expressed by the Auditor with respect to any event subsequent to its report.

MISCELLANEOUS

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

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

By: _____
District Manager

APPENDIX A

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

Introduction

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

Population

According to the Department of Finance estimates, the population in the County grew by approximately 1.2% between 2008 and 2012.

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

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

Sources: State of California, Department of Finance; Table 2: E-4 Population Estimates for Cities, Counties and State, 2007-2010 with 2000 DRU Benchmark and Table 1 - Total Population 2000 and 2010 - Incorporated Cities by County in California. E-1 Cities, Counties and State Population Estimates with Annual Change for 2011 and 2012.

Industry and Employment

The following Table A-2 compares estimates of the labor force, civilian employment and unemployment for County residents, State residents and United States residents between 2008 through 2012.

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

Year and Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate
2012				
County	143,100	131,500	11,500	8.1%
State	18,494,900	16,560,300	1,934,500	10.5
United States				
2011				
County	138,700	125,800	12,900	9.3%
State	18,384,900	16,226,600	2,158,300	11.7
United States	154,395,000	141,637,000	12,758,000	8.3
2010				
County	136,100	122,300	13,800	10.2%
State	18,176,200	15,916,300	2,259,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2009				
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

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

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

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

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

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

(1) Based on place of work.

(2) Most recent annual estimated data available.

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

Source: State of California, Employment Development Department.

Agriculture

The County is comprised of approximately 2,126,240 acres, of which approximately 1,389,350 acres (representing 65.3%) are zoned for agricultural uses. The value of agricultural production since 2007 is set forth in Table A-4 below.

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

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

(1) Most recent annual data available.

Source: San Luis Obispo County Department of Agriculture/Weights and Measures.

Major Employers

The following Table A-5 provides a listing of major employers headquartered or located in the County and their estimated full-time equivalent (FTE) employment levels.

Table A-5
County of San Luis Obispo
Major Employers
(Calendar Year 2011)

Firm	Product or Service	Estimated FTE Employment
California Polytechnic State University, SLO	Education	2,601
County of San Luis Obispo	Government	2,426
Atascadero State Hospital	Health Services	2,200
California Men's Colony	Correction Institution	1,768
Pacific Gas and Electric Company	Utility	1,719
Tenent Healthcare	Health Services	1,409
Lucia Mar Unified School District	Education	1,100
King Ventures	Real Estate	850
Paso Robles Public Schools	Education	831
San Luis Coastal Unified District School	Education	828

Sources: Pacific Coast Business Times and County Budget Report and County of San Luis Obispo.

Personal Income

The United State Department of Commerce, Bureau of Economic Analysis (the "BEA") produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the national economy.

The BEA defines "personal income" as income received by persons from all sources, including income received from participation in production as well as from government and business transfer payments. Personal income represents the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita personal income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table A-6 below presents the latest available total personal income and per capita personal income for the County, the State and the nation for the calendar years 2006 through 2010.

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

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income(dollars)
2010⁽²⁾		
County	\$10,533	\$38,984
State	1,587,404	42,514
United States	12,353,577	39,937
2009⁽¹⁾		
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

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

(2) Most recent year for which annual data for the County, the State and the nation is available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Assessed Value, Tax Levy and Delinquencies

County tax levies and delinquencies as of June 30 for the past 10 Fiscal Years and the assessed valuation and secured property tax levy for Fiscal Year 2011-12 are shown in Table A-7.

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

Fiscal Year (June 30)	Gross Assessed Valuation	Secured Property Tax Levies	Current Tax Delinquencies (June 30)[†]	% Levy Delinquent (June 30)
2002-03	\$243,985,100	\$240,501,981	\$ 3,483,119	1.43%
2003-04	265,009,066	261,421,793	3,587,273	1.35
2004-05	290,692,797	286,937,155	3,755,642	1.29
2005-06	324,547,130	319,214,673	5,332,457	1.64
2006-07	362,429,105	354,117,728	8,311,377	2.29
2007-08	394,779,683	380,943,586	13,836,097	3.50
2008-09	416,262,450	400,120,501	16,141,949	3.88
2009-10	412,698,021	398,651,720	13,746,301	3.33
2010-11				
2011-12				

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

Source: County Auditor-Controller.

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

Table A-8
County of San Luis Obispo
Assessed Valuations
Fiscal Years 2003-04 Through 2012-13
(\$ in thousands)

Fiscal Year	Secured	Unsecured	Exemptions	Net Assessed Valuation
2003-04	27,194,503	859,296	(658,326)	27,395,473
2004-05	29,738,552	836,182	(627,983)	29,946,751
2005-06	32,984,334	933,186	(701,194)	33,216,326
2006-07	36,890,449	1,000,874	(781,070)	37,110,253
2007-08	40,252,998	1,035,444	(835,357)	40,453,075
2008-09	42,348,044	1,132,435	(891,907)	42,588,572
2009-10	42,185,285	1,148,662	(914,310)	42,419,638
2010-11	41,846,720	1,118,383	(927,194)	42,037,912
2011-12				
2012-13				

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

Principal Taxpayers

Assessed values for the principal taxpayers totaled approximately \$3.2 billion, or 7.9% of the County's 2011-12 Net Assessed Valuations. The principal largest taxpayers in the County, as shown on the Fiscal Year 2011-12 secured tax roll, and the approximate amounts of their assessed values within the County are shown in Table A-9 below.

