

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2015

REFUNDING-BOOK-ENTRY ONLY

RATING: S&P: “___”
Fitch: “___”
See “RATINGS”

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and subject to the matters described in “TAX MATTERS” herein, interest on the 2015 Series A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not included in the federal alternative minimum tax for individuals or, except as described herein, corporations. It is also the opinion of Bond Counsel that under existing law interest on the 2015 Series A Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS-Tax-Exempt Bonds” herein, including a discussion of the federal alternative minimum tax consequences for corporations. Interest on the 2015 Taxable Series B Bonds is includable in the gross income of the owners thereof for federal income tax purposes. See “TAX MATTERS-Taxable Bonds” herein.

\$ _____*
**SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES A**

\$ _____*
**SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES B (Taxable)**

Dated: Date of Issuance

Due: September 1, as shown on inside cover page

The SLO County Financing Authority (the “Authority”), a joint exercise of powers authority established pursuant to an agreement between the County of San Luis Obispo, California (the “County”) and the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”), is issuing \$ _____* principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$ _____* principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “2015 Taxable Series B Bonds”) and together with the 2015 Series A Bonds the “2015 Bonds”) to: (i) provide funds to refund \$ _____* principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Bonds, 2007 Series A, maturing on September 1, [2019 through 2027, inclusive, and September 1, 2038] (collectively, the “Refunded 2007 Bonds”), that were issued to finance and refinance the costs of the acquisition, construction and equipping of certain public capital improvements within the County, generally comprising the Nacimiento Water Project (the “Nacimiento Project”); and (ii) pay certain costs associated with the issuance of the 2015 Bonds, all as more fully described herein. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the “First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The 2015 Bonds are obligations of the Authority payable solely from and secured by Revenues consisting of gross water sales revenues of the Water Enterprises of

the Participants (each as defined herein) payable to the Flood Control District pursuant to individual Water Delivery Entitlement Contracts, as amended (each, a “Delivery Contract”), between the Flood Control District and the respective Participant, and pledged to the payment of the Bonds pursuant to the terms and conditions of a Pledge Agreement, dated as of September 1, 2007 (the “Pledge Agreement”), by and between the Flood Control District and the Authority. Pursuant to each Delivery Contract, the respective Participant pledges its gross water sales revenues of its Water Enterprise (as defined herein) to pay its obligations under its Delivery Contract, including its *pro rata* share of the costs of the Nacimiento Project, Additional Capital Project Costs, Capital Projects Installment Debt Service, Master Water Contract Costs, Capital Reserve Costs, Operation and Maintenance Variable Energy Costs (each as defined herein) and other costs associated with the Nacimiento Project, and each Participant is obligated to make its respective payments under its Delivery Contract to the Flood Control District regardless of the failure of the Flood Control District to deliver water to the respective Participant. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Pledge Agreement” and “–The Delivery Contracts.”

The Authority previously issued the 2007 Bonds (as defined herein) and may issue Additional Bonds secured on a parity with the 2007 Bonds and the 2015 Bonds. The 2007 Bonds and the 2015 Bonds and any Additional Bonds are referred to as the “Bonds.”

The 2015 Bonds will be issued in book-entry form only, in authorized denominations of \$5,000 and integral multiples thereof and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2015 Bonds. Purchasers will not receive certificates representing their interests in the 2015 Bonds. Payments of principal of and interest on the 2015 Bonds will be made by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the 2015 Bonds. See APPENDIX I–“DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The principal of the 2015 Bonds is payable on September 1 of each year as set forth on the inside cover page hereof. Interest on the 2015 Bonds is payable semiannually on each March 1 and September 1, commencing September 1, 2015.

The 2015 Bonds are subject to optional and mandatory redemption as more fully described herein. See “THE 2015 BONDS–Redemption Provisions.”

[The scheduled payment of principal of and interest on the 2015 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2015 Bonds by _____ (the “Bond Insurer”).]

[Bond Insurer logo]

THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES OF THE AUTHORITY CONSISTING PRIMARILY OF PAYMENTS MADE BY THE PARTICIPANTS TO THE FLOOD CONTROL DISTRICT UNDER THE DELIVERY CONTRACTS AND RECEIVED BY THE AUTHORITY PURSUANT TO THE PLEDGE AGREEMENT. THE 2015 BONDS ARE NOT A DEBT OF THE AUTHORITY, THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF, OR INTEREST ON THE 2015 BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE PLEDGE AGREEMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY IS

MATURITY SCHEDULE

\$ _____*
SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES A

\$ _____ Serial Bonds

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]
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\$ _____ – _____% Term 2015 Bonds Due September 1, 20__ – Yield: ____% – Price: ____% – CUSIP[†]: _____

\$ _____*
SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES B (Taxable)

\$ _____ Serial Bonds

<u>Maturity</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> [†]
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\$ _____ – _____% Term 2015 Bonds Due September 1, 20__ – Yield: ____% – Price: ____% – CUSIP[†]: _____

* Preliminary, subject to change.

† Copyright 2015, American Bankers Association. CUSIP data herein is provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. The CUSIP numbers are provided for convenience of reference only. Neither the County nor the Underwriter is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP numbers of specific maturities is subject to change following the issuance of the 2015 Bonds as a result of various actions, including, but not limited to, a refunding in whole or in part or as the result of the procurement of a secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2015 Bonds.

No dealer, broker, salesperson or other person has been authorized by the County or the Authority to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of the 2015 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2015 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

Information contained in APPENDIX A—"THE PARTICIPANTS" has been obtained from the respective Participant. All other information set forth herein has been obtained from the County or the Authority and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Authority since the date hereof. This Official Statement is submitted in connection with the sale of the 2015 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. All capitalized terms used herein, unless noted otherwise, shall have the meanings prescribed in the Indenture and the Pledge Agreement. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Electronic Municipal Market Access site maintained by the Municipal Securities Rulemaking Board.

Any statement made in this Official Statement involving any forecast or matter of estimates or opinion, whether or not expressly stated, is intended solely as such and not as a representation of fact. 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 (the "Securities Act"). Such forward-looking statements are generally identified by use of the words "plan," "project," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, statements contained under the caption "PLAN OF REFUNDING" and in APPENDIX A—"THE PARTICIPANTS." Such forward-looking statements refer to the achievement of certain results or other expectations or performance which involve known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward looking statements. Neither the County nor the Authority plans to issue updates or revisions to such forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The 2015 Bonds have not been registered with the Securities and Exchange Commission by reason of the provisions of Section 3(a)(2) of the Securities Act of 1933, as amended. The registration or qualification of the 2015 Bonds in accordance with applicable provisions of Securities Laws of the states in which these Bonds have been registered or qualified, and the exemption from registration or qualification in other states, shall not be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the securities or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

In connection with the offering of the 2015 Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the 2015 Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2015 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

The County, the Flood Control District and each Participant maintains a website. Unless specifically indicated otherwise, the information presented on those websites is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the 2015 Bonds.

SLO FINANCING AUTHORITY

James P. Erb, *County Auditor-Controller/Treasurer-Tax Collector, Chair*
Dan Buckshi, *County Administrator, Vice Chair*
Carl Nelson, *San Luis Obispo County Pension Trust Executive Secretary, Member*

PARTICIPANTS

Atascadero Mutual Water Company
City of Paso Robles
City of San Luis Obispo
Templeton Community Services District

SPECIAL SERVICES

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Disclosure Counsel

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Los Angeles, California
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MAP OF NACIMIENTO PROJECT

OFFICIAL STATEMENT

\$ _____*
**SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES A**

\$ _____*
**SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE REFUNDING BONDS
2015 SERIES B (Taxable)**

INTRODUCTION

This Introduction contains only a brief summary of the terms of the 2015 Bonds being offered and a brief description of this Official Statement. A full review should be made of the entire Official Statement, including the inside cover through the Appendices. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given to such terms as set forth in the Indenture (defined below). See APPENDIX F—“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS—DEFINITIONS.”

General; Purpose; Authority for Issuance

This Official Statement, which includes the cover page through the Appendices hereto (the “Official Statement”), provides certain information concerning the issuance by the SLO County Financing Authority (the “Authority”) of \$ _____* principal amount of SLO County Financing Authority Lease Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$ _____* principal amount of SLO County Financing Authority Lease Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “2015 Taxable Series B Bonds”) and together with the 2015 Series A Bonds, the “2015 Bonds”).

The proceeds from the issuance of the 2015 Bonds will be used to: (i) provide funds to refund \$ _____* principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Bonds, 2007 Series A, maturing on September 1, [2019 through 2027, inclusive and September 1, 2038] (the “Refunded 2007 Bonds”), that were issued to finance and refinance the costs of the acquisition, construction and equipping of certain public capital improvements within the County, generally comprising the Nacimiento Water Project (the “Nacimiento Project”); and (ii) pay certain costs associated with the issuance of the 2015 Bonds, all as more fully described herein. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the “First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Authority is a joint exercise of powers authority established pursuant to an agreement between the County of San Luis Obispo, California (the “County”) and the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”). The 2015 Bonds are obligations of the Authority payable solely from and secured by Revenues consisting of gross water sales revenues of the Water Enterprises of the Participants (each as defined herein) payable to the Flood Control District pursuant to individual Water Delivery Entitlement

* Preliminary, subject to change.

Contracts, as amended (each, a “Delivery Contract”), between the Flood Control District and the respective Participant and pledged to the Authority. Pursuant to each Delivery Contract, the respective Participant has covenanted to pay its *pro rata* share of various capital expenses relating to the funding of design costs, engineering, planning, mapping, acquiring easements and right-of-way, and construction in connection with the Nacimiento Project, including Additional Capital Project Costs, Capital Projects Installment Debt Service, Master Water Contract Costs, Capital Reserve Costs, Operation and Maintenance Costs, Variable Energy Costs (each as defined herein) and other costs associated with the Nacimiento Project.

Pursuant to a Pledge Agreement dated as of September 1, 2007 (the “Pledge Agreement”), by and between the Flood Control District and the Authority, the Flood Control District pledges the Capital Installment Debt Service, its Net Revenues and all amounts in the Water Fund to payment of the Bonds (each as defined herein) to the Authority. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–Pledge Agreement” and “–The Delivery Contracts.”

The Nacimiento Project

The Nacimiento Project consists of a multi-port sloping intake facility at Lake Nacimiento with a pump station, two intermediate pump stations, three storage tanks, a control system, and approximately 45 miles of transmission pipeline ranging from 36- to 12-inches in diameter, with the ability to deliver 15,750 acre-feet of raw water each year to communities within the County, including the Participants (defined below). The Nacimiento Project became operational on January 7, 2011.

The Authority

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

The Flood Control District

The Flood Control District was formed in 1945 through the enactment of the San Luis County Flood Control and Water Conservation District Act. See “THE FLOOD CONTROL DISTRICT.”

The Participants

The Participants to the Delivery Contracts are the: (i) Atascadero Mutual Water Company (the “AMWC”), (ii) the City of Paso Robles (“Paso Robles”), (iii) City of San Luis Obispo (“SLO”) and (iv) Templeton Community Services District (“Templeton”).

The Flood Control District entered into a Water Delivery Entitlement Contract, dated as of August 17, 2004, as amended, with AMWC (the “AMWC Delivery Contract”); a Water Delivery Entitlement Contract, dated as of August 17, 2004, as amended, with Paso Robles (the “Paso Robles Delivery Contract”); a Water Delivery Entitlement Contract, dated as of August 17, 2004, as amended, with SLO (the “SLO Delivery Contract”); and a Water Delivery Entitlement Contract, dated as of August 17, 2004, as amended, with Templeton (the “Templeton Delivery Contract” and collectively with the AMWC Delivery Contract, the Paso Robles Delivery Contract, the SLO Delivery Contract and the Templeton Delivery Contract, the “Delivery Contracts”). Each Delivery Contract was amended by the Memorandum of Understanding (First Amendment to Nacimiento Project Water Delivery Entitlement Contract) and the Second Amendment to the Nacimiento Project Water Delivery Entitlement Contract (the “Second Amendment”) (as so amended, the “Existing Contract”), pursuant to which each Participant and the County of San Luis Obispo Service Area 10, Zone A (“CSA 10”), agreed to pay its share of

various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimiento Project. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–The Delivery Contracts” and APPENDIX A–“THE PARTICIPANTS.”

The Flood Control District and CSA 10 also entered into a Water Delivery Entitlement Contract, dated as of October 24, 2006, as amended (the “CSA 10A Delivery Contract”), by and between the Flood Control District and the County, acting on behalf of CSA 10. CSA 10 *has no* obligation with respect to the Bonds and the CSA 10A Delivery Contract will not provide payments or security for the 2015 Bonds.

Security and Sources of Payment

The 2015 Bonds will be obligations of the Authority payable solely from and secured by the Revenues and any other amounts (including proceeds of the sale of the 2015 Bonds) held in the funds and accounts established pursuant to the Indenture (excepting the Rebate Fund). As defined in the Indenture, the term “Revenues” means: (i) all amounts derived from the Pledge Agreement, and (ii) investment income with respect to the funds and accounts established under the Indenture, except for investment earnings on the Rebate Fund. Pursuant to the Pledge Agreement, the Flood Control District has pledged the Water Revenues (defined herein) received from each Participant pursuant to the respective Delivery Contract to the Authority under the terms and conditions of the Pledge Agreement.

The term “Water Revenues” means, collectively, the Capital Projects Installment Debt Service due from each Participant, including Delinquent Debt Service payments and the interest thereon, together with the Net Revenues of the Flood Control District. As provided in the Delivery Contracts, and in order to carry out and effectuate the pledge and lien contained therein, the Flood Control District has covenanted that all Water Revenues will be received by the Flood Control District in trust and deposited when and as received into the Nacimiento Water Fund, which fund the Flood Control District maintains and holds in trust separate and apart from other funds so long as any Bonds remain unpaid. During the term of the Pledge Agreement, the Flood Control District is required to withdraw amounts from the Nacimiento Water Fund on each Payment Date for deposit into the Revenue Fund to be transferred to the Trustee to pay interest then coming due on and maturing or called principal of the 2015 Bonds. Revenues of each Participant consist principally of gross water sales revenues of the Participant’s Water Enterprise (as defined herein). See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–The Delivery Contracts.”

Under its Delivery Contract, the respective Participant has: (i) covenanted, *inter alia*, to pay its share of various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building of the Nacimiento Project; (ii) severally and not jointly, pledged certain revenues (collectively, the “Capital Projects Installment Debt Service,” as more particularly defined in the Pledge Agreement) to be collected by their respective water enterprises (collectively, the “Water Enterprises”); (iii) pledged the gross water sales revenues of its respective Water Enterprise to the payment of total Nacimiento Project Construction Costs; (iv) to establish rates and charges sufficient to pay its obligations under its Delivery Contract; and (v) made certain other covenants with respect thereto. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–The Delivery Contracts–*Pledge and Covenants of Participants*” and APPENDIX B–“SUMMARY OF THE DELIVERY CONTRACTS.”

Subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts

(including proceeds of the sale of the Bonds) held in the funds and accounts established pursuant to the Indenture (excepting the Rebate Fund) are pledged by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the Bonds, and amounts owing to the Insurer of the 2007 Bonds (defined below), in accordance with their terms and the provisions of the Indenture. Such pledge constitutes a lien on and security interest in such assets.

The obligation of the Flood Control District to make payments to the Authority under the Pledge Agreement is a special obligation of the Flood Control District payable solely from Water Revenues, the Nacimiento Water Fund and other funds described in the Pledge Agreement, and does not constitute a debt of the Flood Control District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Outstanding Parity Bonds. The Authority issued, and there will be Outstanding following the refunding of the Refunded 2007 Bonds, \$_____ principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Bonds, 2007 Series A (the “2007 Series A Bonds”); and \$_____ principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Bonds, 2007 Series B (Taxable) (the “Taxable 2007 Series B Bonds” and together with the 2007 Series A Bonds, the “2007 Bonds”). The 2007 Bonds were issued by the Authority to construct the Nacimiento Project and are secured by Revenues on a parity with the 2015 Bonds. Payment of the principal of and interest on the 2007 Bonds are insured by a financial guaranty insurance policy issued by National Public Finance Groups, successor to MBIA Insurance Corporation (the “Insurer of the 2007 Bonds”).

Reserve Fund. Pursuant to the Indenture a reserve fund for including a Tax-Exempt Reserve Account and a Taxable Reserve Account (each a “Reserve Account” and together, the “Reserve Fund”) was established as security for the Bonds in an amount equal to the Reserve Requirement (as defined herein). Amounts on deposit in the Tax-Exempt Reserve Account are available to pay debt service solely on the Tax-Exempt Bonds and amounts on deposit in the Taxable Reserve Account are available to pay debt service solely on the Taxable Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Reserve Fund.”

THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES OF THE AUTHORITY CONSISTING PRIMARILY OF PAYMENTS MADE BY THE PARTICIPANTS TO THE FLOOD CONTROL DISTRICT UNDER THE DELIVERY CONTRACTS AND RECEIVED BY THE AUTHORITY PURSUANT TO THE PLEDGE AGREEMENT. THE 2015 BONDS ARE NOT A DEBT OF THE AUTHORITY, THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF, OR INTEREST ON THE 2015 BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE PLEDGE AGREEMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2015 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Additional Bonds

The Authority may issue one or more series of Bonds secured by a pledge of Revenues on a parity with the 2015 Bonds. “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Bonds.”

[Bond Insurance]

Certain Risk Factors

An investment in the 2015 Bonds involves risk. For a discussion of certain risk factors associated with investment in the 2015 Bonds, see “CERTAIN RISKS TO BOND OWNERS” as well as other factors discussed throughout this Official Statement.

Continuing Disclosure

Flood Control District. The Flood Control District has covenanted for the benefit of the beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the Flood Control District by no later than March 31 of each year commencing with the report due on March 31, 2016 for the Fiscal Year ended June 30, 2015 (each a “Flood Control District Annual Report”), and to provide notices of the occurrence of certain specified events. The Annual Report and notices of specified events will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access site. See “CONTINUING DISCLOSURE” and APPENDIX D–“FORMS OF CONTINUING DISCLOSURE CERTIFICATE AND AGREEMENTS–SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Participants. Each Participant has covenanted to provide certain financial and operating data relating to such Participating Agency by no later than nine months following the end of the Fiscal Year of each Participant commencing with the report due in 2016 for the respective Fiscal Year ended in 2015 (each a “Participant Annual Report”). The fiscal year end for AMWC is April 30 and the fiscal year for Paso Robles, SLO and Templeton is June 30. See “CONTINUING DISCLOSURE” and APPENDIX D–“FORMS OF CONTINUING DISCLOSURE CERTIFICATE AND AGREEMENTS–PARTICIPANTS CONTINUING DISCLOSURE AGREEMENTS.”

Reference to Documents

The summaries and descriptions in this Official Statement of the Indenture, the 2015 Bonds, the Escrow Agreement (defined herein), the Pledge Agreement, the Delivery Contracts, the Continuing Disclosure Certificate and Agreements, and other agreements relating to the 2015 Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the 2015 Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in such documents. All capitalized terms used herein, unless noted otherwise, shall have the meanings prescribed in the Indenture and the Pledge Agreement. See APPENDIX C–“SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS–DEFINITIONS.”

PLAN OF REFUNDING

The proceeds of the 2015 Bonds will be used by the Authority to provide funds to refund \$_____* principal amount of the Refunded 2007 Bonds; and (ii) pay certain costs associated with the 2015 Bonds. See also “ESTIMATED SOURCES AND USES OF FUNDS.”

The Authority issued \$_____ original principal amount of the 2007 Series A Bonds pursuant to the Original Indenture.

* Preliminary, subject to change.

A portion of the proceeds from the issuance of the 2015 Bonds will be deposited with the Prior Trustee which, together with certain moneys on deposit under the Indenture, will be sufficient and will be used to pay when due and at a price equal to 100% of the principal amount of the Refunded 2007 Bonds thereof, plus accrued and unpaid interest through September 1, 2017.

The Refunded 2007 Bonds to be refunded consist of the following:

Table 1
[\$138,545,000]
SLO COUNTY FINANCING AUTHORITY
NACIMIENTO WATER PROJECT
REVENUE BONDS, 2007 SERIES A
Dated Date: September 26, 2007
Redemption Date: September 1, 2017
Redemption Price: 100%

Maturity Date (September 1)	Principal Amount	CUSIP (798693)
[2019	\$3,460,000	BG1
2020	3,640,000	BH9
2021	3,830,000	BJ5
2022	4,030,000	BK2
2023	4,230,000	BL0
2024	4,445,000	BM8
2025	4,670,000	BN6
2026	4,910,000	BP1
2027	5,165,000	BQ9
2032	30,080,000	BR7]

† CUSIP numbers are provided by Standard & Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP service. The CUSIP number is provided for convenience of reference only. None of the Authority, the County or the Underwriter takes any responsibility for the accuracy of such numbers.

Upon the deposit of cash into an escrow fund (the “Escrow Fund”) established pursuant to an Escrow Agreement, dated as of _____ 1, 2015 (the “Escrow Agreement”) by and between the Authority and _____, as escrow agent (the “Escrow Agent”), the Refunded 2007 Bonds will no longer be deemed Outstanding under the Indenture.

The amounts deposited with the Escrow Agent pursuant to the Escrow Agreement will be held by the Escrow Agent and invested in noncallable direct obligations of the United States of America, and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America to which the direct obligation or guarantee the full faith and credit of the United States of America has been pledged (collectively, the “Government Securities”) that are irrevocably pledged solely to the payment of the interest components becoming due with respect to the Refunded 2007 Bonds. The principal of and interest on such Government Securities, when received, will be sufficient to pay interest on the Refunded 2007 Bonds through and including September 1, 2017 and to redeem the Refunded 2007 Bonds on September 1, 2017. See also, “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the 2015 Bonds are estimated to be applied as set forth in the following table:

**Table 2
Estimated Sources and Uses of Funds**

	<u>2015 Series A Bonds</u>	<u>2015 Taxable Series B Bonds</u>	<u>Total</u>
Sources of Funds:			
Par Amount of 2015 Bonds			
Original Issue Premium			
Funds held under the Indenture			
TOTAL ESTIMATED SOURCES			
 Uses of Funds:			
Deposit to Escrow Accounts ⁽¹⁾			
Costs of Issuance ⁽²⁾			
Underwriter’s Discount			
TOTAL ESTIMATED USES OF FUNDS			

(1) See “PLAN OF REFUNDING.”

(2) Includes fees of the County, Bond Counsel, the Municipal Advisor, the Verification Agent, the Trustee and the Escrow Agent, fees relating to the credit rating, printing, accounting and other costs associated with the issuance of the 2015 Bonds.

THE AUTHORITY

General

The Authority was created pursuant to a Joint Exercise of Powers Agreement, dated as of August 15, 2000 (the “Joint Powers Agreement”), between the County and the Flood Control District. The Joint Powers Agreement was entered into pursuant to the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title I of the California Government Code. The Authority was created to issue bonds for the purpose of financing all or a portion of the costs of the purchase, construction, expansion, improvement or rehabilitation of any real or other tangible property for the County and the Flood Control District and to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations to provide financing and refinancing for such capital improvements of the County and the Flood Control District. The Joint Powers Agreement may be amended at any time, or from time to time, except as limited by contract with the holders of bonds issued by the Authority or certificates of participation in payments to be made by the Authority or its members or by applicable regulations or laws of any jurisdiction having authority, including to provide for the addition of new parties.

Governance and Management

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

The current Commissioners of the Authority are:

<u>Member</u>	<u>Title</u>
James P. Erb, <i>County Auditor- Controller/Treasurer-Tax Collector</i>	Chair
Dan Buckshi, <i>County Administrative Officer</i>	Vice Chair
Carl Nelson, <i>SLO Pension Trust Executive Secretary,</i>	Member

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

THE FLOOD CONTROL DISTRICT

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

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

THE 2015 BONDS

General

The 2015 Bonds will be dated their date of original delivery, will be issued in fully registered form, in denominations of \$5,000 and any integral multiple thereof and will mature on the dates and in the principal amounts and bear interest at the rates as set forth on the inside cover of this Official Statement.

Interest on the 2015 Bonds shall be payable semiannually on March 1 and September 1 of each year commencing September 1, 2015 (each, an "Interest Payment Date"). The 2015 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2015 Bonds. Ownership interests in the 2015 Bonds may be purchased in book-entry only form. Purchasers will *not* receive securities certificates representing their interests in the 2015 Bonds purchased. Payments of principal of and interest on the 2015 Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2015 Bonds. See APPENDIX G—"DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Interest on the 2015 Bonds will be paid on each Interest Payment Date to the persons in whose name the ownership of the 2015 Bonds is registered on the registration books maintained by the Trustee for the registration of ownership and registration of transfer of the 2015 Bonds as of the close of business on the immediately preceding Record Date, such interest to be paid by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date; or by wire transfer made on such Interest Payment Date to any Owner of \$1,000,000 or more in aggregate principal amount of 2015 Bonds who has requested such transfer pursuant to written notice filed with the Trustee on or before the preceding Record Date.

So long as the 2015 Bonds are registered in the name of the Cede & Co., all payments with respect to principal of, and interest on, the 2015 Bonds and all notices with respect to such 2015 Bonds will be made and given, respectively, to DTC.

Redemption Provisions

Optional Redemption for 2015 Series A Bonds. The 2015 Series A Bonds maturing on and after September 1, 20__ are subject, at the option of the Authority at the direction of the Flood Control District, to call and redemption from any available source of funds prior to their stated maturity on any date on or after September 1, 20__, as a whole or in part in the order directed by the Authority, from any source of available funds, at a redemption price equal to the principal amount of the 2015 Series A Bonds to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Payment Redemption for 2015 Series A Bonds. The 2015 Series A Bonds maturing on September 1, 20__, are subject to mandatory redemption in part by lot, on September 1 in each year commencing September 1, 20__, and on each September 1 thereafter, up to and including September 1, 20__, from mandatory sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date of redemption, in the following principal amounts:

Sinking Fund Payment Date (September 1)	Principal Amount
†	

† Maturity.	

No Optional Redemption for 2015 Taxable Series B Bonds. The 2015 Taxable Series B Bonds are not subject to call and redemption prior to their stated maturity.

Redemption Procedures

Notice of Redemption. Notice of redemption of the 2015 Bonds is required to be mailed by the Trustee, by first-class mail, postage prepaid, to the respective Owners of any 2015 Bonds designated for redemption at their addresses appearing on the Registration Books and to the Securities Depositories and the Information Services at least 20 days but not more than 60 days prior to the redemption date. Each notice of redemption is required to state the redemption date, the place or places of redemption, the CUSIP numbers and numbers of the 2015 Bonds to be redeemed, and in the case of 2015 Bonds to be redeemed in part only, the respective Authorized Denominations of the principal amount thereof to be redeemed. Each such notice is also required to state that on said date there will become due and payable on each of said 2015 Bonds the principal amount relating thereto or of said specified portion of the principal thereof in the case of a 2015 Bond to be redeemed in part only, plus accrued interest, if any, and through which date such interest will accrue, and that from and after such date interest thereon shall cease to accrue and shall require that such 2015 Bonds be then surrendered at the Principal Office of the Trustee.

Neither the failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for redemption of such 2015 Bonds or the cessation of accrual of interest as of the redemption date.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of Authorized Denominations equal in aggregate principal amount or maturity amount, as applicable, representing the unredeemed portion of the Bonds so surrendered.

Conditional Notice. Any notice of optional redemption of the 2015 Bonds delivered in accordance with the Indenture may be conditional, and if any condition stated in such notice of redemption has not been satisfied on or prior to the redemption date: (i) said notice will be of no force and effect, (ii) the Authority will not be required to redeem such 2015 Bonds, (iii) the redemption will not be made and (iv) the Trustee will within a reasonable time thereafter give notice to the persons in the manner in which the conditional notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

Selection of 2015 Series A Bonds for Partial Redemption. Whenever provision is made in this Indenture for the redemption of less than all of the 2015 Series A Bonds of a maturity, the Trustee shall select the 2015 Series A Bonds to be redeemed from all 2015 Series A Bonds of such maturity not previously called for redemption, as directed by the Authority, at the request of the Flood Control District, or, in the absence of such direction, by lot in any manner which the Authority in its sole discretion shall deem appropriate and fair. For purposes of such selection, all 2015 Series A Bonds shall be deemed to be comprised of separate Authorized Denominations and such separate Authorized Denominations shall be treated as separate 2015 Series A Bonds which may be separately redeemed.

Effect of Notice of Redemption. If notice of redemption has been duly given as specified in the Indenture and moneys for the redemption (including the interest to the applicable date of redemption and including any applicable premium) has been set aside in the Redemption Account or any of the accounts therein, the 2015 Bonds will become due and payable on said date of redemption, and upon presentation and surrender thereof at the Principal Office of the Trustee, said 2015 Bonds will be paid at the redemption price thereof, together with interest accrued and unpaid to said date of redemption and premium, if any.

Purchase in Lieu of Redemption. In lieu of redemption of any 2015 Bond, amounts on deposit in the Principal Account or Redemption Account may also be used and withdrawn by the Trustee at any time, upon the Written Request of the Authorized Representative, for the purchase of such 2015 Bond at public or private sale when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Authority may in its discretion determine, in accordance with all applicable laws, so long as such prices do not exceed par.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are obligations of the Authority payable solely from and secured by the Revenues and any other amounts (including proceeds of the sale of the 2015 Bonds) held in the funds and accounts established pursuant to the Indenture (except the Rebate Fund) are pledged by the Authority to secure the full and timely payment of the principal of and interest and premium, if any, of the 2015 Bonds. As defined in the Indenture, the term “Revenues” means: (i) all amounts derived from the Pledge Agreement, and (ii) investment income with respect to the funds and accounts established under the Indenture except for investment earnings on the Rebate Fund. Pursuant to the Pledge Agreement the Flood Control District has pledged the Water Revenues received from Participants under the Delivery Contracts to the Authority for payment of the Bonds. See “–Pledge Agreement” and “–The Delivery Contracts.”

Flow of Funds

Pursuant to the Indenture the Authority has established with the Trustee a special fund designated the “Revenue Fund” which the Trustee maintains and holds in trust. Within the Revenue Fund, the Trustee will establish special accounts designated as the “Principal Account” and the “Interest Account” each of which are required to be held and maintained as separate and distinct funds and accounts. All Revenues, except for investment earnings on the Reserve Fund, are required to be promptly transferred to the Trustee by the Authority and deposited by the Trustee upon receipt thereof into the “Revenue Fund” and held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. On each Interest Payment Date, the Trustee is required to transfer all Revenues then in the Revenue Fund into the following funds and accounts the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack

of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

First: The Trustee shall deposit into the Interest Account an amount which, together with the amounts then on deposit therein including, with respect to amounts, if any, transferred by the Trustee from the Reserve Fund, is sufficient to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on the Bonds on such Interest Payment Date and any amount of interest previously due and unpaid.

Second: The Trustee shall deposit into the Principal Account, if necessary, an amount which, together with the amounts then on deposit therein, including amounts, if any, transferred from the Reserve Fund, shall be sufficient to cause the aggregate amount on deposit in the Principal Account to equal the amount of principal or mandatory sinking account payment coming due and payable on the Bonds within the Bond Year and any amount of principal previously due and unpaid.

THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES OF THE AUTHORITY CONSISTING PRIMARILY OF PAYMENTS MADE BY THE PARTICIPANTS TO THE FLOOD CONTROL DISTRICT UNDER THE DELIVERY CONTRACTS AND RECEIVED BY THE AUTHORITY PURSUANT TO THE PLEDGE AGREEMENT. THE 2015 BONDS ARE NOT A DEBT OF THE AUTHORITY, THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF, OR INTEREST ON THE 2015 BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE PLEDGE AGREEMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2015 BONDS. THE AUTHORITY HAS NO TAXING POWER.

Pledge Agreement

Capitalized terms used in this section “–Pledge Agreement” and not otherwise defined shall have the meanings given to such terms as set forth in the Pledge Agreement. [See also APPENDIX C–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–PLEDGE AGREEMENT.”]

Allocation of Water Revenues. Under the Pledge Agreement, the Flood Control District has irrevocably pledged to the Authority: (i) the Capital Projects Installment Debt Service due from each Participant, including delinquent Debt Service payments and interest thereon received by the Flood Control District pursuant to each Delivery Contract; (ii) Net Revenues collected from the operation of the Nacimiento Project; and (iii) all amounts on deposit in the Nacimiento Water Fund (collectively, the “Water Revenues”) to the payment of Municipal Obligations. See also “–The Delivery Contracts.”

“Capital Projects Installment Debt Service” is defined in the Pledge Agreement to mean payments on debt or similar obligations incurred by the Flood Control District for the Nacimiento Project consisting of, in the aggregate, (i) principal and interest (or mandatory sinking fund payments, installments or lease or similar payments due) with respect to all Bonds at the time Outstanding in accordance with their terms, provided that capitalized interest funded from the proceeds of the Bonds need not be taken into account, (ii) annual costs of administering the Bonds, including the annual fees of the Trustee, and (iii) the costs, if any, of annual credit

enhancement for the Bonds, whether or not based on a derivative structure as provided in Section 5922(a) of the Government Code.

“Municipal Obligations” is defined in the Pledge Agreement to mean the amounts due with respect to the Bonds (including the 2015 Bonds), including any amounts due to the provider of a municipal bond insurance policy, an investment agreement, or any reserve surety. The Flood Control District has agreed and covenanted to maintain and hold in trust the Water Revenues separate and apart from other funds so long as any Bonds remain unpaid.