Table A-9
County of San Luis Obispo
Principal Taxpayers
Fiscal Year 2011-12

Company	Type of Business	2011-12 Assessed Value (\$ in thousands)[†]	% of Total
Pacific Gas and Electric	Utility	\$2,504,614	5.96%
Tosco Corp A NV Corp	Oil & Constr.	162,407	0.39
CSHV Mustang Village LLC	Real Estate	74,801	0.18
Plains Exp2oration& Prod Co	Petroleum& Gas	67,993	0.16
Pacific Bell	Utility	67,597	0.16
Beringer Wine Estates Co.	Agriculture	73,502	0.17
Southern California Gas Company	Utility	62,345	0.15
Martin Hotel Management Co LLC	Hotel	60,804	0.14
Sierra Vista Hospital	Health Care	57,514	0.14
Twin Cities Community Hospital, Inc	Health Care	55,192	0.13
Subtotal		3,186,767	7.58
Remaining taxpayers		38,851,143	92.42
TOTAL		\$42,037,910	100.00%

[†] Excludes exempt publicly owned property, State assessed property and property subject to special taxes.

Source: County of San Luis Obispo Auditor-Controller's Office.

Commercial Activity

Commercial activity is an important contributor to San Luis Obispo County's economy. The following Table A-10 estimates the County's commercial activity between calendar years 2006 through 2010.

Table A-10
County of San Luis Obispo
Trade Outlets and Taxable Sales
for Calendar Years 2006-2010⁽¹⁾
(\$ in Thousands)

Taxable Retail Sales	2006	2007	2008	2009	2010⁽¹⁾
Clothing & Cl. Acc. Stores	\$127,207	\$137,311	\$146,917	\$150,848	\$186,385
General Merchandise	420,366	423,948	413,317	320,635	320,145
Specialty Stores	360,273	— ⁽²⁾	— ⁽²⁾	— ⁽²⁾	— ⁽²⁾
Food and Beverage Stores	183,701	189,069	192,096	219,822	219,590
Food Services & Drinking Places	435,487	459,757	457,219	441,333	437,460
Gasoline Stations	—	—	—	331,194	392,463
Household Group	133,146	132,874	124,362	— ⁽³⁾	— ⁽³⁾
Health and Personal Care	—	—	—	74,401	76,589
Electronic and Appliances	—	—	—	70,572	69,918
Sporting Goods, Hobby, Books and Music	—	—	—	94,647	95,790
Motor Vehicles and Parts	—	—	—	298,014	327,376
Building Materials, Garden Equipment and Supplies	409,719	364,601	280,015	256,282	251,071
Automobile	835,974	856,868	799,598	— ⁽³⁾	— ⁽³⁾
Other Retail	212,615	480,825	430,091	209,876	219,706
SUBTOTAL	3,128,592	3,054,859	2,827,545	2,495,350	2,595,493
Business & Personal Services	147,929	146,840	133,372	— ⁽³⁾	— ⁽³⁾
All Other Outlets	943,915	1,065,940	1,013,310	947,081	1,218,862
TOTAL ALL OUTLETS	\$4,220,436	\$4,267,639	\$3,974,226	\$3,442,431	\$3,614,355
Percent Change	7.2%	1.1%	(6.9%)	(13.4%)	5.0%

(1) Most recent annual data available.

(2) The taxable retail sales for "Specialty Stores" is now included under the total for "Other Retail."

(3) Category eliminated.

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

Construction Activity

The total valuation of building permits issued in the County as estimated by the Construction Industry Research Board was approximately \$257.5 million for calendar year 2010. The following Table A-11 provides an estimated building permit valuation summary for calendar years 2005 through 2010.

Table A-11
County of San Luis Obispo
Building Permit Valuation
for Calendar Years 2005 - 2010
(\$ In Thousands)

Year	Residential		Valuation ⁽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. Assessed valuation in the County has continued to grow since enactment of the Ordinance because the Ordinance affects only the unincorporated areas of the County.

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

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

Source: Construction Industry Research Board.

APPENDIX B

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

PROPOSED FORM OF SPECIAL COUNSEL OPINION

[Closing Date]

Nipomo Community Services District
Nipomo, California

Nipomo Community Services District Public Facilities Corporation
Nipomo, California

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

Re: \$ _____ Nipomo Community Services District Revenue Certificates of Participation
 (Supplemental Water and Refunding Project) Series 2013

Ladies and Gentlemen:

We have acted as Special Counsel to the Nipomo Community Services District (the "District") in connection with the execution and delivery of the Revenue Certificates of Participation (Supplemental Water and Refunding Project) Series 2013 (the "Certificates"), representing and evidencing undivided interests in installment payments (the "Installment Payments") relating 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"). The Certificate is being executed and delivered pursuant to a Trust Agreement, dated as of 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"), and pursuant to the authorizing resolutions of the District and the Corporation. Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Trust Agreement and the Installment Sale Agreement, as applicable.

As Special Counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District and the Corporation in connection with the execution and delivery of the Certificates. We have also examined such certificates of officers of the District and the Corporation and others, opinions of counsel to the District, Corporation and the Trustee, and such other documents, opinions and instruments as we deemed necessary to render the opinions set forth herein.

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

1. The Trust Agreement has been duly and validly authorized, executed and delivered by the District and the Corporation, and assuming the Trust Agreement constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the District and the Corporation, enforceable against the District and the Corporation in accordance with its terms, and the Certificates are entitled to the benefits of the Trust Agreement.
2. The Installment Sale Agreement has been duly and validly authorized, executed and delivered by the District and the Corporation, and constitutes the legally valid and binding obligation of the District and the Corporation, enforceable against the District and the Corporation in accordance with its terms.

3. The Assignment Agreement has been duly and validly authorized, executed and delivered by the Corporation, and assuming the Assignment Agreement constitutes the legally valid and binding obligation of the Trustee, constitutes the legally valid and binding obligation of the Corporation, enforceable against the Corporation in accordance with its terms.

4. Under existing statutes, regulations, rulings and court decisions, and, assuming compliance with the covenants mentioned below, the component of each Installment Payment designated as interest in the Installment Sale Agreement (the "Payment Interest"), and the allocable portion thereof distributable in respect of the Certificates (the "Certificate Interest Distribution"), are 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. We are further of the opinion that under existing statutes, regulations, rulings and court decisions, the Installment Sale Agreement is not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates will not be treated as items of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code; however, receipt or accrual of the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates owned by a corporation may affect the computation of 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. We are further of the opinion that the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates are exempt from personal income taxes of the State of California under present state law.