“Net Revenues” is defined in the Pledge Agreement to mean the sum of (i) the proceeds of sale by the Flood Control District of Surplus Water, (ii) revenues received by the Flood Control District from Wheeling Customers, and (iii) revenues received by the Flood Control District from the sale of Reserve Water, less the costs of making such sales and collecting said revenues.

Pursuant to the Pledge Agreement, the Flood Control District is required to withdraw amounts from the Nacimiento Water Fund on each day that is five Business Days prior to each Interest Payment Date and the maturity date for the Bonds on each September 1 (each a “Payment Date”) for deposit into the [Revenue Fund / Debt Service Fund] to be transferred to the Trustee to pay the Municipal Obligations, (which specifically include the Bonds).

Any moneys on deposit in the Nacimiento Water Fund not necessary to make any of the payments required above may be expended by the Flood Control District at any time for any purpose permitted by law.

Covenants Under the Pledge Agreement. The Flood Control District covenants, among other things, to: (i) faithfully observe and perform all agreements, conditions covenants and terms contained in the Tax Certificate in connection with the issuance of the Tax-Exempt Bonds; (ii) to preserve and protect the security and rights of the Authority to the payments due under the Delivery Contracts and defend such rights against all claims and demands of all persons; (iii) comply with and carry out all provisions of continuing disclosure agreements; and (iv) enforce its rights under each Delivery Contract in accordance with the terms thereof and use its best efforts to collect Capital Projects Installment Debt Service and Net Revenues in such time and amounts to permit payment of debt service on the Bonds in accordance with their terms.

Net Contract. The Pledge Agreement is deemed and construed to be a net contract and the Flood Control District is required during the term of the Pledge Agreement to make the payments due, free of any deductions and without abatement, diminution or set-off whatsoever.

Limited Liability of Flood Control District. The Flood Control District is not required to pay or advance any moneys derived from any source of income other than Water Revenues, the Nacimiento Water Fund and the other funds provided in the Pledge Agreement for the payment of amounts due on the Bonds, or for the performance of any agreements or covenants required to be performed by it contained in the Pledge Agreement. The Flood Control District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Flood Control District for such purpose.

THE OBLIGATION OF THE FLOOD CONTROL DISTRICT TO MAKE PAYMENTS TO THE AUTHORITY UNDER THE PLEDGE AGREEMENT IS A SPECIAL OBLIGATION OF THE FLOOD CONTROL DISTRICT PAYABLE SOLELY FROM REVENUES, THE NACIMIENTO WATER FUND AND OTHER FUNDS DESCRIBED IN THE PLEDGE AGREEMENT, AND DOES NOT CONSTITUTE A DEBT OF THE FLOOD CONTROL DISTRICT OR OF THE STATE OF

CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

[See also APPENDIX C–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–PLEDGE AGREEMENT.”]

The Delivery Contracts

Capitalized terms used in this Section “–The Delivery Contracts” and not otherwise defined shall have the meanings given to such terms as set forth in the Delivery Contracts. See also Appendix B–“Summary of the Delivery Contracts–Definitions.”

General. In order to carry out and effectuate the pledge and lien contained in the Pledge Agreement, the Flood Control District agreed and covenanted that all payments made pursuant to the Delivery Contracts received by the Flood Control District are in trust and are required to be deposited when and as received into the Nacimiento Water Fund. The Flood Control District agrees and covenants to maintain and hold the Nacimiento Water Fund, in trust separate and apart from other funds so long as any Bonds remain unpaid. The Nacimiento Water Fund is maintained by the Flood Control District within the Treasury Pool of the County, into which the Flood Control District deposits all Net Revenues and all payments received by the Flood Control District under each Delivery Contract.

Pursuant to each Delivery Contract, the Participants, severally and not jointly, pledge the Capital Projects Installment Debt Service to be collected by their respective Water Enterprise and have made certain covenants with respect thereto. See APPENDIX B–“SUMMARY OF THE DELIVERY CONTRACTS.”

For purposes of the Delivery Contracts, the 2015 Bonds constitute “Municipal Obligations.” The parties to each Delivery Contract respectively acknowledged that the total Nacimiento Project construction costs were \$173.3 million. Each Delivery Contract is substantially similar in its material terms. For a summary of the Delivery Contracts, see APPENDIX B–SUMMARY OF THE DELIVERY CONTRACTS.”

Term of Delivery Contracts. Each Delivery Contract remains in effect throughout the term provided by the Master Water Contract; provided, that if and when, through no fault of the Flood Control District, one or more provisions of the Master Water Contract is terminated or suspended in the manner and for a cause specified in the Master Water Contract, the obligations of Flood Control District to the Participants and to the Other Participants under the Delivery Contracts and under Like-Contracts will likewise be terminated or suspended; provided, however, that the Delivery Contracts may not be terminated, suspended or rescinded so long as there remain outstanding any Municipal Obligations issued by the Flood Control District for the Nacimiento Facilities, including the 2015 Bonds.

Obligation to “Take or Pay.” Neither the failure or refusal of any Participant to accept delivery of the water from the Nacimiento Project to which such Participant is entitled under the Delivery Contract or the failure of the Flood Control District to deliver such water will in any way relieve any Participant of its obligations to make payments to the Flood Control District pursuant to its Delivery Contract. Each Participant is obligated to pay all amounts due under the Municipal Obligations and the Delivery Contract Payments without reduction or offset of any kind, whether or not the Nacimiento Project or any part thereof is then operating or operable or its service is suspended, interfered with, reduced or curtailed or terminated in whole or in part for any reason, and the Contract Payments of such Participant is not conditional upon the performance or nonperformance by any party to the Delivery Contract, or the Like-Contracts, for any reason whatsoever, provided, however, that any savings from non-operation of the Nacimiento Project is required to be apportioned among the Participants in accordance with the respective Unit Percentage Share of the Participants.

The obligation of each Participant to make Delivery Contract Payments and other payments required to be made under the Delivery Contracts are incurred by each Participant for the benefit of holders of Municipal Obligations are absolute and unconditional. Such payments are absolutely net, free, of any deductions, and are not subject to any reduction, whether by offset, recoupment, counterclaim or others. Each Participant is required to make all such payments notwithstanding the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Nacimientto Project, commercial frustration of purpose, any change in the tax or other laws of the United State of the State, or any political subdivision thereof.

Participant's "Step-Up" Obligations. If or any reason a Participant or any Other Participant fails to pay its share of Capital Projects Installment Debt Service under its Delivery Contract or under its Like-Contract, the amount of the resulting Debt Service Shortfall will be paid, collectively, by all Non-Delinquent Participants. If there is more than one Delinquent Participant, the amount of the Debt Service Shortfall be the sum of the unpaid amounts for each Delinquent Participant. When such a Debt Service Shortfall occurs, the Participant will be required to increase its Contract Payments for the particular Water Year by an amount equal to its pro rata share of the Debt Service Shortfall; *provided*, however, that each Other Participant who is not a Delinquent Participant will be required by the Other Participant's Like-Contract to also contribute to the Debt Service Shortfall so that the Participant, and all of the Other Participants who are not Delinquent Participants, shall each contribute to the Debt Service Shortfall in a proportion determined by dividing each said Non-Delinquent Participant's Capital Projects Installment Debt Service share (under Article 16(C)(3) of the Delivery Contract and the Like-Contracts) by the aggregate of all the Participant's Installment Debt Service shares of all Non-Delinquent Participants, including the Participant; and *provided* further, that the Participant in no event will be required under this paragraph to contribute to the Debt Service Shortfall by an amount in any Water Year exceeding the amount which is 25% of the share of Capital Projects Installment Debt Service allocated to the Participant pursuant to its Delivery Contract.

"Step-Up" to Be Exhausted Before Recourse to Debt Service Reserve Fund/Surety Bond. Shortfalls in Total Participant Contract Payments are required to be remedied under the Delivery Contracts prior to any withdrawal from the Reserve Fund or under the reserve surety bond posted for the Municipal Obligations is made by the Flood Control District. Drawings on or under the debt service reserve fund or reserve surety bond will be delayed until and unless insufficient moneys are available from Non-Defaulting Participants.

Participant Payments Due Under the Delivery Contracts. On or before April 1 of each Calendar Year, the Flood Control District is required to estimate the new or additional Nacimientto Project Costs for the Fiscal Year commencing on the immediately following July 1 and the result comprises the Total Participant Contract Payments due, collectively, from each Participant under its Delivery Contract and from the Other Participants under their respective Like-Contracts for the said Fiscal Year. Nacimientto Project Costs include:

- Nacimientto Project Construction Costs – Includes the costs of constructing any portion of the Nacimientto Project, including design, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimientto Project, and includes the costs attributable to environmental mitigation requirements, the costs attributable to the Reserved Capacity, and costs attributable to all other construction costs
- Additional Capital Project Costs – Costs expended or incurred by the Flood Control District for Capital Projects related to the Nacimientto Project, improvements or repairs thereto undertaken by the Flood Control District in addition to the Nacimientto Project,

which is an Approved Additional Project, an Emergency Project or a Required Additional Project

- Capital Projects Installment Debt Service – See “–Capital Project Installment Debt Service”
- Master Water Contract Costs incurred following the first date upon which an allocation of ad valorem property taxes as described under the caption “–Delivery Contract Payments–Participant Credits Against Contract Payments”
- Capital Reserve Costs – See “–Capital Reserve Cost”
- Operation and Maintenance Costs – The reasonable and necessary current expenses of maintaining, repairing and operating the Nacimiento Facilities, including District administrative expenses directly attributable to the Nacimiento Facilities, but excluding the Capital Reserve Costs and the Capital Projects Installment Debt Service, all computed in accordance with generally accepted accounting principles applicable to enterprise funds of government agencies
- Variable Energy Costs – The actual energy costs Nacimiento Facilities energy costs incurred by the Flood Control District in conveying and delivering: (i) the Delivery Entitlement and Surplus Water to the Participants and (ii) the respective Other Delivery Entitlements and surplus water to the Other Participants as defined under their respective Like-Contracts and as set forth in the Delivery Contracts
- Other annual or incidental costs associated with the Nacimiento Facilities

Nacimiento Project Costs are allocated by the Flood Control District among the Participants as described below:

Capital Projects Installment Debt Service. The Flood Control District allocates Capital Projects Installment Debt Service among all Participants, according to the proportion of Nacimiento Project Construction Costs paid by the Participant and the Other Participants, as they may be adjusted for cash contributions (see APPENDIX B–“SUMMARY OF THE DELIVERY CONTRACTS”); provided, however, that the Capital Projects Installment Debt Service is required to further be allocated into a component representing principal of and interest on the 2015 Series A Bonds, the 2007 Series A or other Tax-exempt Bonds (collectively, the “Tax-Exempt Debt Service”) and a component representing the principal of and interest on 2007 Series B Bonds, the 2015 Taxable Series B Bonds or other Taxable Bonds (collectively, the “Taxable Debt Service”).

**Nacimiento Project Construction Costs Allocation
Fiscal Year [2014-15]**

<u>Participant</u>	<u>Tax-Exempt Bonds</u>	<u>Taxable Bonds</u>	<u>Percentage of Total Nacimiento Project Costs</u>
Atascadero Mutual Water Company	–	98.74%	19.39%
City of Paso Robles	44.08%	0.57	35.54
City of San Luis Obispo	53.29	0.69	42.96
Templeton Community Services District	<u>2.63</u>	<u>0.00</u>	<u>2.12</u>
TOTAL	<u>100.00%</u>	100.00%	100.00%

Source: Flood Control District.

Table 3 presents the semiannual and Fiscal Year Capital Projects Debt Service Payments to be paid by each Participant for the 2015 Bonds and the 2007 Bonds that will remain Outstanding following the refunding of the Refunded 2007 Bonds. See “PLAN OF REFUNDING.”

**Table 3
Delivery Contract Payments**

<u>Date</u>	<u>Atascadero</u>	<u>Paso Robles</u>	<u>SLO</u>	<u>Templeton</u>	<u>Total Participants Payments</u>	<u>Total Fiscal Year Debt Service</u>
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All other costs of operating and maintaining the Nacimiento Project, including Master Water Contract Costs, and any Additional Capital Projects are allocated among the Participants *pro rata* based on their Delivery Entitlement Share. These allocations are calculated by the Flood Control District each Fiscal Year for the Participants and the calculations of said allocations are made available to each Participant. The obligations of the Participants for any Approved Additional Project are established at the time of and by the agreement for each such Approved Additional Project.

**Delivery Entitlement Share
As of Fiscal Year [2014-15]**

<u>Participant</u>	<u>Percentage</u>
Atascadero Mutual Water Company	20.715%
City of Paso Robles	41.429
City of San Luis Obispo	35.008
Templeton Community Services District	2.589
County Service Area 10, Zone A	<u>0.259</u>
TOTAL	<u>100.000%</u>

Source: Flood Control District.

During the term of the Delivery Contracts, the Flood Control District is also required to proceed with due diligence to collect Total Participant Contract Payments as and when due, and deposit amounts collected into the Nacimientto Water Fund promptly upon receipt, and apply all other amounts comprising Total Participant Contract Payments in the following order of priority:

- First:* To the payment of Master Water Contract Costs;
- Second:* To the payment of Operation and Maintenance Costs;
- Third:* To the payment of Variable Energy Costs;
- Fourth:* To the payment of Additional Capital Project Costs; and
- Fifth:* To the replenishment of Capital Reserves for the Nacimientto Project.

Capital Reserve and Operating and Maintenance Cost. Each Water Year the Flood Control District is required to determine the amount of Capital Reserves necessary for the Nacimientto Project and allocate Capital Reserve Costs and Operation and Maintenance Costs to each Participant and CSA 10 on the basis of the Unit Percentage Share attributable to the Units used by the Flood Control District to deliver the Delivery Entitlement to the Participants and CSA 10. As of May 1, 2015, there was apportioned to each Participant, and CSA 10, the following proportional share of the said costs (expressed as a percentage) for each of the Units used to deliver water to such Participant and CSA 10:

**Capital Reserve and Operation and Maintenance Costs
Fiscal Year [2014-15]**

<u>Participant</u>	<u>Amount</u>	<u>Percent</u>
Atascadero Mutual Water Company	\$785,735	22.40%
City of Paso Robles	1,010,500	28.81
City of San Luis Obispo	1,592,614	45.40
Templeton Community Services District	111,605	3.18
County Service Area 10, Zone A	<u>7,513</u>	<u>0.21</u>
TOTAL	\$3,507,967	100.00%

† Payments made by CSA 10 pursuant to the CSA 10 Delivery Contract do not provide payments or security for the 2015 Bonds. "INTRODUCTION-The Participants."
Source: Flood Control District.

Time and Amount of Delivery Contract Payments. Except as established in the Delivery Contracts as to Capital Projects Installment Debt Service, the Delivery Contract Payments made by the Participants to the Flood Control District commenced the first Fiscal Year during which the Delivery Entitlement became available to the Participant under its Delivery Contract, and in any event, promptly following receipt by the Participant of an invoice from the Flood Control District. The Delivery Contract Payments are determined by the Flood Control District as provided in each Delivery Contract and are paid by each Participant to the Flood Control District in accordance with the respective Delivery Contract, except and to the extent each Participant is entitled to an offsetting credit of "–Participant Credits Against Contract Payments."

(i) On or before July 1 of each Fiscal Year, each Participant is required to pay a sum equal to 60% of the Participant's Allocation of Capital Reserve Costs, and Operation and Maintenance Costs as calculated and allocated as provided in the Delivery Contracts; and

(ii) On the immediately following January 1 within each Fiscal Year, each Participant is required to pay a sum equal to 40% of the Participant's Allocation of Capital

Reserve Costs and Operation and Maintenance Costs as calculated and allocated as provided in the Delivery Contracts; and

(iii) On or before the 30th day following its receipt of an invoice from the Flood Control District as provided in the Delivery Contracts, each Participant is required to pay Variable Energy Costs as calculated and allocated as provided in the Delivery Contracts, for the Calendar Quarter most recently concluded; and

(iv) On or before July 1 of each Fiscal Year, each Participant is required to pay a sum equal to the Participant's Allocation of **Capital Projects Installment Debt Service** as calculated and allocated as provided in the Delivery Contracts; and

(v) On or before July 1 of each Fiscal Year, each Participant shall pay a sum equal to the Participant's allocation of remaining Nacimiento Project Costs, including Additional Capital Project Costs and Master Water Contract Costs as calculated and allocated as provided in the Delivery Contracts.

Pledge and Covenants of Participants. Each Participant pledges under each Delivery Contract, respectively, the gross water sales revenues of the Participant's Water Enterprise to the secure Participant's obligations under the Delivery Contract, and covenants and agrees to establish, fix and collect rates and charges from the customers of Participant's Water Enterprise at levels sufficient to produce revenues from the Participant's Water Enterprise which are at least equal to:

(i) The costs of operating and maintaining the Participant's Water Enterprise; *plus*

(ii) The Contract Payments, calculated in accordance with the Delivery Contract, including the amounts allocated to the Participant as the Participant's share of Capital Projects Installment Debt Service; *plus*

(iii) The Coverage Factor (defined as 125% of each Participants *pro rata* share of the Capital Projects Installment Debt Service, calculated for each Fiscal Year) for the amounts allocated to the Participant as the Participant's share of Capital Projects Installment Debt Service, provided, however, that there will be credited towards compliance with the Coverage Factor requirement all Available Capital Reserves of the Participant.

Under certain circumstances, the Participant may be required to pay a surcharge following the occurrence of any payment default by the Participant as provided in its Delivery Contract.

Notwithstanding the provisions of paragraph (iii) above, each Participant will be permitted to withdraw and apply Available Capital Reserves for its operational and capital needs from time to time during any water year. As defined in each Delivery Contract, the term "Available Capital Reserves" means amounts maintained by the Participant for its Water Enterprise for capital reserves, including unreserved, unrestricted working capital balances in the funds established for the Water Enterprise, including allowances for contingencies, as of each Calculation Date.

Financial Covenants under the Delivery Contract

Punctual Payment; Compliance with Documents. The Flood Control District is required to punctually pay or cause to be paid the interest and principal to become due with respect to all of the Municipal Obligations, but solely from amounts paid to the Flood Control District under the Delivery Contracts, and the Participant shall punctually pay or cause to be paid the Capital Projects Installment Debt Service, in strict conformity with the terms of the Municipal

Obligations, the Delivery Contract and the Legal Documents and will faithfully observe and perform all of the conditions, covenants and requirements of the Delivery Contract and the Legal Documents including any and all supplements thereto.

Extension of Payment of Municipal Obligations. None the Flood Control District or any Participant will directly or indirectly extend or assent to the extension of the maturity of any of the Municipal Obligations or the time of payment of any claims for interest by the purchaser or owner of such Municipal Obligations or by any other arrangement, and in case the maturity of any of the Municipal Obligations or the time of payment of any such claims for interest shall be extended, such Municipal Obligations or claims for interest shall not be entitled, in case of any default under the Legal Documents, to the benefits of the Delivery Contract, except subject to the prior payment in full of the principal of all of the Municipal Obligations then outstanding and of all claims for interest thereon which shall not have been so extended. The Flood Control District may issue obligations or cause obligations to be issued for the purpose of refunding any outstanding Municipal Obligations, and such issuance shall not be deemed to constitute an extension of maturity of the affected Municipal Obligations.

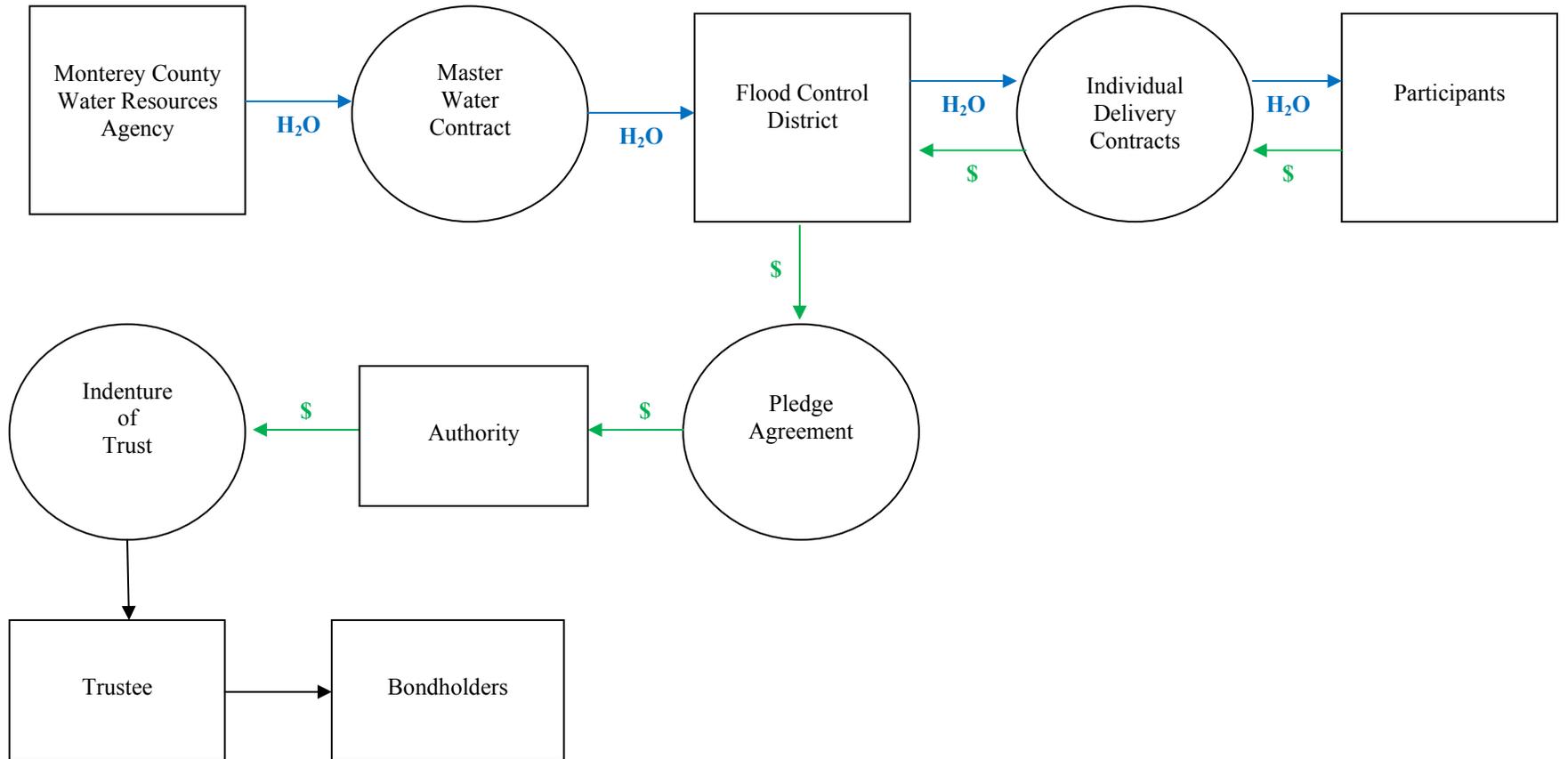
Against Encumbrances. None of the Flood Control District or any Participant will create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the revenues and other assets pledged under a Delivery Contract while any of the Municipal Obligations are outstanding, except the pledge created by the Legal Documents and the Delivery Contracts, any Additional Debt and any pledge, lien, charge or other encumbrance which is subordinate to the obligations under the Delivery Contract. Subject to this limitation, the Flood Control District expressly reserves the right to enter into one or more indentures or trust agreements, and reserves the right to issue other obligations or cause them to be issued for such purposes.

Covenants to Maintain Tax-Exempt Status of Series A Bonds. In the event that any Series A Bonds or Tax-Exempt Bonds attributable in whole or in part, to the Participant are issued and Outstanding, the Participant covenants and agrees not to use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property, the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Series A Bonds or Tax-Exempt Bonds to become includable in the gross income, as defined in Section 61 of the Code, of the Owner thereof for federal income tax purposes.

Nacimiento Project Shortages. In any year in which there is a shortage or interruption in water deliveries to the Participants due to drought or other temporary cause; or if there is a reduction in the supply of water from the Water Project under the Master Water Contract that threatens or causes a permanent shortage in the amount of water available for delivery to the Participants under the respective Delivery Contract, the Flood Control District is authorized to make reductions in the Delivery Entitlement Share for each Participant.

The Flood Control District, its officers, agent or employees are not liable for any damage, direct or indirect, arising from shortages in the amount of water from the Water Project available to any Participant pursuant to its respective Delivery Contract caused by drought, the non-availability of water under the Master Water Contract, operation of the Water Project, operation of laws or any cause beyond the control of the Flood Control District. However, such reduction in water delivery does not entitle a Participant to make any reductions in its Capital Projects Installment Debt Service, see “–Obligation to “Take or Pay”.”

Project and Bond Legal Structure



Reserve Fund

The Reserve Fund is comprised of the Tax-Exempt Reserve Account. The Tax-Exempt Reserve Account secures the payment solely of Tax-Exempt Bonds only, and is not be available to pay debt service on any Taxable Bonds. The Taxable Reserve Account secures the payment of Taxable Bonds only, and is not be available to pay debt service on any Tax-Exempt Bonds.

So long as either the Tax-Exempt Reserve Account or the Taxable Reserve Account includes both cash/investments and a Reserve Surety, the Trustee shall, in the event of a Delinquent Debt Service Payment under the Pledge Agreement, apply all cash or the proceeds of investments to the payment of principal of and interest on the Bonds hereunder, prior to making a drawing against the Reserve Surety. Upon a draw on such Reserve Account of the Reserve Fund, the Trustee is required to accept Delinquent Debt Service Payments received from the Flood Control District for purposes of replenishing the applicable Reserve Account of the Reserve Fund or reimbursing the provider of the Reserve Surety.

Investment earnings on amounts in the Reserve Fund and Delinquent Debt Service Payments shall be deposited to the following funds and accounts and transferred in the following order:

- First:* Reimbursement to the provider of any Reserve Surety for any drawings thereunder;
- Second:* The Reserve Fund to the level of the Reserve Requirement;
- Third:* The Interest Account, up to an amount sufficient to make payment on the Bonds on Tax-Exempt Bonds or Taxable Bonds, as applicable, on the next Interest Payment Date; and
- Fourth:* The Principal Account.

All or any portion of the applicable Reserve Requirement may be satisfied by the provision of a qualified surety bond, being a surety bond issued by an insurance company rated in one of the two highest categories (without regard to numerical or other modifiers) of any Rating Agency at the time such surety bond is obtained (a "Reserve Surety"), that, together with moneys on deposit in the applicable Reserve Account of the Reserve Fund, provides an aggregate amount equal to the applicable Reserve Requirement. In the event of replacement of cash and investments in the Tax-Exempt Reserve Account with a Reserve Surety, the Trustee is required to transfer any excess amounts then on deposit in the Tax-Exempt Reserve Account into a segregated account of the Revenue Fund, which monies are required to be applied either (i) to the payment within one year of the date of transfer of capital expenditures of the Authority or the Flood Control District permitted by law, or (ii) to the redemption of Tax-Exempt Bonds on the earliest succeeding date on which such redemption is permitted hereby, and pending such application shall be held either not invested in investment property (as defined in section 148(b) of the Code), or invested in such property to produce a yield that is not in excess of the yield on the Tax-Exempt Bonds; *provided, however*, that the Authority may by written direction to the Trustee cause an alternative use of such amounts if the Authority will first have obtained a written opinion of nationally recognized bond counsel substantially to the effect that such alternative use will not adversely affect the exclusion pursuant to section 103 of the Code of interest on the Tax-Exempt Bonds from the gross income of the owners thereof for federal income tax purposes. If the credit rating of the provider of any Reserve Surety is subsequently downgraded by any Rating Agency, the Authority is not required to replace such Reserve Surety.

Tax-Exempt Bonds. In the event that on any Interest Payment Date, the full amount of the interest of or principal or redemption price of the Tax-Exempt Bonds required to be deposited on such Interest Payment Date, in the Interest Account, Principal Account or Redemption Account, as applicable, is not then on deposit therein, the Trustee is required on such Interest Payment Date to withdraw from the Tax-Exempt Reserve Account an amount equal to any such deficiency and notify the Authority and the Flood Control District of any such withdrawal. All money in or available under the Tax-Exempt Reserve Account is required to be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in such order of priority, in the event of any deficiency at any time in any of such Account to pay debt service on the Tax-Exempt Bonds then Outstanding, except that so long as the Authority is not in default under the Indenture, any amount in the Tax-Exempt Reserve Account in excess of the Tax-Exempt Reserve Requirement is required to be withdrawn from the Tax-Exempt Reserve Account semiannually at least two Business Days prior to each Interest Payment Date and be deposited in the Interest Account and credited to the obligations of the Flood Control District under the Pledge Agreement relating to the Tax-Exempt Bonds.

The term “Tax-Exempt Reserve Requirement” is defined in the Indenture to mean, as of any date of calculation, an amount equal to the least of (i) 125% of the average annual debt service on the Tax-Exempt Bonds for that and any subsequent Bond Year, (ii) 100% of the maximum annual debt service on the Tax-Exempt Bonds for that or any subsequent Bond Year, or (iii) 10% of the issue price of the Tax-Exempt Bonds.

Taxable Bonds. All money in or available in the Taxable Reserve Account is required be used and withdrawn by the Trustee solely for the purpose of making transfers to the Interest Account and the Principal Account, in such order of priority, in the event of any deficiency at any time in any such Account to pay debt service on Taxable Bonds or for the retirement of all the Taxable Bonds then Outstanding, except that so long as the Authority is not in default under the Indenture, any amount in the Taxable Reserve Account in excess of the Taxable Reserve Requirement is required to be withdrawn from the Taxable Reserve Account semiannually at least two Business Days prior to each Interest Payment Date and deposited in the Interest Account and credited to the obligations of the District under the Pledge Agreement relating to the Taxable Bonds.

The term “Taxable Reserve Requirement” is defined in the Indenture to mean, as of any date of calculation, \$[_____].

Investments of Amounts on Deposit Under the Indenture

Except as otherwise provided in the Indenture, all moneys in any of the Funds or Accounts established pursuant to the Indenture are required be invested solely in Permitted Investments, or, if any Funds or Account is held by the Trustee solely in Permitted Investments, as directed in writing by an Authorized Representative of the Flood Control District two Business Days prior to the making of such investment. Moneys in any funds and accounts are required to be invested in Permitted Investments maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Indenture.

Permitted Investments acquired as an investment of moneys in any fund established under the Indenture are required to be credited to such fund. For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund will be valued at the lesser of cost or market value exclusive of accrued interest, if any, paid as part of the purchase price thereof. See APPENDIX C–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–THE INDENTURE.”

Existing Obligations of the Participants

For a discussion of existing indebtedness of each Participant, see APPENDIX A—“THE PARTICIPANTS” and the discussion under the subheadings “—Outstanding Long-Term Indebtedness” therein.

Additional Bonds

In addition to the 2015 Bonds, the Trustee shall, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other Series of Bonds secured by the pledge made under the Indenture equally and ratably with any Bonds previously issued and delivered, in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture and any additional requirements set forth in the applicable Supplemental Indenture. The Supplemental Indenture providing for the execution and delivery of such Additional Bonds shall specify the purposes for which such Additional Bonds are then proposed to be delivered, which shall be one or more of the following: (i) to provide moneys needed to provide for the Costs of the Nacimiento Project by depositing into the Proceeds Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or redemption of Bonds theretofore Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions of the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the Authority with respect to the funding of the Nacimiento Project. See APPENDIX C—“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Indenture Events of Default and Remedies

Events of Default. The Indenture provides the following Events of Default:

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

Remedies Upon Default. The Bonds are subject to acceleration prior to their maturity. If an Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall be entitled, upon notice in writing to the Authority, to declare the principal

of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of moneys due shall have been obtained or entered, the Authority shall deposit with the Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority and the Trustee, or the Trustee if such declaration was made by the Trustee other than upon direction of the Bond Owners, may, on behalf of the Owners of all of the Bonds rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Subject to the terms of the Indenture regarding certain limitation on the Owners' right to sue, any Owner shall have the right, for the equal benefit and protection of all Owners similarly situated:

(i) by mandamus, suit, action or proceeding, to compel the Authority and its members, officers, agents or employees to perform each and every term, provision and covenant contained in the Indenture and in the Bonds, and to require the carrying out of any or all such covenants and agreements of the Authority and the fulfillment of all duties imposed upon it by the Bond Law;

(ii) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Owners, rights; or

(iii) upon the occurrence of any Event of Default, by suit, action or proceeding in any court of competent jurisdiction, to require the Authority and its members and employees to account as if it and they were the trustees of an express trust.

As provided in the Pledge Agreement, the Flood Control District covenants and agrees that it will enforce its rights under each of the Delivery Contracts, in accordance with the terms thereof, and, in particular, that it shall use its best efforts to collect Capital Projects Installment Debt Service and Net Revenues in such time and amounts as shall permit the payment of principal of and interest on the Bonds in accordance with their terms. In the event of a Debt Service Shortfall, the Flood Control District covenants and agrees to enforce its right to collect each Delinquent Debt Service Payment under the Delivery Contract with the Delinquent Participant and use its best efforts to remedy such Debt Service Shortfall by enforcing the step-up provisions of the Delivery Contracts with the Participants that are then not delinquent. As defined in the Pledge Agreement, the term "Delinquent Debt Service Payment" shall mean those payments of Capital Projects Installment Debt Service due under any Delivery Contract that are not, in fact, paid on the date upon which each payment of Capital Projects Installment Debt Service is required to be made by a Participant under a Delivery Contract (the "Due Date"). The term "Debt Service Shortfall" shall mean the aggregate amount of Delinquent Debt Service Payments due from Delinquent Participants on the Due Date in question. The term "Delinquent Participant" shall mean any Participant which fails to meet its obligation for payment for Nacimiento Project Water under any Delivery Contract, as further described in the respective Delivery Contract.