The Code imposes certain requirements that must be met subsequent to the execution and delivery of the Installment Sale Agreement for the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Certificates. Pursuant to the Trust Agreement and in the Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986 being delivered by the District and the Corporation in connection with the execution and delivery of the Certificates, the District and the Corporation are making representations relevant to the determination of, and are undertaking certain covenants regarding or affecting, the exclusion of the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the District and the Corporation with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequences of the receipt of the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates, or the ownership or disposition of, the Certificates. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the Payment Interest allocable to and the Certificate Interest Distributions in respect of the Certificates, if any action is taken with respect to the Certificates or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of 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.

The opinions expressed in paragraphs 1 through 3 above are qualified to the extent the enforceability of the Certificates, the Trust Agreement, the Installment Sale Agreement and the Assignment Agreements may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally or as to the availability of any particular remedy. The enforceability of the Certificates, the Trust Agreement, the Installment Sale Agreement and the Assignment Agreement is subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in California.

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

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") dated as of June 1, 2013 and executed and delivered by the Nipomo Community Services District (the "District") and The Bank of New York Mellon Trust Company, N.A., in its capacities as Trustee and as Dissemination Agent (the "Trustee" and "Dissemination Agent") in connection with the sale and delivery of _____ Revenue Certificates of Participation (Supplemental Water and Refunding Project) Series 2013 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement dated as of June 1, 2013 (the "Trust Agreement") among the District, the Nipomo Community Services District Public Facilities Corporation (the "Corporation") and the Trustee. The District, the Dissemination Agent and the Trustee covenant and agree as follows:

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

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report of the District provided by the District pursuant to, and as described in, sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Disclosure Representative" shall mean the General Manager or Finance Director of the District or his or her designee, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system located at <http://www.emma.msrb.org>, which is the centralized on-line repository for municipal disclosure documents to be filed with the MSRB pursuant to the Rule.

"Listed Events" means any of the events listed in section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board.

"Participating Underwriters" means Citigroup Global Markets Inc., the underwriters of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Rule" means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" means the Securities and Exchange Commission.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than [March 1] of each year, commencing with the report for the District's Fiscal Year ended June 30, 2013, provide to the MSRB, via EMMA, in an electronic format accompanied by identifying information a prescribed by the MSRB, an Annual Report of the District which is consistent with the requirements of Section 4 of this Disclosure Agreement and in a form required by the Rule. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of such Annual Report and later than the date required above for the filing of such Annual Report if they are not available by that date. If the District's Fiscal Year changes, the District shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).

(b) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with subsection (a).

(c) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB, via EMMA, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent (if other than the District) shall, if and to the extent, the District has provided an Annual Report in final form to the Dissemination Agent for dissemination, file a report with the District certifying that the Annual Report has been provided to the MSRB, via EMMA, pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the District for the Fiscal Year most recently ended, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Cities." If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a) of this Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement relating to the Certificates, and the audited financial statements shall be filed in the same manner as the Annual Report when it becomes available.

(b) To the extent not included in the financial statements, the following updates to the information contained in the tables with the headings in the Official Statement for the Fiscal Year as specified:

- (i) Table 1 – Historical Groundwater Pumped (add Supplemental Water when purchased);
- (ii) Table 3 – Historical Water Connections;
- (iii) Table 6 – Historical Water Deliveries;

- (iv) Table 7 – Historical Water Sales;
 - (v) Table 8 – Historical Assessed Valuation and Property Tax Revenues;
 - (vi) Table 12 – Ten Largest Customers;
 - (vii) Table 15 – Historical Capacity Fees; and
 - (viii) Table 18- Historical Revenues, Expenses and Changes in Net Assets.
- (c) Information on water rates of the District.
- (d) The principal amount of the Certificates and parity obligations outstanding and balance in the Reserve Fund to the extent not included in the audited financial statements described in (a) above.
- (e) Update on any water purchase or sale agreements of the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements or other disclosure documents of debt issues of the District or related public entities, available to the public on the MSRB's Internet Web site or filed with the SEC. The District shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the District or to reflect changes in the business, structure, operations, legal form of the District; provided, that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

- (a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates (in each case to the extent applicable) in a timely manner not more than ten (10) business days after the occurrence of the event::
- (i) principal and interest payment delinquencies;
 - (ii) non-payment related defaults;
 - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
 - (iv) adverse tax opinions or events affecting the tax status of the Certificates;
 - (v) modifications to the rights of Owners of the Certificates;
 - (vi) bond calls other than mandatory sinking fund redemptions;
 - (vii) defeasances;
 - (viii) release, substitution, or sale of property, if any, securing repayment of the Certificates; and

(ix) rating changes.

(b) The Trustee shall, within five (5) Business Days of obtaining actual knowledge of the occurrence of any of the Listed Events, or as soon as reasonably practicable thereafter contact the Disclosure Representative, inform such person of the event, and request that the District promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) of this Section. For the purpose of this Disclosure Agreement, “actual knowledge” means actual knowledge at the corporate trust office of the Trustee by an officer of the Trustee with responsibility for matters related to the administration of the Trust Agreement.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the District shall as soon as possible determine if such event would be material under applicable Federal securities law. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(d) If the District has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) of this Section.

(e) If in response to a request under subsection (b), the District determines that the Listed Event would not be material under applicable Federal securities law, the District shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB and each Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) of subsection (a) of this Section need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture.

Section 6. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB as Repository in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 60 days’ written notice to the District. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertakings, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners of the Certificates, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Certificates.