The Authority has no security interest in or mortgage on any Water Enterprise operated and to be operated by a Participant or any real property of the Flood Control District or any Participant and no default under the Pledge Agreement shall result in the loss of the respective Water Enterprise or any other property of the Flood Control District or the Participants. This limitation on remedies of the Authority shall be binding on successors in interest to the Authority's rights under the Pledge Agreement.

Limited Obligations

THE 2015 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM REVENUES OF THE AUTHORITY CONSISTING PRIMARILY OF PAYMENTS MADE BY THE PARTICIPANTS TO THE FLOOD CONTROL DISTRICT UNDER THE DELIVERY CONTRACTS AND RECEIVED BY THE AUTHORITY PURSUANT TO THE PLEDGE AGREEMENT. THE 2015 BONDS ARE NOT A DEBT OF THE AUTHORITY, THE FLOOD CONTROL DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF, OR INTEREST ON THE 2015 BONDS, EXCEPT FROM THE FUNDS PROVIDED UNDER THE INDENTURE AND THE PLEDGE AGREEMENT. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2015 BONDS. THE AUTHORITY HAS NO TAXING POWER.

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

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DEBT SERVICE SCHEDULE

The following table presents the semi-annual and Fiscal Year debt service for the 2015 Bonds and the 2007 Bonds that will remain Outstanding following refunding of the Refunded 2007 Bonds. See “PLAN OF REFUNDING.”

**Table 4
Debt Service Schedule**

<u>Date</u>	2007 Bonds*			2015 Bonds*			<u>Total Fiscal Year Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	

TOTAL

* Preliminary, subject to change.

CERTAIN RISKS TO BOND OWNERS

The following information should be considered by potential investors in evaluating the credit quality of the 2015 Bonds. However, it does not purport to be an exhaustive list of the risks or other considerations which may be relevant to an investment in the 2015 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

General

The payment of principal of and interest on the 2015 Bonds is secured solely by a pledge of the Revenues and certain funds under the Indenture. The realization of the Net Revenues sufficient to enable the Flood Control District to make the Installment Payments is subject to, among other things, the capabilities of management of the Flood Control District and the 2015 Bonds Participating Agencies, the ability of the 2015 Bonds Participating Agencies to provide water services to their users, and the ability of the 2015 Bonds Participating Agencies to establish and maintain water fees and charges sufficient to provide the required debt service coverage as well as pay for Operation and Maintenance Costs.

Among other matters, drought, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of revenues realized by the 2015 Bonds Participating Agencies and ultimately the ability of the 2015 Bonds Participating Agencies to pay their Proportionate Share of Debt Service to the Flood Control District.

Initiatives; Changes in Law

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the 2015 Bonds Participating Agencies or local districts to increase revenues or to increase appropriations which may affect the revenues of the 2015 Bonds Participating Agencies or their ability to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the 2015 Bonds Participating Agencies to implement rate increases which could reduce their ability to make payments under the Installment Purchase Agreement and adversely affect the security for the 2015 Bonds.

Statutory and Regulatory Impact

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

No Obligation to Tax

The obligation of each Participant to make payments under the applicable Delivery Contract does not constitute an obligation of such Participant for which it is obligated to levy or pledge any form of taxation, or for which such Participant has levied or pledged any form of taxations. The obligation of

each Participant to make payments under the applicable Delivery Contract does not constitute a debt or indebtedness of the Participants, the Authority, the State or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation.

Drought

The State of California is currently in the fourth consecutive year of below-average rainfall and very low snow pack with the majority of the State experiencing “exceptional drought conditions” (the most severe drought classification) according to the U.S. Drought Monitor. In addition, eight of the last nine years, including water year 2015 have had below average runoff, which has resulted in chronic and significant shortages to municipal, industrial, agricultural, and wildlife refuge supplies, and historically low groundwater levels. As a result of these drought conditions, on January 17, 2014, Governor Brown issued a Proclamation of a State of Emergency and directed the State Water Board and other agencies to take various actions to respond to the drought and asked Californians to voluntarily reduce water use by 20%. In April of 2014, the Governor formed a task force to respond to the drought.

On March 11, 2014, the County Board of Supervisors adopted a resolution proclaiming a local emergency due to drought conditions within the County. On April 1, 2015, the Governor signed an executive order that, among other measures, requires the State of California Water Resources Control Board (the “SWRCB”) to implement mandatory reduction in cities and towns across the State to reduce water use by a total of 25% as compared to 2013 through February 2016.

On April 20, 2015, a State appeals court ruled in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, G048969 (4th Dist. 2015), that local water agencies cannot charge higher tiered rates to customers simply to encourage conservation. Instead, the court said that water agencies can only charge rates that reflect the proportional cost of service attributable to a given parcel. The court held that tiered rates that increase progressively in relation to usage can be consistent with Proposition 218 if the tiers correspond to the actual cost of providing water service at a given level of usage, and that Proposition 218 requires that water rates and other government fees be linked to the costs of providing the service and not to other factors such as a desire to encourage conservation. See also, “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII C and Article XIII D of the California Constitution.”

Each of the Participants has adopted conservation measures consistent with the executive order of the Governor. A description of the response of each Participant to the drought conditions is described under the subheading “–Drought and Conservation Measures” for each Participant in APPENDIX A–“THE PARTICIPANTS.”

Earthquakes, Floods and Other Disasters

From time to time, the Participants are subject to natural calamities that may adversely affect economic activity in the service areas of the Participants which therefore may have a negative impact on one or more Participant’s finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to the Water Enterprises, or that any Participant would have insurance or other resources available to make repairs to its Water Enterprises, possibly impacting net Revenues.

Earthquake. The casualty and liability insurance of the Participants may not cover losses due to earthquake. If there were to be an occurrence of severe seismic activity in the service areas of the Participants, there could be substantial damage to and interference with one or more Participant’s Water Enterprises, which could impact the receipt of Net Revenues.

Small earthquakes, in the range of magnitude 2.0 to 2.7 and smaller, occur quite often throughout and near the County. Larger earthquakes do occur occasionally, as evidenced by a magnitude 6.5 earthquake in December 2003 in the San Simeon-Hosgri fault zone approximately six miles from the community of San Simeon and the magnitude 6.0 earthquake in September 2004 on the San Andreas Fault just north of the Monterey County line. The Shoreline Fault zone, discovered in 2008, is located less than one mile off-shore from the Diablo Canyon Power Plant (the "DCPP"), a two reactor nuclear power plant operated by the Pacific Gas & Electric Company ("PG&E") constructed in 1975, and is believed capable of producing up to a magnitude 6.5 earthquake.

The Los Osos Fault is generally adjacent to the service areas of the Participants, is identified under the State of California Alquist-Priolo Fault Hazards Act as being capable of causing surface rupture damage in the service areas of the Participants. This fault's main strand lies near the intersection of Los Osos Valley Road and Foothill Boulevard. It is considered to present a high to very high fault rupture hazard to development and facilities in the Los Osos Valley, which lies west of the service areas of the Participants. Other faults identified as being capable of causing surface rupture damage in the vicinity of the service areas of the Participants are the West Huasna, Oceanic and Edna Faults. These faults are considered potentially active and present a moderate fault rupture hazard.

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

A Flood Insurance Study conducted by FEMA for the County noted that runoff in the streams is small, with appreciable flows occurring only during and immediately after precipitation. However, during large storms, streamflow increases rapidly, and flood waters can contain high amounts of debris, causing major flood damage. For many of the water courses that are located in the service areas of the Participants, areas that may be inundated in response to 100-year storm events are located adjacent to or near the stream or river channel. Since many of the watercourses are located in mountainous or remote areas with little or no development, flooding events along these rivers and streams generally result in minimal impacts. Other watercourses that are located in the service areas of the Participants, however, have floodplains that extend well beyond the defined stream or river channel. When a flood occurs along one of these watercourses, and it is located in or near an area that is urbanized, damage to property and infrastructure can be widespread.

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

Climate Change

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

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

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX C–“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–THE INDENTURE–_____” attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the 2015 Bonds Participating Agencies could have a material adverse effect on the security of the 2015 Bonds.

Limitations on Remedies and Bankruptcy

In addition to the specific limitations on remedies contained in the applicable documents, the rights, obligations and remedies provided in the Indenture, the Pledge Agreement, and the Delivery Contracts are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

The enforcement of the remedies provided in the Indenture, the Pledge Agreement, and the Delivery Contracts could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture, the Pledge Agreement, and the Delivery Contracts may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the Authority, the Flood Control District or a Participant were to file a petition under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture, the Pledge Agreement, and the Delivery Contracts. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as APPENDIX E), will be similarly qualified.

Limited Liability of Authority to the Owners

Except as expressly provided in the Indenture, the Authority will not have any obligation or liability to the Owners of the 2015 Bonds with respect to the payment when due of the Lease Payments by the Flood Control District, or with respect to the performance by the Flood Control District of other agreements and covenants required to be performed by it contained in the Lease Agreement, or with

respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

Changes in Law

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys securing or available to pay the 2015 Bonds. Similarly, the State electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys securing or available to pay the 2015 Bonds.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Described below are certain measures which have impacted or may in the future impact the County's General Fund Budget.

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, on bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, and on bonded indebtedness for school facilities approved by 55% of the votes cast.

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

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

On December 27, 2001, the Orange County Superior Court held in the case of *County of Orange v. Orange County Assessment Appeals Board No. 3*, case no. 00CC03385, that where a home's market value did not increase for two years, the Orange County assessor violated the provision of Article XIII A limiting the annual inflation adjustment to 2% when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by approximately 4% in a single year, following a year in which the assessed value had declined. The assessors in most California Counties, including the County, have used and currently use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values in similar circumstances. In a ruling issued on December 12, 2002, the Orange County Superior Court held that any Orange County taxpayer whose property assessment rose more than 2% due to "recapturing" since 1979, is part of the certified class action lawsuit filed against the County of Orange in 2000. If upheld on appeal, the class action suit may result in \$1 billion in illegally collected taxes being returned to Orange County taxpayers. On January 30, 2003, the Orange County Superior Court held a hearing and ruled on the motion to determine if the Orange County Tax Collector must notify such "recapture" taxpayers of their right to file tax refund claims. The Court granted the motion, but immediately put a hold on its implementation pending further review by the appellate courts on this entire case. On April 18, 2003, a Final Judgment was entered ruling against the current statewide practice of restoration of a property assessment based on the market value, after a prior assessment reduction due to an economic downturn. In 2002, two other local courts (Los Angeles and San Diego) ruled differently on the same issue and affirmed the current statewide practice. On June 12, 2003 an appeal was filed.

The County uses the same methodology as Orange County, and as a result, is unable to predict the outcome of this litigation and what effect, if any, a similar action might have on assessed values in the County. Each Court's ruling only applies to the particular assessment involved in such case. However, if the Court's reasoning is applied generally, the loss of tax revenue to communities including the County could be significant. While the County cannot predict the effect, if any, that the outcome of such litigation would have on property tax revenues to be received by the County, the effect could be adverse.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues

derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. 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 the County 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 amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs 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 County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

Each Participant has advised that it is of the opinion that its charges for water service are not subject to the limits of Article XIII B. Each Participant covenants in its Delivery Contract that it will prescribe rates and charges sufficient to provide payment of its Capital Projects Installment Debt Service in each year. See APPENDIX A—"THE PARTICIPANTS."

Article XIII C and Article XIII D of the California Constitution

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

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

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

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

Article XIII D conditions the imposition or increase of any “fee” or “charge” upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIII D defines “fee” or “charge” to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a “property-related service.” One of the requirements of Article XIII D is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

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

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

(relating to assessments); and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

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

Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. A hearing must be held upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the fee or charge may not be imposed or increased. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

The Authority and the Flood Control District are unable to predict the impact of a successful repeal or reduction of water rates and charges charged by any Participant on the financial condition of such Participant or the ability of such Participant to perform its obligations under its Delivery Contract. Further, the Authority and the Flood Control District are unable to predict whether the repeal or reduction of the rates and changes of any Participant would be detrimental to or inconsistent with the contractual obligations of the respective Participant. One might assert that Article XIII C cannot grant the voters within the Participants’ service area the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the respective Participants, giving rise to an unconstitutional impairment of contract under the U. S. Constitution and the California Constitution. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Bonds. Remedies available to beneficial owners of the Bonds in the event of a default by the Participants are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain. In addition to the specific limitations on remedies contained in the applicable documents themselves, the rights and obligations of the Flood Control District and the Participants, respectively, under the Delivery Contracts are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the respective opinions of Bond Counsel, the forms of which are attached as Appendix E hereto, will be similarly qualified.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D were adopted as measures that qualified for the ballot through California’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County’s revenues or its ability to expend its revenues.

FINANCIAL STATEMENTS

Each Participant has provided [certain relevant portions of] its audited financial statements as of the fiscal year ended June 30, 2014, and for the fiscal year ended April 30, 2014 in the case of the Atascadero Mutual Water Company. See APPENDIX A–“THE PARTICIPANTS.” No auditor has reviewed or audited the Official Statement. Questions with respect to the financial statements should be directed to the respective Participant.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold, or sell the 2015 Bonds and the Authority will not provide such information.

Flood Control District

The County, on behalf of the Flood Control District, has covenanted for the benefit of the beneficial owners of the 2015 Bonds to provide certain financial information and operating data relating to the Flood Control District by no later than March 30 each year commencing with the report due on March 30, 2016 for the Fiscal Year ended June 30, 2015 (each a “Flood Control District Annual Report”), and to provide notices of the occurrence of certain specified events. The Flood Control District Annual Report and notices of specified events will be filed through the Electronic Municipal Market Access (“EMMA”) site maintained by the Municipal Securities Rulemaking Board. Copies of the Flood Control District Annual Reports and notices of specified events since June 1, 2009 are available on the EMMA site. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934 (the “Rule”). The specific nature of the financial information and operating data and the notices of specified events is set forth in APPENDIX D–“FORMS OF CONTINUING DISCLOSURE CERTIFICATE AND AGREEMENTS–SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT CONTINUING DISCLOSURE CERTIFICATE.”

The Participants

Each Participant has covenanted to provide certain financial and operating data relating to such Participating Agency by no later than nine months following the end of the Fiscal Year of each Participant commencing with the report due in 2016 for the Fiscal Year ended June 30, 2015 (each a “Participant Annual Report”). The fiscal year end for AMWC is April 30 and the fiscal year for Paso Robles, SLO and Templeton is June 30. Copies of the Participant Annual Reports since June 1, 2009 are available on the EMMA site. The specific nature of the financial and operating data to be provided is set forth in APPENDIX D–“FORMS OF CONTINUING DISCLOSURE CERTIFICATE AND AGREEMENTS–PARTICIPANTS CONTINUING DISCLOSURE AGREEMENTS.”

TAX MATTERS

Tax-Exempt Bonds

The delivery of the 2015 Series A Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the 2015 Series A Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the 2015 Series A Bonds (the “Code”), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the 2015 Series A Bonds is also subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California that interest on the 2015 Series A Bonds is exempt from personal income taxes of the State of California. The form of Bond Counsel’s anticipated opinion is included as APPENDIX H. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

Interest on the 2015 Series A Bonds owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the Authority and the District made in a certificate of even date with the initial delivery of the 2015 Series A Bonds pertaining to the use, expenditure, and investment of the proceeds of the 2015 Series A Bonds and will assume continuing compliance with the provisions of the Indenture by the Authority and the District subsequent to the issuance of the 2015 Series A Bonds. The Indenture and the Tax Certificate contain covenants by the Authority and the District with respect to, among other matters, the use of the proceeds of the 2015 Series A Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the 2015 Series A Bonds are to be invested, the calculation and payment to the United States Treasury of any “arbitrage profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the 2015 Series A Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the 2015 Series A Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the 2015 Series A Bonds. Prospective purchasers of the 2015 Series A Bonds should be aware that the ownership of tax-exempt obligations such as the 2015 Series A Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") or the State of California with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS or the State of California. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2015 Series A Bonds is commenced, under current procedures, the IRS is likely to treat the Authority as the "taxpayer," and the owners of the 2015 Series A Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2015 Series A Bonds, the Authority and the District may have different or conflicting interests from the owners of the 2015 Series A Bonds. Public awareness of any future audit of the 2015 Series A Bonds could adversely affect the value and liquidity of the 2015 Series A Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the 2015 Series A Bonds 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 2015 Series A Bonds. Prospective purchasers of the 2015 Series A Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain 2015 Series A Bonds. The initial public offering price of certain 2015 Series A Bonds (the "Discount 2015 Series A Bonds") may be less than the amount payable on such 2015 Series A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount 2015 Series A Bond (assuming that a substantial amount of the Discount 2015 Series A Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount 2015 Series A Bond. A portion of such original issue discount allocable to the holding period of such Discount 2015 Series A Bond by the initial purchaser will, upon the disposition of such Discount 2015 Series A Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the 2015 Series A Bonds described above. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount 2015 Series A Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount 2015 Series A Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount 2015 Series A Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount 2015 Series A Bond in the hands of such

owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount 2015 Series A Bond was held) is includable in gross income.