(d) The Dissemination Agent's written approval shall be required for any amendment which modifies or increases the Dissemination Agent's duties or obligations hereunder.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in its next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under subsection 5(c) and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, including the information then contained in the District's official statements or other disclosure documents relating to debt issuances, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have an obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement with respect to the Certificates, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. Article V of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent shall be entitled to the same protections, limitations from liability and indemnification hereunder as are afforded the

Dissemination Agent [Trustee] thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination hereunder without the execution or filing of any paper or any further act. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repositories

Section 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters, the Owners and Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the District:

Nipomo Community Services District
P.O. Box 326
Nipomo, CA 93444-0326
Attention: General Manager

To the Dissemination Agent:

Same as the Trustee so long as the Trustee is the Dissemination Agent

To Trustee:

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite 400
Los Angeles, California 90071
Attention: Corporate Trust Department

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts; each of which shall be an original and all of which shall constitute but one and the same instrument.

NIPOMO COMMUNITY SERVICES DISTRICT

By:
District Manager

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

By:
Authorized Signatory

EXHIBIT A

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

Name of District: Nipomo Community Services District
Name of Issue: Revenue Certificates of Participation
(Supplemental Water and Refunding Project) Series 2013
Date of Issuance: June __, 2013

NOTICE IS HEREBY GIVEN that the Nipomo Community Services District (the "District") has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Agreement dated as of June 1, 2013 between the District and The Bank of New York Mellon Trust Company, N.A. [The District anticipates that the Annual Report will be filed by _____.]

Dated: _____

The Bank of New York Mellon Trust Company, N.A.,
as Trustee and Dissemination Agent on behalf of the
District

cc: District

APPENDIX F

BOOK-ENTRY SYSTEM

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the each issue of the Certificates, each in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial

ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates: DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

MAY 8, 2013

ITEM E-1

ATTACHMENT H

\$ _____
**NIPOMO COMMUNITY SERVICES DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(SUPPLEMENTAL WATER AND REFUNDING PROJECT) SERIES 2013**

BOND PURCHASE AGREEMENT

May ___, 2013

Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444-0326

Ladies and Gentlemen:

The undersigned, Citigroup Global Markets Inc. (the "Underwriter"), hereby offers to enter into this Bond Purchase Agreement (the "Purchase Agreement") with the Nipomo Community Services District (the "District") for the purchase by the Underwriter of the \$_____ aggregate principal amount of Nipomo Community Services District Revenue Certificates of Participation (Supplemental Water and Refunding Project) Series 2013 (the "Certificates"). Upon acceptance of this offer by the District, this Purchase Agreement will be binding upon the District and the Underwriter. The offer made hereby is subject to acceptance by the District (by delivery to the Underwriter of an executed counterpart hereof by the District) at or before 11:59 p.m., California time, on the date hereof or at such later time and date as shall have been consented to by the Underwriter.

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2013 (the "Trust Agreement"), by and among the District, the Nipomo Community Services District Public Facilities Corporation (the "Corporation") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Bank"). All terms used herein and not otherwise defined herein shall have the respective meanings assigned thereto in the Trust Agreement.

1. Purchase and Purchase Price; Terms of Certificates. Upon the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the District agrees to cause the Bank to execute and deliver to the Underwriter, and the Underwriter agrees to purchase, all (but not less than all) of the Certificates at an aggregate purchase price of \$_____ (representing the aggregate principal amount of \$_____, plus original issue premium of \$_____ and less an Underwriter's discount of \$_____).

The District acknowledges and agrees that (i) the purchase and sale of the Certificates pursuant to this Purchase Agreement is an arm's-length commercial transaction between the District and the Underwriter, (ii) in connection therewith and with the discussion, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is acting solely as principal and not as agent or fiduciary of or financial advisor to the District, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the District with

respect to (x) the offering of the Certificates or the process leading thereto (whether or not the Underwriter has advised or is currently advising the District on other matters) or (y) any other obligation to the District except the obligations expressly set forth in this Purchase Agreement and (iv) the District has consulted with its own legal and other professional advisors to the extent it deemed appropriate in connection with the offering of the Certificates.

The Certificates shall be dated the date of their delivery. The Certificates shall be as described and shall evidence principal payable on the stated Principal Payment Dates in the amounts and as set forth in Exhibit B hereto.

The Certificates shall be substantially in the form described in, shall be executed, delivered and secured under and pursuant to, and shall be payable and subject to prepayment as provided in, the Trust Agreement.

The proceeds of the Certificates, together with other available funds, will be used to (i) currently refund and defease the District's outstanding Revenue Certificates of Participation (Pipeline and Storage Facility Project) Series 2003 (the "2003 Certificates"), (ii) fund a portion of the costs of certain capital improvements to the District's water enterprise (the "Enterprise"), (iii) fund a reserve fund for the Certificates, and (iv) pay the costs of issuance relating to the execution and delivery of the Certificates.

The District hereby ratifies, confirms and approves the use by the Underwriter, prior to the date hereof, of the Preliminary Official Statement of the District, dated May __, 2013, relating to the Certificates (the "Preliminary Official Statement"), which Preliminary Official Statement the District deemed final and so certified as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12. The District hereby agrees to deliver or cause to be delivered to the Underwriter, within seven business days after the date hereof, copies of the Official Statement, consisting of the Preliminary Official Statement with such changes as may be made with the approval of the District and the Underwriter (the "Official Statement"), in such reasonable quantity as the Underwriter shall request. The District hereby approves of the use and distribution by the Underwriter of the Official Statement in connection with the offer and sale of the Certificates. The District will undertake, pursuant to the Trust Agreement and the Continuing Disclosure Agreement, to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of such undertaking is set forth in the Official Statement.

The District hereby further authorizes the Underwriter to use, in connection with the offer and sale of Certificates, the Trust Agreement, the Installment Sale Agreement, the Assignment Agreement, the Agency Agreement, the Escrow Deposit and Sale Agreement and the Continuing Disclosure Agreement (collectively, the "Certificate Documents").

The Underwriter agrees to make a bona fide public offering of the Certificates at the initial offering prices or yields set forth on the inside cover of the Official Statement; provided, however, that the Underwriter reserves the right to make concessions to dealers and to change such initial offering prices or yields as the Underwriter shall deem necessary in connection with the marketing of the Certificates. The Underwriter agrees that, in connection with the public

offering and initial delivery of the Certificates to the purchasers thereof from the Underwriter, the Underwriter will deliver or cause to be delivered to each purchaser a copy of the Official Statement.

2. Closing; Certificates. At 10:00 a.m. California Time, on June __, 2013, or at such other time or on such earlier or later date as the Underwriter and the District mutually agree upon (the "Closing Date"), the District will, subject to the terms and conditions hereof, deliver or cause the Certificates to be delivered to The Depository Trust Company ("DTC"), duly executed in accordance with the provisions of the Trust Agreement. Subject to the terms and conditions hereof, upon receipt of proof of such delivery to DTC, the Underwriter will pay the purchase price of the Certificates as set forth in Section 1 hereof in federal or other immediately available funds. The Certificates shall be delivered as aforesaid at the offices of DTC in New York, New York, or at such other place as the Underwriter and the District mutually agree upon. On the Closing Date, the District will deliver or cause to be delivered the other documents mentioned herein at the offices of Fulbright & Jaworski L.L.P., Los Angeles, California, or at such other place as shall have been mutually agreed upon by the Underwriter and the District.

The Certificates (bearing CUSIP numbers) shall be in fully registered form, initially registered in the name of Cede & Co., as nominee of DTC, and shall be subject to a book-entry system of registration and transfer as described in the Official Statement. The Certificates shall be made available to the Underwriter for purposes of inspection for a reasonable period prior to the Closing Date.

3. Covenants, Representations and Warranties of the District. The District hereby covenants, represents and warrants to the Underwriter that:

(a) The District is a special district duly organized and validly existing under the laws of the State of California. The District has all necessary power and authority and has taken all official actions necessary to adopt that certain Resolution of the Board of Directors of the District, adopted on May __, 2013 (the "Resolution"), to execute and deliver the Official Statement and to execute, deliver and perform its duties under this Purchase Agreement and each of the Certificate Documents to which it is a party, and this Purchase Agreement and each of the Certificate Documents to which the District is a party has been duly authorized, executed and delivered by the District and, assuming the due authorization, execution and delivery by the other respective parties thereto, will constitute legally valid and binding obligations of the District enforceable against the District in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or principles of equity involving judicial discretion.

(b) The District is not in material breach of, or default under, any applicable constitutional provision, law or administrative rule or regulation of the State of California or the United States of America material to the conduct of its governmental or financial functions or any applicable judgment or decree or any loan agreement, indenture, bond, certificate, note, resolution or other agreement or instrument to which the District is a party or to which the District or any of its properties is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an

event of default under any of the foregoing; and the authorization, execution and delivery of this Purchase Agreement, the Certificate Documents to which the District is a party and the Certificates, and compliance with the provisions hereof and thereof, will not conflict with or constitute a material breach of or default under any constitutional provision, law, administrative rule or regulation, or any judgment, decree, license, permit, loan agreement, indenture, bond, certificate, note, resolution, agreement or other instrument to which the District (or any of its officers in their respective capacities as such) is subject or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument except as may be provided by the Certificates or the Certificate Documents.

(c) To the best knowledge of the District, there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory entity having jurisdiction over the District required for the execution and delivery of this Purchase Agreement or the Certificate Documents to which the District is a party, or the execution and sale of the Certificates or the consummation by the District of the transactions contemplated herein, in the Official Statement or in the Certificate Documents, which has not been duly obtained or made on or prior to the date hereof.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificates or the Certificate Documents, or contesting the validity of this Purchase Agreement, the Certificates or any of the Certificate Documents to which the District is party or the powers of the District to enter into or perform its obligations under this Purchase Agreement or the Certificate Documents to which it is a party or the existence or powers of the District, or which, if determined adversely to the District, would materially impair the District's ability to meet its obligations under the Installment Sale Agreement or materially and adversely affect the District's financial condition.

(e) The preparation and distribution of the Preliminary Official Statement and the Official Statement has been duly authorized by the District and the statements and information contained therein (except for statements and information regarding DTC or the Bank) are true and correct in all material respects and such statements and information do not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(f) During the period ending on the 25th day after the End of the Underwriting Period (or such other period as may be agreed to by the District and the Underwriter), the District (i) shall not supplement or amend the Official Statement or cause the Official Statement to be supplemented or amended without the prior written consent of the Underwriter and (ii) shall notify the Underwriter promptly if any event shall occur, or information comes to the attention of the District, that is reasonably likely to cause the Official Statement (whether or not previously supplemented or amended) to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under

which they were made, not misleading. If, in the opinion of the Underwriter, such event requires the preparation and distribution of a supplement or amendment to the Official Statement, the District shall prepare and furnish to the Underwriter, at the District's expense, such number of copies of the supplement or amendment to the Official Statement, in form and substance mutually agreed upon by the District and the Underwriter, as the Underwriter may reasonably request. If such notification shall be given subsequent to the Closing Date, the District also shall furnish, or cause to be furnished, such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably deem necessary to evidence the truth and accuracy of any such supplement or amendment to the Official Statement.

For purposes of this Agreement the "End of the Underwriting Period" is used as defined in Rule 15c2-12 and shall occur on the later of (A) the Closing Date or (B) when the Underwriter no longer retains an unsold balance of the Certificates; unless otherwise advised in writing by the Underwriter on or prior to the Closing Date, or otherwise agreed to by the District and the Underwriter, the District may assume that the End of the Underwriting Period is the Closing Date.

(g) The proceeds from the sale to the Underwriter of the Certificates will be applied in the manner and for the purposes specified in the Trust Agreement.