Owners of Discount 2015 Series A Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount 2015 Series A Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount 2015 Series A Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount 2015 Series A Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain 2015 Series A Bonds (the “Premium 2015 Series A Bonds”) may be greater than the amount payable on such 2015 Series A Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium 2015 Series A Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium 2015 Series A Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium 2015 Series A Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium 2015 Series A Bonds for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium 2015 Series A Bonds.

Taxable Bonds

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the 2015 Taxable Series B Bonds. The discussion is based upon laws, Treasury Regulations, rulings and decisions now in effect, all of which are subject to change or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the 2015 Taxable Series B Bonds in light of the investor’s particular personal investment circumstances or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, and persons who have hedged the risk of owning the 2015 Taxable Series B Bonds). The summary is therefore limited to certain issues relating to initial investors who will hold the 2015 Taxable Series B Bonds as “capital assets” within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the “Code”), and acquire such 2015 Taxable Series B Bonds for investment and not as a dealer or for resale. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE 2015 TAXABLE SERIES B BONDS.

Payments of Stated Interest on the 2015 Taxable Series B Bonds. The stated interest paid on the 2015 Taxable Series B Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to U.S. federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof.

Original Issue Discount. If a substantial amount of the 2015 Taxable Series B Bonds of any stated maturity is purchased at original issuance for a purchase price (the “Issue Price”) that is less than their face amount by more than one quarter of one percent times the number of complete years to maturity, the 2015 Taxable Series B Bonds of such maturity will be treated as being issued with “original issue discount.” The amount of the original issue discount will equal the excess of the principal amount payable on such 2015 Taxable Series B Bonds at maturity over its Issue Price, and the amount of the original issue discount on the 2015 Taxable Series B Bonds will be amortized over the life of the 2015 Taxable Series B Bonds using the “constant yield method” provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the 2015 Taxable Series B Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the 2015 Taxable Series B Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the 2015 Taxable Series B Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner’s gross income while the beneficial owner holds the 2015 Taxable Series B Bonds will increase the adjusted tax basis of the 2015 Taxable Series B Bonds in the hands of such beneficial owner.

Premium. If a beneficial owner purchases a 2015 Taxable Series B Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the 2015 Taxable Series B Bond with “amortizable bond premium” equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the 2015 Taxable Series B Bond and may offset interest otherwise required to be included in respect of the 2015 Taxable Series B Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a 2015 Taxable Series B Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a 2015 Taxable Series B Bond. However, if the 2015 Taxable Series B Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the 2015 Taxable Series B Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Medicare Contribution Tax. Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the 2015 Taxable Series B Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the 2015 Taxable Series B Bonds as well as gain on the sale of a 2015 Taxable Series B Bond.

Disposition of 2015 Taxable Series B Bonds and Market Discount. A beneficial owner of 2015 Taxable Series B Bonds will generally recognize gain or loss on the redemption, sale or exchange of a 2015 Taxable Series B Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner's adjusted tax basis in the 2015 Taxable Series B Bonds. Generally, the beneficial owner's adjusted tax basis in the 2015 Taxable Series B Bonds will be the beneficial owner's initial cost, increased by the original issue discount previously included in the beneficial owner's income to the date of disposition. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner's holding period for the 2015 Taxable Series B Bonds.

Under current law, a purchaser of a 2015 Taxable Series B Bond who did not purchase the 2015 Taxable Series B Bonds in the initial public offering (a "subsequent purchaser") generally will be required, on the disposition of the 2015 Taxable Series B Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued "market discount." Market discount is the amount by which the price paid for the 2015 Taxable Series B Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the 2015 Taxable Series B Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire 2015 Taxable Series B Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of 2015 Taxable Series B Bonds could have a material effect on the market value of the 2015 Taxable Series B Bonds.

Backup Withholding. Under section 3406 of the Code, a beneficial owner of the 2015 Taxable Series B Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to "backup withholding" on payments of current or accrued interest on the 2015 Taxable Series B Bonds. This withholding applies if such beneficial owner of 2015 Taxable Series B Bonds: (i) fails to furnish to payor such beneficial owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other "reportable payments" as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding.

Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the 2015 Taxable Series B Bonds. Beneficial owners of the 2015 Taxable Series B Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations. Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30% on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the 2015 Taxable Series B Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30% withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner's United States trade or business;

(iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the 2015 Taxable Series B Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the 2015 Taxable Series B Bonds pursuant to a loan agreement entered into in the ordinary course of the bank's trade or business.

Assuming payments on the 2015 Taxable Series B Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8BEN, Form W-8EXP or Form W-8IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Reporting of Interest Payments. Subject to certain exceptions, interest payments made to beneficial owners with respect to the 2015 Taxable Series B Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and TIN of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a 2015 Taxable Series B Bond for U.S. federal income tax purposes.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of the 2015 Bonds, County Counsel, as Counsel to the Authority and to the Flood Control District will deliver opinions to the initial Underwriter that there is no controversy or litigation now pending against the Authority or the Flood Control District or, to the knowledge of their officers, threatened, concerning the validity of the 2015 Bonds, the Master Water Contract, the pledge of Revenues, the Indenture, the Escrow Agreement, the Pledge Agreement, the Delivery Contracts or any other document relating to the 2015 Bonds to which the Authority, the Flood Control District, or any Participant is or will become a party, or the performance by any of the Authority, the Flood Control District, or any Participant of its respective obligations thereunder; or to restrain or enjoin the execution and delivery of the Indenture, the Escrow Agreement, or the Continuing Disclosure Certificate; or in any way contesting or affecting the validity of the 2015 Bonds.

At the time of delivery of the 2015 Bonds, each Participant will deliver a certificate that there is no controversy or litigation now pending against such Participant, to the knowledge of their officers, threatened, concerning the validity of the 2015 Bonds, the pledge of Water Revenues, the Pledge Agreement, the Delivery Contracts or any other document relating to the 2015 Bonds to which such Participant is or will become a party, or the performance by the Participant of its respective obligations thereunder; or to restrain or enjoin the execution and delivery of its Continuing Disclosure Agreement.

LEGAL MATTERS

Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, will render an opinion with respect to the validity of the 2015 Bonds. The form of the legal opinion proposed to be delivered by Bond Counsel is included as APPENDIX F to this Official Statement. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority and the Flood Control District by County Counsel, for the Underwriter by Schiff Hardin LLP, San Francisco, California, Underwriter's Counsel, for AMWC by _____, for the City of Paso Robles by _____, City Attorney; for the City of San Luis Obispo by _____, City Attorney, and for the Templeton Community Services District by _____, District Counsel.

Compensation paid to Bond Counsel and Underwriter's Counsel is contingent on the delivery of the 2015 Bonds.

MUNICIPAL ADVISOR

The Authority has retained Public Financial Management, Inc., San Francisco, California, as Municipal Advisor, in connection with the authorization and delivery of the 2015 Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent advisory service and is not engaged in underwriting or trading of securities. The Municipal Advisor will receive compensation that is contingent upon the sale, issuance and delivery of the 2015 Bonds.

RATINGS

Standard & Poor's Financial Services LLC, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings, Inc. ("Fitch") have assigned the 2015 Bonds ratings of "___" and "___," respectively. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The Authority furnished to S&P and Fitch certain information and materials concerning the 2015 Bonds and the Flood Control District. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that any rating assigned to the 2015 Bonds by a rating agency will be maintained for any given period of time or that it will not be lowered or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price or marketability of the 2015 Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the 2015 Bonds the arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the Authority relating to the adequacy of forecasted receipts of principal and interest on the noncallable securities and cash to be held pursuant to the Escrow Agreement will be verified by _____, [City], [State], independent certified public accountants (the "Verification Agent"). Such verification shall be based solely upon information and assumptions supplied to the Verification Agent by the Underwriter. The Verification Agent has not made a study or evaluation of the information and assumptions on which such computations are based

and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of the forecasted outcome.

UNDERWRITING

Raymond James & Associates, Inc. (the “Underwriter”), has agreed, subject to certain conditions precedent, to purchase the 2015 Bonds from the Authority pursuant to the terms and condition of a bond purchase contract between the Authority and the Underwriter.

The 2015 Bonds may be offered and sold to certain dealers and others at prices lower than the offering prices stated on the inside cover hereof. The offering prices may be changed from time to time.

2015 Series A Bonds

The Underwriter has agreed to purchase the 2015 Series A Bonds at a purchase price equal to \$_____ which represents the par amount of the 2015 Series A Bonds, less an Underwriter’s discount in the amount of \$_____, plus an original issue premium in the amount of \$_____. The bond purchase agreement relating to the 2015 Series A Bonds provides that the Underwriter will purchase all of the 2015 Series A Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said bond purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

2015 Taxable Series B Bonds

The Underwriter has agreed to purchase the 2015 Taxable Series B Bonds at a purchase price equal to \$_____ which represents the par amount of the 2015 Taxable Series B Bonds, less an Underwriter’s discount in the amount of \$_____, plus an original issue premium in the amount of \$_____. The bond purchase agreement relating to the 2015 Taxable Series B Bonds provides that the Underwriter will purchase all of the 2015 Taxable Series B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said bond purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the 2015 Bonds and the Indenture and all references to other materials not purporting to be quoted in full, are only brief outlines of some of the provisions thereof. Reference is made to said documents for full and complete statements of the provisions of such documents. The appendices attached hereto are a part of this Official Statement.

Copies, in reasonable quantity, of the Indenture, the Escrow Agreement, the Pledge Agreement, and the Delivery Contracts may be obtained from the [Underwriter during the offering period and thereafter] upon request to the principal corporate trust office of the Trustee.

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

SLO COUNTY FINANCING AUTHORITY

By: _____
James P. Erb
Chair of the Board of Commissioners

APPENDIX A
THE PARTICIPANTS

Information contained in this Appendix A is presented as general background data. The 2015 Bonds are payable solely from and secured by certain Revenues and any other amounts pledged therefor pursuant to the Indenture. The taxing power of the State of California, the County of San Luis Obispo or any political subdivision thereof is not pledged to the payment of the 2015 Bonds. For additional information regarding security for the 2015 Bonds, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.” Audited financial information for each Participant can be found under the heading “AUDITED FINANCIAL STATEMENTS” within the Appendix for each Participant. Capitalized terms not otherwise defined in this Appendix A shall have the meanings ascribed to them in the body of this Official Statement.

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APPENDIX A1

ATASCADERO MUTUAL WATER COMPANY

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ATASCADERO MUTUAL WATER COMPANY

General

Atascadero Mutual Water Company (“AMWC”), a California corporation, was incorporated under the laws of the State of California (the “State”) in 1913 to acquire and hold water and water rights and construct and maintain waterworks and distribution facilities to furnish and distribute water for domestic and irrigation to its shareholders at cost, including use of works and distribution facilities for conserving treating and reclaiming water, and providing wastewater treatment at cost. Pursuant to its bylaws, AMWC is permitted to sell, distribute, supply, or deliver water only to owners of property within the AMWC service area (the “AMWC Shareholders”), except as otherwise required by applicable laws or regulations. AMWC is one of the largest mutual water companies in the State and is responsible for meeting the water requirements of more than 31,000 customers.

AMWC is a party to a Delivery Contract with the Flood Control District, pursuant to which AMWC covenanted, inter alia, to pay its pro rata share of various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimiento Project.

For additional financial information regarding AMWC, see the financial statements submitted by AMWC under the heading “AUDITED FINANCIAL STATEMENTS.”

Governance and Management

A five person Board of Directors (the “AMWC Board”) elected by the AMWC Shareholders has authority to set rates, incur debt and make decisions relative to the operations of AMWC. Certain actions are subject to a vote of the shareholders. A General Manager, appointed by the AMWC Board, is responsible for the day-to-day administration of the organization and is responsible for the supervision of all staff.

Water Rights

AMWC has significant water rights in both the Salinas River (considered to be riparian water) and the Atascadero sub-basin of the Paso Robles Groundwater Basin (together, the “Atascadero Sub-basin”). AMWC has pre-appropriative (*i.e.* established prior to 1914) riparian rights to the waters of the Salinas River and has an appropriative license for these waters. In addition, AMWC has “overlying” water rights to the groundwater in the Atascadero Sub-basin.

Pursuant to the Delivery Contract, AMWC has covenanted to pay its pro rata share of various capital expenses relating to the funding of design costs, engineering, planning, mapping, acquiring easements and rights-of-way, initial construction management and environmental efforts in connection with the Nacimiento Project.

No Litigation Related to the 2015 Bonds

There is no litigation pending or, to AMWC’s knowledge, threatened in any way to restrain or enjoin the delivery of the 2015 Bonds, to contest the validity of the 2015 Bonds, or any proceeding with respect thereto.

The Water System

Service Area. AMWC's service area includes approximately 38 square miles covering the City of Atascadero and part of the unincorporated area of the County of San Luis Obispo (the "County"). The City of Atascadero covers approximately 26 square miles and is situated just north of the City of San Luis Obispo, along Highway 101, approximately 218 miles north of Los Angeles and 215 miles south of San Francisco. The portion of the County served by AMWC covers approximately 12 square miles. The greatest water demand is for single-family residential homes and associated landscaping, with relatively small industrial and commercial water demand. Water rates are the same for all classes of customers. Customer classifications and certain information per classification as of April 15, 2015 are summarized below:

<u>Customer Classification</u>	<u>Number of Customers</u>	<u>Percentage of Water Use</u>	<u>Percentage of Revenue</u>
Single-Family Residential	9,255	75.5	75.5
Multi-Family Residential	412	8.7	8.7
Commercial	667	7.6	7.6
Landscape	212	8.1	8.1
Industrial	26	0.1	0.1
Other	<u>0</u>	<u>0.0</u>	<u>0.0</u>
TOTAL	10,572	100.0%	100.0%

Water Permits, Licenses and Other Regulations. AMWC has a water supply permit from the State of California Department of Health Services. Under this permit, AMWC files reports annually on the quality of its water and is subject to annual inspections by the Department of Health Services. Regulations regarding water quality standards have become more stringent, increasing the costs of delivering water. It is anticipated that this regulatory trend will continue, and AMWC is unable to evaluate the future impact on the operating and capital expenditures of AMWC.

AMWC Water System. The AMWC consists of a well system, a water distribution system and 250 miles of pipeline, nine storage tanks ranging in size from 120,000 to 4.8 million gallons, eight booster stations, 1,900 valves, 1,700 fire hydrants and over 10,000 service meters. AMWC currently operates 17 active wells [and one standby groundwater well]. The current pumping capacity is 13.6 million gallons per day (gpd). Each of AMWC's active wells is equipped with a radio-controlled computer system for supervisory control and data acquisition (SCADA). All wells and treatment facilities are housed in secure buildings and have special valves, waste flushing systems, sand separators and other features.

In 2007, AMWC purchased a 60-acre ranch that overlies the Atascadero Sub-basin for the purpose of developing new water supply wells. The ranch is currently leased to a private party and is being used for cattle and hay production.

In Fiscal Year 2015, it is estimated that 1,647 million gallons of water will be delivered to AMWC customers.

Treatment System. The groundwater is treated in accordance with existing regulatory requirements. Over the past 20 years, one well has experienced increasing levels of total dissolved solids and chlorides. The levels of these constituents are currently below the maximum contaminant level established by Environmental Protection Agency for drinking water.

A group of property owners in the Paso Robles Basin has filed a quiet title action seeking an adjudication of water rights among AMWC, the City of Paso Robles, the Templeton Community Services District and other water purveyors and users.

Water Supply

Historically, AMWC has met its water supply demand through pumping water from the Atascadero Sub-basin and the Salinas River. These existing groundwater supplies, together with water from the Nacimiento Project, are expected to meet all future water demands through 2025. The completion of the Nacimiento Project augmented the AMWC groundwater supply.

Water Connections

The following table shows the number of water connections to the AMWC Water System for the five most recent fiscal years.

**Table A1-1
AMWC
Water Connections
For Fiscal Years Ended April 30, 2011 through 2015**

<u>Fiscal Year Ended April 30</u>	<u>Connections</u>	<u>Increase/(Decrease)</u>
2011	10,254	—
2012	10,284	30
2013	10,367	83
2014	10,489	122
2015 [†]	10,559	70

[†] Estimated
Source: AMWC.

Water Deliveries

The following table presents a summary of water deliveries (based on production records) for the AMWC Water System in millions of gallons per year for the five most recent fiscal years.

**Table A1-2
AMWC
Water Deliveries in Millions of Gallons Per Year
For Fiscal Years Ended April 30, 2011 through 2015**

<u>Fiscal Year Ended April 30</u>	<u>Total</u>	<u>Increase/(Decrease)</u>
2011	1,709	—
2012	1,875	9.69%
2013	1,977	5.48
2014	1,690	(14.54)
2015 [†]	1,500	(11.23)

[†] Estimated
Source: AMWC.