(h) Any certificate signed by any official of the District and delivered in connection with the transactions contemplated by the Official Statement and this Purchase Agreement shall be deemed to be a representation by the District to the Underwriter and Special Counsel as to the statements made therein.

(i) The District agrees to cooperate with the Underwriter in endeavoring to qualify the Certificates for offer and sale under the securities or Blue Sky laws of such jurisdictions of the United States as the Underwriter may reasonably request; provided, however, that the District will not be required to consent to service of process in any such jurisdiction or to qualify as a foreign corporation in connection with any such qualification in any jurisdiction and that the Underwriter shall be solely responsible for the cost of such qualification.

(j) Except as described in the Official Statement, the District has never failed to comply with any continuing disclosure obligation entered into pursuant to Rule 15c2-12.

4. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to accept delivery of and pay for the Certificates on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations, warranties and agreements on the part of the District contained herein as of the date hereof and as of the Closing Date, to the accuracy in all material respects of the statements of the officers and other officials of the District, the Corporation and the Bank made in any certificates or other documents furnished pursuant to the provisions hereof or the Certificate Documents, and to the performance by the District, the Corporation and the Bank of their respective obligations to be performed hereunder and under the Certificate Documents at or prior to the Closing Date, and to the following additional conditions:

(a) At the Closing Date, the Certificates, the Certificate Documents and the Official Statement shall have been duly authorized, executed and delivered by the respective parties thereto, in substantially the forms heretofore submitted to the Underwriter with only such changes as shall have been agreed to by the Underwriter, and said documents shall not have been amended, modified or supplemented, except as may have been agreed to by the Underwriter, and there shall have been taken in connection therewith, with the execution and delivery of the Certificates and with the transactions contemplated thereby and by this Purchase Agreement, all such actions as Fulbright & Jaworski L.L.P., Special Counsel, shall deem to be necessary and appropriate;

(b) The representations and warranties of the District contained in this Purchase Agreement shall be true, correct and complete in all material respects on the date hereof and on the Closing Date, as if made again on the Closing Date, and the Official Statement (as the same may be supplemented or amended with the written approval of the Underwriter) shall be true, correct and complete in all material respects and such information shall not contain any untrue statement of fact or omit to state any fact required to be stated therein or necessary to make the statements therein relating to the District, in light of the circumstances under which such statements were made, not misleading;

(c) Between the date hereof and the Closing Date, neither the market price nor marketability, at the initial offering prices set forth in the Official Statement, of the Certificates shall have been materially adversely affected, in the judgment of the Underwriter, by reason of any of the following:

(1) legislation enacted or introduced in the Congress or recommended for passage by the President of the United States, or a decision rendered by a court established under Article III of the Constitution of the United States or by the Tax Court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement issued or made:

(i) by or on behalf of the Treasury Department of the United States or the Internal Revenue Service with the purpose or effect, directly or indirectly (except as described in the Official Statement), of imposing federal income taxation upon such interest as would be received by the owners of the Certificates, or

(ii) by or on behalf of the Securities and Exchange Commission, or any other governmental entity having jurisdiction of the subject matter, to the effect that obligations of the general character of the Certificates, or the Certificates, including any or all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under the Trust Indenture Act of 1939, as amended;

(2) the declaration of war or engagement in or escalation of major military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government or of the financial

community in the United States which, in the reasonable opinion of the Underwriter, would materially adversely affect the market for the Certificates;

(3) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange;

(4) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental entity, of any material restrictions not now in force with respect to the Certificates or obligations of the general character of the Certificates or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, the Underwriter;

(5) an order, decree or injunction of any court of competent jurisdiction, or order, filing, regulation or official statement by the Securities and Exchange Commission, or any other governmental entity having jurisdiction of the subject matter, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Certificates, or the execution, delivery, offering or sale of the Certificates, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as then in effect;

(6) the occurrence of any adverse change of a material nature of the financial condition, results of operation or properties of the District; or

(7) any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material adverse respect any statement or information contained in the Official Statement, or has the effect that the Official Statement contains any untrue statement of material fact or omits to state a 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;

(d) At or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(1) the Official Statement and each Certificate Document, duly executed and delivered by the respective parties thereto, with such amendments, modifications or supplements as may have been agreed to by the Underwriter;

(2) an unqualified approving opinion, dated the Closing Date and addressed to the District, of Fulbright & Jaworski L.L.P., Special Counsel, in substantially the form attached to the Official Statement as [Appendix ____], and a letter of such counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it;

(3) the supplemental opinion, dated the Closing Date and addressed to the Underwriter, of Special Counsel, substantially to the effect that (i) this Purchase Agreement, and the Continuing Disclosure Agreement have been duly authorized,

executed and delivered by the District and are valid and binding agreements of the District enforceable in accordance with their respective terms, except as enforcement thereof may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts in the State of California (ii) the Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Indenture Act of 1939, as amended and (iii) the statements contained in the Official Statement on the cover and under the captions ["INTRODUCTION," "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" and "TAX MATTERS" and in APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS,"] insofar as such statements purport to summarize certain provisions of the Certificates, and the Certificate Documents, and the form and content of Special Counsel's approving opinion, are accurate in all material respects;

(4) an opinion of Shipsey & Seitz, in substantially the form of Exhibit A attached hereto, dated the Closing Date and addressed to the District, the Underwriter and the Bank, in form and substance satisfactory to Special Counsel and the Underwriter;

(5) an opinion of Shipsey & Seitz, dated the Closing Date, addressed to the Corporation, the District, the Underwriter and the Bank, in form and substance satisfactory to Special Counsel and the Underwriter;