Water Sales Revenues

The following table shows annual revenues from water sales for the five most recent fiscal years.

Table A1-3
AMWC
Water Sales Revenues
For Fiscal Years Ended April 30, 2011 through 2015

<u>Fiscal Year Ended April 30</u>	<u>Sales Revenues</u>	<u>Increase/(Decrease)</u>
2011	\$6,007,125	—
2012	6,665,004	11.0%
2013	7,396,830	11.0
2014	7,678,207	3.8
2015 [†]	6,924,000	(10.0)

[†] Estimated
Source: AMWC.

Largest Customers

The following table sets forth the largest customers connected to the AMWC Water System as of April 30, 2014, as determined by total usage in 1,000 gallons. In the aggregate, the largest customers accounted for approximately 9.2% of water usage from the AMWC Water System.

Table A1-4
AMWC
Largest Water Customers
For Fiscal Years Ended April 30, 2015

<u>Customer</u>	<u>Number of Accounts</u>	<u>Water Usage (1,000 gallons)</u>
City of Atascadero	55	31,045
Atascadero Unified School District	33	30,456
Bordeaux House-Atascadero	13	30,170
Dove Creek Community Association	12	12,375
Egan, Mark	2	11,482
Atascadero District Cemetery	1	8,664
LJC Development Company	19	7,157
Villa Margarita Inc.	1	5,027
Villas at Dove Creek HOA	37	4,283
Martin, Romaldo & Janice	<u>10</u>	<u>3,907</u>
TOTAL	183	144,566

Source: AMWC.

Rates and Charges. AMWC water rates are comprised of a monthly minimum charge and a unit charge based on the amount of water used. AMWC also charges for disconnections and reconnections to the AMWC Water System and for construction meter rentals. AMWC currently charges connection fees for new connections to the AMWC Water System.

Monthly Minimum Charge. AMWC’s monthly minimum charge is paid by all customer classes and, with the exception of multiple unit customers, is based on meter size. The current monthly minimum charge is set forth in Table 5 below. Monthly minimum charges for multiple unit customers are based on the number of units.

**Table A1-5
AMWC
Current Water Monthly Minimum Charges**

<u>Meter Size (in inches)</u>	<u>Monthly Minimum Charges</u>
5/8	\$18.00
3/4	18.00
1	23.00
1 1/2	30.00
2	46.00
3	162.00
4	218.00
6	344.00
Hydrant Meter	57.00

Source: AMWC.

Unit Charge. AMWC’s unit charge is based on the number of 1,000 gallons used and is calculated at the rate shown on the following schedule:

<u>Quantity (in 1,000 of gallons)</u>	<u>Cost/per 1,000 gallons⁽¹⁾</u>
3 – 12	\$2.10
13 – 25	3.25
26 – 50	4.80
51 – 75 (single family residences)	5.50
51 and greater (all others) ⁽²⁾	5.50
76 and greater	6.00

(1) Customers pay a monthly minimum charge of \$14 for the first 2,000 gallons of water used.

(2) “All Others” includes multi-family residential, commercial, industrial, and landscape.

Source: AMWC.

Nacimiento Project Surcharge. All accounts (except fire lines and accounts on standby) are charged \$2.50 per month to pay its *pro rata* share of capital costs associated with the Nacimiento Project.

Water Service Charges. The table below sets forth a comparison of the average total monthly water service charges of AMWC to those of nearby water purveyors as of July 1, 2014:

**Table A1-6
AMWC
Rate Comparison
As of July 1, 2014
CENTRAL COAST SERVICE AREAS**

<u>Community</u>	<u>Total Monthly Charge⁽¹⁾⁽²⁾</u>
AMWC ⁽³⁾	\$39.40
Templeton CSD	67.46
Nipomo	48.81
Pismo Beach	54.82
Paso Robles	102.50
Heritage Ranch	56.81
Santa Margarita	58.78
Grover Beach ⁽⁴⁾	60.57
Arroyo Grande	63.62
Morro Bay	85.13
SLO ⁽⁵⁾	207.69

- (1) Total charge calculated is based on 18,700 gallons per month of metered water. Where several rates exist based on elevation or zone, the lowest rate is assumed.
- (2) Total monthly charge is the sum of monthly residential service charge and monthly commodity charge. Total monthly charges calculated using the inside city rate. Applicable base charges, service charges and surcharges are included in the calculation. The California Utilities Commission charges and taxes are not included.
- (3) Includes a \$2.50 monthly surcharge for Nacimiento Project.
- (4) Includes a 1% utility tax applied to water portion of the bill.
- (5) Includes a 5% utility users tax applied to the water portion of the bill.

Sources: Each Participant with respect to its respective monthly charge and AMWC with respect to other data.

Collection Procedures. AMWC is on a monthly billing cycle for water service. Payment is due by the 30th day after the billing date and is considered delinquent if not paid by that date. If payment is not received, a delinquency message appears on the next monthly water bill for accounts with unpaid balances greater than \$10. After 60 days, delinquent customers are billed a late fee and have 30 days to bring the delinquent account current. Water deliveries to accounts not paid in full within 90 days of the billing date are discontinued until all delinquent amounts are paid. Historically, revenue loss from uncollected accounts has been immaterial.

Connection Fees. AMWC charges connection fees for development of new water resources to meet the requirements of community growth. Current connection fees for single family residences, commercial and industrial units vary depending on the size of the water meter provided and range in cost from \$19,600 for a 5/8-inch meter to \$588,000 for a 4-inch meter.

Drought and Conservation Measures

In February 2014, AMWC declared a Stage 2 water shortage condition due to the persistent drought conditions and to more tightly control outdoor water use. A Stage 2 water shortage condition has a use reduction goal of 15 - 35%. AMWC has set an overall conservation goal of 20%. AMWC has

undertaken and will continue to undertake conservation measures to meet or exceed all applicable water conservation goals established by the State Water Resources Control Board and the Governor.

Future Water System Improvements

Future water system improvements include replacing approximately 40 main line valves each year, replacing approximately 120 water service connections each year, upgrading approximately two pressure reducing stations, upgrading main crossing at Highway 41 and Los Altos Road, replacing backhoes and backup generators as required by AB 32, replacing approximately three flow meters at wells each year, installing/upgrading approximately 40 fire hydrants each year, replacement of well emission equipment, upgrades to 2,400 feet of 4-inch water main in Dolores Avenue, construction of a new booster station for Pinal Avenue and upgrades to water mains on Ash/Maple/Catalpa Road.

FINANCIAL INFORMATION OF ATASCADERO MUTUAL WATER COMPANY

Budgetary Process

The AMWC Board establishes and approves an annual budget prior to the beginning of each fiscal year. The five-year capital improvement plan is updated annually as part of the budget process. The AMWC Board reviews financial statements and investments monthly. All rates and charges are reviewed annually and any changes are subject to the approval of the AMWC Board. A 30-year cash flow projection (emphasizing the upcoming 10 years) is maintained and updated periodically. The AMWC Board also conducts an annual review and assessment of the levels of its two reserve funds.

Financial Statements

The most recent audited financial statements of AMWC prepared by Caliber Audit & Attest, LLP, independent certified public accountants, are included as Appendix B hereto. The independent auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the business-type activities of AMWC as of April 30, 2015, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The summary operating results contained under the caption “–Operating Results” are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

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The following table is a summary of operating results of the AMWC, for the last five fiscal years. These results have been derived from the Financial Statements of AMWC but exclude certain receipts which are not included as Revenues under the Delivery Contract and certain non-cash items and include certain other adjustments. See the caption “–Outstanding Long-Term Indebtedness” below under this heading.

Table A1-7
AMWC
Operating Results
Fiscal Year Ended April 30

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014⁽¹⁾</u>
Revenues					
Water sales	\$5,648,855	\$6,007,125	\$6,665,004	\$7,396,830	\$7,678,207
Other revenue and income	<u>625,680</u>	<u>835,451</u>	<u>969,223</u>	<u>1,709,963</u>	<u>3,274,483</u>
TOTAL REVENUES	6,274,535	6,842,576	7,634,227	9,106,793	10,952,690
Operating Expenses	5,510,374	6,349,873	7,861,968	8,198,312	8,807,927
Operating income (loss) ⁽²⁾	764,161	492,703	(227,741)	908,481	2,144,763
Non-Operating Revenue (expense)	267,911	127,834	(116,704)	(21,701)	(15,473)
Net income before income taxes	1,032,072	620,537	(344,445)	886,780	2,129,290
Income Tax Expense	<u>35,386</u>	<u>24,619</u>	<u>14,178</u>	<u>14,915</u>	<u>14,426</u>
Net income	\$996,686	\$595,913	(358,628)	\$871,865	\$2,114,864

(1) Estimated.

(2) Includes payments made to the Flood Control District pursuant to the AMWC Delivery Contract. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–The Delivery Contracts” in the forefront of this Official Statement.

Source: AMWC.

Management’s Discussion and Analysis

The following discussion relates to certain items in the table above.

Gross Revenues. Revenues increased by approximately 31% from 2011 to 2015 primarily due to increased meter sales. Year-to-date water sales revenues for 2015 were approximately \$6,924,000 (10%) less than for 2014, which is primarily attributed to reductions in demand in response to persistent drought conditions in the State.

Operating Expenses. Operating expenses, including depreciation and excluding Nacimientto Project debt service, increased approximately 10% from 2011 to 2015 primarily due to increases in salaries, wages and benefits, gas, electricity, treatment chemicals, system repairs, and other operating expenses.

Projected Operating Results. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Outstanding Long-Term Indebtedness

AMWC has no outstanding long-term indebtedness.

Insurance

AMWC is covered under various insurance policies, including general liability, property damage, workers' compensation, automobile and excess liability policies.

Employees

AMWC currently has approximately 21 full-time equivalent employees.

Pension

AMWC adopted a pension plan in January 1, 1974, which may be altered or terminated at its discretion. Trustees of the pension trust are the AMWC Board. All full-time employees, with the exception of leased employees and the chief executive officer, who have six months of service and are at least 18 years of age are eligible to participate in the pension plan. Currently, each participant is required to contribute at least 0% of pay to the pension plan. In addition, each employee may voluntarily contribute up to an additional 90% of pay, for a total of 90%, subject to the maximum annual contribution limitation established under IRS Regulations (\$18,000 for the fiscal year ended April 30, 2015). Participants in the pension plan who are over age 50 may contribute additional amounts in accordance with IRS Regulations. As required by the pension plan, AMWC contributed 7% of the participating employee's annual compensation for the fiscal year ended April 30, 2015 (\$117,556).

Capital Improvement Program

AMWC currently plans to replace and repair certain air tanks, rebuild pumps, replace tank roofs, construct transmission mains, construct recharge basins and recovery wells, construct a new administrative building, make improvements to its corporate yard, and effectuate certain other improvements to the AMWC Water System and its related facilities and grounds.

Investment Policy

AMWC investment policy requires AMWC to invest in insured and other secure investments, such as treasury bills, notes and certificates of deposit. Such securities are stated in the audited financial statements at cost, adjusted for amortization of premiums and accretion of discounts over their remaining lives.

AUDITED FINANCIAL STATEMENTS

APPENDIX A2

CITY OF PASO ROBLES

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THE CITY OF PASO ROBLES

General

The City of Paso Robles (“Paso Robles”), a municipal corporation, was incorporated in 1889 and is located at the confluence of State Highway 101 and State Highway 46 in the central coast area of the State, approximately 150 miles south of San Jose and 220 miles north of Los Angeles. Paso Robles continues to be the fastest growing city within the County of San Luis Obispo and has become its second largest city with 30,450 residents.

Paso Robles has previously entered into a Delivery Contract with the Flood Control District, pursuant to which Paso Robles covenanted, *inter alia*, to pay its *pro rata* share of various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimiento Project.

For additional financial information regarding Paso Robles, see the financial statements submitted by Paso Robles under the heading “AUDITED FINANCIAL STATEMENTS.”

Governance and Management

Paso Robles is organized as a “general law” city with a city council/manager form of government. The mayor is elected at large every two years while the other four council members serve four year staggered terms. The city manager is appointed by the city council to enforce city laws, direct the operations of the city government, prepare and manage the budget and implement the programs initiated by the city council. Paso Robles is a full service city providing both police and fire services. In addition to police and fire services, Paso Robles provides library services, a wide range of recreation services, a full range of public works functions including landfill, airport, street maintenance, wastewater collection and treatment, water production and delivery and public transit services.

Land and Land Use

Paso Robles is located in the northern portion of the County of San Luis Obispo in the upper Salinas River Valley. The Salinas River itself flows through the center of Paso Robles from south to north. The community is bounded by steep hills and canyons on the west, open rolling hills to the east, and relatively flat river valley topography to the north and south. Paso Robles is located in a rich agricultural area where ranchlands are transitioning to vineyards to support a growing wine industry.

Paso Robles is centered on an identifiable downtown and surrounded by residential neighborhoods. The development pattern of Paso Robles is different on the east side of the Salinas River than on the west side. The older part of the community lies west of the Salinas River and Highway 101. This area includes many prominent buildings of architectural interest, which are developed along a traditional grid network of streets and alleys. However, the steep hills on the west side have limited growth in this area, and much of Paso Robles’ growth over the past 20 years has occurred on the east side of the Salinas River. The eastern portion of Paso Robles includes many newer developments, and is primarily residential in character.

The total area within the corporate limits of Paso Robles is approximately 19.9 square miles, comprising a total of 12,740 acres. In 2003, Paso Robles established the maximum potential geographical boundaries to which Paso Robles could grow in the foreseeable future.

As of 2014, there were 30,450 residents and 11,100 dwelling units in Paso Robles. Paso Robles anticipates accommodating a population of up to approximately 39,900 residents in 2035.

The existing sphere of influence (areas outside of Paso Robles current boundaries where growth may occur in the future) comprise approximately 243 acres of developable land.

A group of property owners in the Paso Robles Basin has filed a quiet title action seeking an adjudication of water rights among AMWC, the City of Paso Robles, the Templeton Community Services District and other water purveyors and users.

Water Rights

Paso Robles has significant water rights in the Salinas River and pumps groundwater from its wells at this location.

No Litigation Related to the 2015 Bonds

There is no litigation pending or, to Paso Robles' knowledge, threatened in any way to restrain or enjoin the delivery of the 2015 Bonds, to contest the validity of the 2015 Bonds, or any proceeding of Paso Robles with respect thereto.

THE WATER SYSTEM OF THE CITY OF PASO ROBLES

Service Area

Paso Robles' service area is limited to its incorporated city limits, serving a population of approximately 30,500, with a combined [9,200] residential and commercial utility accounts, and [400] irrigation customers. The service area served is approximately 19 square miles and topography varies from 660 feet above sea level at the Salinas River to more than 980 feet on the hillsides east of Golden Hill storage tanks.

Water and Wastewater Facilities

Paso Robles' water system (the "Paso Robles Water System") is composed of 19 active groundwater wells, two arsenic removal treatment systems, one micro-filtration water treatment plant, six booster stations and four storage reservoirs with a total capacity of 12,150,000 gallons. It also includes approximately 172 miles of distribution mains. The storage reservoirs include: two 4-million gallon welded steel tanks; one 4-million gallon HDPE lined earthen reservoir; and, a 150,000 gallon welded steel tank. Paso Robles also owns and operates a five million gallon per day capacity advanced secondary trickling filter treatment plant (the "Paso Robles Wastewater Plant"), which discharges treated effluent to the Salinas River. The Paso Robles Wastewater Plant is composed of: two bar screens and aerated grit chambers; two primary clarifiers; four trickling filters; one rectangular and three circular clarifiers; polishing ponds; three digesters; a belt press; and, drying beds.

Water Permits, Licenses and Other Regulations

The Paso Robles Water System is permitted and regulated by the State Department of Health Services pursuant to original Water Permit No. 04-06-05PA-005, System No. 401-007. The State Department of Health Services conducts annual system inspections and generates an annual engineering report. The most recent inspection was conducted on December 18, 2006.

The State Water Resources Control Board, Division of Water Rights, regulates the underflow wells pursuant to permit No. 5956. The permit limits the annual diversion (extraction) of the underflow wells to 4,600 acre-feet per year, with a maximum flow of eight cubic feet per second. Production over the last few years from the underflow wells has averaged approximately 4,300 acre-feet per year.

Water System and Water Supply

As of _____, 2015, there were ____ active consumer connections compared with _____ as of _____ 2014. Paso Robles has no affiliation with other existing water agencies except for its affiliation with the [Flood Control District] for the delivery of Nacimiento Water.

Paso Robles' current water is supplied by local wells. Paso Robles has no surface water supplies and no reclaimed or recycled water supplies. Paso Robles also has no water supply contracts with other water purveyors. Completion of the Nacimiento Project increased Paso Robles' sources of water by [4,000] acre feet annually.

Paso Robles has traditionally met the bulk of service area customer needs from groundwater through Paso Robles' primary water wells. Most of these wells pump from the Salinas River or the "east side" groundwater basin (the "Paso Robles Basin").