(6) an opinion of counsel to the Bank, dated the Closing Date, addressed to the District and the Underwriter, to the effect that (i) the Bank is a duly organized and validly existing national banking association in good standing under the laws of the United States and has full power and authority to undertake the trust of the Trust Agreement, (ii) the Bank has duly authorized, executed and delivered the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Escrow Agreement and by all proper corporate action has authorized the acceptance of the trust of the Trust Agreement and the Escrow Agreement, (iii) the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Escrow Agreement constitute legally valid and binding agreements of the Bank, enforceable against the Bank in accordance with their terms, (iv) the Certificates have been validly executed and delivered by the Bank and are entitled to the benefits of the Trust Agreement to the extent legally enforceable in accordance with their terms, (v) no authorization, approval, consent, or other order of any governmental authority or agency having jurisdiction over the Bank is required for the valid authorization, execution, delivery and performance by the Bank of the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Escrow Agreement, (vi) the execution and delivery of the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Escrow Agreement and compliance by the Bank with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the Bank a breach or default under any agreement or other instrument to which the Bank is a party

(and of which such counsel is aware after reasonable investigation) or by which it is bound (and of which such counsel is aware after reasonable investigation) or any existing law, regulation, court order or consent decree to which the Bank is subject and (vii) no litigation is pending or threatened (either in state or federal courts) (A) seeking to restrain or enjoin the execution or delivery by the Bank of any of the Certificates or the collection of the revenues that are the source of Installment Payments, or (B) in any way contesting or affecting any authority of the Bank for the execution or delivery of the Certificates or the validity or enforceability of the Certificates or the Trust Agreement;

(7) the opinion of Fulbright & Jaworski L.L.P., Los Angeles, California, Disclosure Counsel, dated the Closing Date and addressed to the District and the Underwriter, to the effect that based on such counsel's participation in conferences with representatives of the Underwriter, the District, the Corporation, the Bank, their respective counsel and others, during which conferences the contents of the Official Statement and related matters were discussed (but with no inquiry made of other attorneys in such counsel's firm not working directly on the execution and delivery of the Certificates who may have information material to the issue), and in reliance thereon and on the records, documents, certificates and opinions described therein, such counsel advises the Underwriter, as a matter of fact and not opinion, that, during the course of its engagement as Disclosure Counsel no facts came to the attention of such counsel's attorneys rendering legal services in connection with such representation which caused such counsel to believe that the Official Statement as of its date (except for any CUSIP numbers, financial, statistical, economic, engineering or demographic data or forecasts, numbers, charts, estimates, projections, assumptions or expressions of opinion, any information about feasibility valuation, appraisals, absorption, real estate or environmental matters, or any information about litigation, [Appendices B, D and E,] or any information about book-entry or DTC, included or referred to therein, as to which such counsel need express no opinion or view) contained any untrue statement of a material fact or omitted to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(8) a certificate of the Bank dated the Closing Date, signed by a duly authorized officer of the Bank, to the effect that (i) the Bank is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Escrow Agreement and to execute and deliver the Certificates to the Underwriter pursuant to the Trust Agreement, (ii) when delivered to and paid for by the Underwriter on the Closing Date, the Certificates will have been duly executed and delivered by the Bank, (iii) the execution and delivery of the Trust Agreement, the Continuing Disclosure Agreement, the Assignment Agreement, and the Escrow Agreement, and compliance with the provisions on the Bank's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Bank is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), nor will any such execution, delivery, adoption or compliance result

in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Bank pursuant to the lien created by the Trust Agreement under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Trust Agreement, and (iv) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental or public entity pending or, to the best knowledge of the Bank, threatened against the Bank, affecting the existence of the Bank, or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the execution and delivery of the Certificates, or in any way contesting or affecting the validity or enforceability of the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement or the Escrow Agreement, or contesting the powers of the Bank or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement or the Escrow Agreement or the ability of the Bank to perform its obligations thereunder;

(9) a certificate of the District, dated the Closing Date, signed by an authorized officer thereof, to the effect that (i) the representations and warranties of the District contained in the Purchase Agreement and in the Certificate Documents to which the District is a party are true and correct in all material respects as of the Closing Date as if made on the Closing Date, (ii) the Certificate Documents to which the District is a party have not been amended, modified or rescinded and are in full force and effect as of the Closing Date, and that the District has complied with the terms of the Certificate Documents to which the District is a party to be complied with to the Closing Date and has satisfied all conditions on its part to be satisfied to the Closing Date under the Certificate Documents to which the District is a party; (iii) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the District, threatened against the District which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificate or any of the Certificate Documents to which the District is a party, or contesting the validity of the Certificates or any of the Certificate Documents to which the District is a party or the powers of the District to enter into or perform its obligations under the Certificate Documents to which the District is a party, or the existence or powers of the District, or which, if adversely determined, could materially adversely affect the financial condition of the District or its ability to perform its obligations under the Certificate Documents to which the District is a party; (iv) no event affecting the District has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date the statements or information (except for statements and information regarding DTC) contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information (except for statements and information regarding DTC) therein not misleading in any material respect; and (v) since the date of the most recent financial statements of the District, no material adverse change has occurred in the status of the business, operations or

conditions (financial or otherwise) of the District or its ability to perform its obligations under the Certificate Documents to which the District is a party;

(10) a certificate of the Corporation, dated the Closing Date, signed by an authorized officer thereof, to the effect that (i) the Corporation is a nonprofit public benefit corporation duly organized and validly existing under the laws of the State of California, (ii) the Corporation has all necessary power and authority and has taken all official actions necessary to execute, deliver and perform its duties under each of the Certificate Documents to which it is a party, and each of the Certificate Documents to which the Corporation is a party has been duly authorized, executed and delivered by the Corporation and, assuming the due authorization, execution and delivery by the other respective parties thereto, will constitute legally valid and binding obligations of the Corporation enforceable against the Corporation in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or principles of equity involving judicial discretion, (iii) the Corporation is not in material breach of, or default under, any applicable constitutional provision, law or administrative rule or regulation of the State of California or the United States of America material to the conduct of its functions or any applicable judgment or decree or any loan agreement, indenture, bond, certificate, note, resolution or other agreement or instrument to which the Corporation is a party or to which the Corporation or any of its properties is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or an event of default under any of the foregoing; and the authorization, execution and delivery of the Certificate Documents to which the Corporation is a party, and compliance with the provisions thereof, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative rule or regulation, or any judgment, decree, license, permit, loan agreement, indenture, bond, certificate, note, resolution, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument except as may be provided by the Certificate Documents, (iv) there is no consent, approval, authorization or other order of, or filing with, or certification by, any regulatory entity having jurisdiction over the Corporation required for the execution and delivery of the Certificate Documents to which the Corporation is a party, or the consummation by the Corporation of the transactions contemplated in the Official Statement or in the Certificate Documents, which has not been duly obtained or made on or prior to the date hereof, (v) there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the Corporation, threatened against the Corporation which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificates or any of the Certificate Documents, or contesting the validity of the Certificates or any of the Certificate Documents or the powers of the Corporation to enter into or perform its obligations under the Certificate Documents to which it is a party or the existence or powers of the Corporation, and (vi) no event affecting the Corporation has occurred since

the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date the statements or information regarding the Corporation contained in the Official Statement or is not reflected in the Official Statement but should be reflected therein in order to make the statements and information therein regarding the Corporation not misleading in any material respect;

(11) a certified copy of the Resolution of the governing board of the District authorizing the execution and delivery of the Certificate Documents to which the District is a party and other matters pertaining thereto;

(12) a certified copy of the Resolution of the governing board of the Corporation authorizing the execution and delivery of the Certificate Documents to which the Corporation is a party and other matters pertaining thereto;

(13) copies of the Articles of Incorporation and Bylaws of the Corporation;

(14) evidence of corporate standing of the Corporation from the State of California Secretary of State;

(15) a certified copy of the general resolution of the Bank authorizing the execution and delivery of the Certificate Documents to which the Bank is a party;

(16) evidence that any ratings described in the Official Statement are in full force and effect as of the Closing Date;

(17) a tax certificate of the District in form and substance acceptable to Special Counsel;

(18) A defeasance opinion relating to the 2003 Certificates, dated the Closing Date and addressed to the District and the Bank, of Fulbright & Jaworski L.L.P., in form and substance satisfactory to the Underwriter;

(19) A copy of the Verification Report prepared by Barthe & Wahrman PA, Bloomington, Minnesota, and dated June __, 2013;

(20) a copy of the Notices of Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the California Government Code; and

(21) such additional legal opinions, certificates, proceedings, instruments and other documents as the Underwriter or Special Counsel may reasonably request to evidence compliance by the Bank, the Corporation and the District with legal requirements, the truth and accuracy, as of the Closing Date, of the representations of the Bank, the Corporation and the District, and the due performance or satisfaction by the Bank, the Corporation and the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the Bank, the Corporation and the District.

If the District shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Purchase Agreement or if the Underwriter's obligations shall be terminated for any reason permitted herein, all obligations of the Underwriter hereunder may be terminated by the Underwriter at, or at any time prior to, the Closing Date by written notice to the District and neither the Underwriter nor the District shall have any further obligations hereunder.

5. Fees and Expenses. Except as provided in the following paragraph, the District shall pay all costs and expenses incurred in connection with or relating to the execution and sale of the Certificates, including but not limited to: (a) all fees and expenses of Fulbright & Jaworski L.L.P., for services rendered as Special Counsel, (b) all expenses and costs of the District incident to the performance of its obligations hereunder and in connection with the authorization, execution and sale of the Certificates to the Underwriter, (c) the costs of printing the Preliminary Official Statement and the Official Statement, (d) the fees and expenses of the Bank and its counsel, (e) the fees and expenses of Disclosure Counsel, (f) the fees of Standard & Poor's Ratings Services for rating the Certificates and (g) all other fees and expenses incident to the public offering and sale of the Certificates.

The Underwriter shall pay any advertising expenses incurred in connection with the public offering of the Certificates, California Debt and Investment Advisory Commission and other regulatory bond fees, except as provided in the preceding paragraph, and all other expenses incurred by the Underwriter in connection with the public offering and sale of the Certificates, including those of counsel to the Underwriter.

6. Survival of Certain Representations and Obligations. The agreements, covenants, representations, warranties and other statements of the District and its officials or officers set forth in or made pursuant to this Purchase Agreement shall survive delivery of and payment for the Certificates, regardless of any investigation, or statements as to the results thereof, made by or on behalf of the Underwriter.

7. Notices. All notices, certificates and other communications provided for hereunder shall be in writing and, if to the District, mailed, certified, return receipt requested, or delivered to it, addressed to it at:

Nipomo Community Services District
148 South Wilson Street
Nipomo, CA 93444-0326
Attention: General Manager

and if to the Underwriter, mailed, certified, return receipt requested, or delivered to it, addressed to it at:

Citigroup Global Markets Inc.

Attention: _____

or such other address as shall be designated by any such party in a written notice to each of the other parties.

8. Survival of Representations, Warranties and Agreements. All representations, warranties and agreements in this Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of the Certificates hereunder.

9. Applicable Law. This Purchase Agreement shall be interpreted, governed and enforced in accordance with the laws of the State of California.

10. Effectiveness. This Purchase Agreement shall become effective upon its execution by duly authorized officers of the Underwriter and the District and shall be valid and enforceable from and after the time of such execution.

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

CITIGROUP GLOBAL MARKETS INC.

By: _____
Authorized Representative

ACCEPTED:

**NIPOMO COMMUNITY SERVICES
DISTRICT**

By: _____
Michael S. LeBrun
General Manager

EXHIBIT A

**FORM OF OPINION
OF COUNSEL TO THE DISTRICT**

EXHIBIT B

[CERTIFICATE PAYMENT SCHEDULE]