Paso Robles currently has 19 active and standby groundwater wells available for use. Paso Robles' current pumping capacity is 12 million gallons per day (gpd). In calendar year 2006, 2,420 million gallons were delivered to Paso Robles' customers from groundwater wells.

Paso Robles is currently involved with development of a groundwater management plan (AB 3030 Plan) to proscribe collective management of Paso Robles Basin. With ample storage, ability to recharge the basin by spreading surface waters and apparent flexibility in managing groundwater levels without subsidence problems, the Paso Robles Basin could be conjunctively managed both to meet normal annual demands and to meet water resource needs in the event of a drought and curtailment or loss of inconsistent surface water supplies, resulting in a highly reliable water supply. Current goals are to secure agreements to not pump beyond the safe yield of the Paso Robles Basin, supplementing supplies with imported surface water.

The quality of present groundwater meets existing regulatory requirements, with average total dissolved solids of 492.5 parts per million in 2006. Paso Robles plans to supplement its water from the Paso Robles Basin with water from the Project.

Paso Robles is not currently involved in, and is unaware of, any material litigation between any of the water users in Paso Robles Basin. The water rights of individual water users within Paso Robles Basin have not been adjudicated.

Water Supply

Historically, Paso Robles has met its water supply demand primarily through pumping water from the Paso Robles Basin. These water supplies are expected to meet all future water demands through 2025. Completion of the Nacimiento Project augmented the Paso Robles ground water supply.

Water Connections

The following table shows the growth in the number of water connections to the Paso Robles Water System for the five most recent fiscal years.

**Table A2-1
Paso Robles
Water Connections**

<u>Fiscal Year Ended June 30</u>	<u>Connections</u>	<u>Increase/(Decrease)</u>
2011	10,435	0.09%
2012	10,461	0.25
2013	10,542	0.77
2014	10,316	(2.14)
2015 [†]	_____	_____

[†] Estimated
Source: Paso Robles.

Water Deliveries

The following table presents a summary of water deliveries for the Paso Robles Water System in cubic feet per year for the five most recent fiscal years.

**Table A2-2
Paso Robles
Water Deliveries**

<u>Fiscal Year Ended June 30</u>	<u>Total Gallons (in hundreds)</u>	<u>Increase/(Decrease)</u>
2011	2,526,814	0.92%
2012	2,641,083	4.52
2013	2,248,173	(14.90)
2014	2,967,677	32.00
2015 [†]	_____	_____

[†] Estimated
Source: Paso Robles.

Water Sales Revenues

The following table shows annual water sales revenues from water sales for the five most recent fiscal years.

**Table A2-3
Paso Robles
Water Sales Revenues**

<u>Fiscal Year Ended June 30</u>	<u>Sales Revenues</u>	<u>Increase/(Decrease)</u>
2011	\$3,867,388	3.20%
2012	5,580,126	30.69
2013	7,912,716	41.80
2014	9,614,495	21.50
2015 [†]	_____	_____

[†] Estimated
Source: Paso Robles.

Largest Customers

The following table sets forth the largest customers of the Paso Robles Water System as of June 30, 201[4] as determined by annual usage in cubic feet.

**Table A2-4
Paso Robles
Largest Water Customers
As of June 30, 201[4]**

<u>Customer</u>	<u>Amount</u>	<u>% of Gross Revenues</u>
City of Paso Robles	\$454,491	4.86%
Paso Robles School District	398,098	4.26
Dry Creek Apartments	201,121	2.15
Quail Run Mobile Estates	145,170	1.55
Firestone Walker Brewery	133,029	1.42
Goetz Manderley	79,124	0.85
Housing Authority	61,833	0.66
Woodland Plaza II	44,775	0.48
Nu-Way Cleaners	39,165	0.42
Bruce Roden	<u>33,232</u>	<u>0.36</u>
TOTAL	\$1,590,038	17.01
All Others	<u>7,757,053</u>	<u>82.99</u>
TOTAL GROSS REVENUES	\$9,347,091	100.00%

Source: Paso Robles.

These largest customers accounted for approximately [13.5]% of water usage in the fiscal year ended June 30, 201[4].

Water System Rates and Charges

Paso Robles’ water rates are comprised of a monthly unit (consumption) charge based on the amount of water used and a flat rate monthly surcharge for Nacimiento Water. Paso Robles also charges for connections to the Paso Robles Water System, and for metered construction water consumption.

Connection Fee. Paso Robles charges connection fees for improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The current connection fee for single family residences and commercial and industrial units range from \$___ to \$___ depending upon the meter size installed. Paso Robles assesses a connection fees based on customer class and meter size. The fees are as follows:

**Table A2-5
Paso Robles
Connection Fees
Fiscal Year Ended June 30, 2015**

<u>Meter Size (in inches)</u>	<u>Connection Fee</u>
Up to 5/8 10	\$ _____ _____

Source: Paso Robles.

Unit Charge. Paso Robles’ user fee is entirely consumption based A unit charge is based on the number of 100 cubic feet (748 gallons) used. The current water rate is \$4.10 per unit.

Rate Increases. Paso Robles imposed five rate increases since Fiscal Year 2009-10 to accommodate increased costs and economic inflation. Effective January 1, 2012, Paso Robles adopted uniform consumption based rates, which increase each January 1, 2011 through January 1, 2016. The rate increases for all customers are set forth in the following table:

**Table A2-6
Paso Robles
Water Sales Rates**

<u>Fiscal Year (Ended June 30)</u>	<u>Rate per Hundred Cubic Fee</u>	<u>Increase</u>
2010-11	\$1.32	-
2011-12	2.50	89.39%
2012-13	3.20	28.00
2013-14	3.70	15.63
2014-15	4.10	10.81
2015-16	4.40	7.32

Source: Paso Robles.

The current monthly charge for debt service and operating costs in connection with the Nacimiento Project is \$__ and scheduled to rise to \$__ on July 1, 2015.

Comparative Water Service Charges. The following table sets forth a comparison of the average monthly water services charge of Paso Robles and those of nearby water purveyors as of July 1, 2014.

**Table A2-7
Paso Robles
Rate Comparison
As of July 1, 2014
CENTRAL COAST SERVICE AREAS**

<u>Community</u>	<u>Total Monthly Charge⁽¹⁾⁽²⁾</u>
AMWC ⁽³⁾	\$39.40
Templeton CSD	67.46
Nipomo	48.81
Pismo Beach	54.82
Paso Robles	102.50
Heritage Ranch	56.81
Santa Margarita	58.78
Grover Beach ⁽⁴⁾	60.57
Arroyo Grande	63.62
Morro Bay	85.13
SLO ⁽⁵⁾	207.69

- (1) Total charge calculated is based on 18,700 gallons per month of metered water. Where several rates exist based on elevation or zone, the lowest rate is assumed.
- (2) Total monthly charge is the sum of monthly residential service charge and monthly commodity charge. Total monthly charges calculated using the inside city rate. Applicable base charges, service charges and surcharges are included in the calculation. The California Utilities Commission charges and taxes are not included.
- (3) Includes a \$2.50 monthly surcharge for Nacimiento Project.
- (4) Includes a 1% utility tax applied to water portion of the bill.
- (5) Includes a 5% utility users tax applied to the water portion of the bill.

Sources: Each Participant with respect to its respective monthly charge and AMWC with respect to other data.

Collection Procedures. Paso Robles is on a monthly billing cycle for water service. Payment is due by the 5th day of the following month in which the bill goes out and is considered delinquent if not paid by that date. If not paid by end of such day, the account is deemed delinquent and customers are assessed a 10% late fee. If the amount due is not paid within 10 days of the penalty date (about the 15th day of the month following the billing date), water service is discontinued until paid. Termination notices are delivered to each such delinquent account two days prior to the discontinuance date. [Customers receiving termination notices are currently assessed a \$26 penalty fee. If service is discontinued, the customer must pay an additional \$77 service restoration fee. Both fees are increase by the annual percentage increase of the CPI on July 1 of each year.]

Assessed Valuations, Tax Collections and Tax Delinquencies

The following table sets forth the secured assessed valuation within Paso Robles in the County of San Luis Obispo during the five most recent fiscal years.

As a result of the County of San Luis Obispo’s implementation of the tax distribution system commonly referred to as the “Teeter Plan” and the participation by Paso Robles, beginning in the fiscal year ended June 30, 1994, Paso Robles receives 100% of its share of the 1% property tax levies without regard to delinquencies. There can be no assurance that the Teeter Plan or the participation of Paso Robles therein will be continued indefinitely.

**Table A2-8
Paso Robles
Secured Assessed Valuation
Fiscal Years Ended June 30, 2011 through 2015**

<u>Fiscal Year</u>	<u>Total Secured Assessed Valuation[†]</u>
2010-11	\$2,400,890,771
2011-12	2,319,074,668
2012-13	2,312,134,492
2013-14	2,467,046,044
2014-15	

[†] Secured property is generally real property, defined as land, mines, minerals, timber and improvements such as buildings, structures, crops, trees and vines.

Source: San Luis Obispo County Assessor’s Office.

Paso Robles’ 1% allocation of property tax revenues in the County of San Luis Obispo for the fiscal year ended June 30, 2015, as reported by the County of San Luis Obispo is \$_____, a ____% increase over the prior year.

Drought and Conservation Measures.

[To Come]

Future Water System Improvements

[To Come]

FINANCIAL INFORMATION OF THE CITY OF PASO ROBLES

Budgetary Process

In Fiscal Year 1997-98, Paso Robles modified its budget preparation methodology and presentation format from a single year focus to a four year financial plan. The first effective year of the preparation and publication of the four year financial plan was Fiscal Year 1998-99. The purpose of preparing a four year financial plan, rather than a single year budget, was to accurately measure the budgetary impact of the resource allocation decisions made today against available resources two to four years into the future. Paso Robles, much like other California cities, found itself constantly in a reactionary mode when dealing with budget constraints which is the nature of single year budgeting formats. It was Paso Robles' desire to become proactive by identifying budget constraints far enough in advance so that it might implement budgetary adjustments without negatively impacting the delivery of municipal services to the public and creating undue hardship and turmoil upon city staff and resources.

Beginning in Fiscal Year 2009, the City Council receives a financial forecast update, twice per year (Winter/Spring). This forecast is designed as a mid-year update on the financial health of the City. This forecast was used extensively during the historic recession to assist the City Council in deciding how to reduce expenses, while attempting to continue to provide as many City services as possible.

For expenditures, Paso Robles utilizes a "base budget" approach wherein the four year financial plan may only be modified by existing long term employee bargaining agreements and/or by the submission by the executive manager of a "new and expanded services request" and its subsequent approval by the Paso Robles City Council. This base budget approach is intended to focus analysis and decision making on the policy implications of budget decisions and their long term impact upon the availability and/or allocation of fiscal resources, rather than short term needs and fixes. The expenditure format in the four year financial plan provides for the prior two years actual expended, current year modified budget (as of date of preparation) and projections for the next four fiscal years.

Financial Statements

Certain excerpts of the most recent comprehensive annual financial report of Paso Robles prepared by Moss, Levy & Hartzheim L.L.P., independent certified public accountants, are included as Appendix B hereto. The independent auditor's letter concludes that the comprehensive annual financial report present fairly, in all material respects, the financial position of the business-type activities of Paso Robles as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The summary operating results contained under the caption "–Operating Results" are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

Operating Results

The following table is a summary of operating results of Paso Robles Water System, for the last five fiscal years. These results have been derived from the Financial Statements of Paso Robles.

Table A2-9
Paso Robles
Paso Robles Water System
Operating Results
Fiscal Year Ended June 30

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues					
Water sales	\$3,603,052	\$3,571,437	\$5,051,019	\$7,912,716	\$9,614,495
Interest income	534,913	175,475	217,186	(41,191)	312,388
Developer impact fees ⁽¹⁾	2,490,638	2,752,352	2,107,657	1,897,132	1,270,876
Other revenue and income	<u>107,050</u>	<u>38,946</u>	<u>89,324</u>	<u>14,761</u>	<u>(19,606)</u>
TOTAL REVENUES	6,735,653	6,538,210	7,465,186	9,783,418	11,178,153
Maintenance, Operations, and Administration Costs ⁽²⁾	4,792,853	6,596,441	8,978,244	9,793,529	10,859,372
Net Revenues	\$1,942,800	(\$58,231)	(\$1,509,058)	(\$10,111)	\$318,781

(1) _____.

(2) Includes payments made to the Flood Control District pursuant to the Paso Robles Delivery Contract. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS--The Delivery Contracts" in the forefront of this Official Statement.

Source: Paso Robles.

Management's Discussion and Analysis

The following discussion relates to certain items in the table above.

Gross Revenues. Paso Robles records revenues when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Thus, revenues are recognized when measurable and available. Paso Robles considers such revenues reported in the governmental funds to be available if the revenues are collected within 60 days after fiscal year-end.

Outstanding Long-Term Indebtedness

[To Come]

Insurance

Paso Robles is a member of the California Joint Powers Insurance Authority, a risk sharing self-funded joint powers authority whose membership at last count included 113 public agencies. The California Joint Powers Insurance Authority provides program administration, claim servicing, investigation services, legal counsel, and excess coverage to its members. For general and auto liability, the California Joint Powers Insurance Authority provides \$50 million per occurrence and \$50 million in the aggregate. For workers' compensation, the coverage is statutory plus \$10 million per occurrence for employer's liability. Paso Robles also participates in the non-auto property program offered by the

California Joint Powers Insurance Authority, which provides full replacement coverage for buildings and facilities. Paso Robles is self-insured for property damage to its equipment and vehicles except for major equipment (*i.e.*, fire trucks), which Paso Robles insures through its participation in a special insurance pool. Paso Robles purchases specialty policies to cover airport liability and landfill liability and pollution coverage from other sources.

Pension

Substantially all of Paso Robles' employees are eligible to participate in pension plans offered by CalPERS, which provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions are determined annually on an actuarial basis as of June 30, and Paso Robles is then required to contribute the determined contribution. The total current payroll for covered employees for the year ended June 30, 2014 was \$11,829,087 and the total payroll for all employees was \$_____. Paso Robles' unfunded actuarial accrued liability is amortized as a level percentage of payroll on a closed basis. For the fiscal year ended June 30, 2014, the total unfunded liability was \$5,487,796. The unfunded actuarial accrued liability for the fiscal year ended June 30, 2014 was \$8,309,436.

Post-Retirement Benefits

Paso Robles' City Council has adopted resolutions making health care insurance benefits available for all retired full time Paso Robles employees regardless of bargaining affiliation until age 65. Paso Robles also provides a monthly allowance to qualifying retirees until death. The monthly allowances range from a maximum of \$50 to \$500 depending upon year of retirement. Qualifying retirees must provide documentation for the monthly payment. Paso Robles has taken all necessary steps to fully comply with GASB 43 and 45. The independently prepared actuarial study identified Paso Robles' Other Post Retirement Benefit liability to be \$6.7 million and identified four funding options. Paso Robles chose to fund the outstanding liability using the 20 year level funding option. [The adopted financial plan is scheduled to begin on July 1, 2007, and includes full funding of the annual obligation by fiscal year 2010.]

Investment Policy

Cash balances from all funds are combined and invested pursuant to the City Council's adopted Investment Policy and Government Code Section of the State. Authorized investments include securities of the United States or its agencies, certificates of deposit, the State of California Local Agency Investment Fund, bankers' acceptances, negotiable certificates of deposit and repurchase agreements. The earnings from these investments are allocated monthly to each fund based upon the closing balance of each fund at month end. All enterprise fund investments are considered to be liquid investments for cash flow and reporting purposes. Funds held by outside fiscal agents under the provisions of bond indentures are maintained separately and interest income earned on such funds are credited directly to the bond fund or reported as if the interest was credited directly to said funds.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. Paso Robles is of the opinion that charges for Water Service do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. Paso Robles has covenanted in the Delivery Contract that it will establish, fix and collect rates and charges from the customers of its Water Enterprise at levels sufficient to produce revenue from the Water Enterprise which are at least equal to: the costs of operating and maintaining the Water Enterprise; plus the Contract Payments (as defined herein). Paso Robles is of the opinion that the water rates and use charges imposed by Paso Robles do not exceed the costs the that Paso Robles reasonably bears in providing such service.

Proposition 218

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water or wastewater service is ultimately determined to be a “fee” or “charge” as defined in Article XIII D, the local government’s ability to increase such fee or charge may be limited by a majority protest. See the discussion under “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Articles XIII C and XIII D of the California Constitution” in this Official Statement.

AUDITED FINANCIAL STATEMENTS

APPENDIX A3

CITY OF SAN LUIS OBISPO

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THE CITY OF SAN LUIS OBISPO

General

The City of San Luis Obispo (“SLO”) is a charter city and municipal corporation of the State. SLO was first incorporated in 1856 as a General Law City, and became a Charter City in 1876. SLO operates as a full-service city that provides police, fire, water, sewer, streets, transit, parking, planning, building, engineering and parks and recreation services to the community. SLO operates under the Council-Mayor-City Manager form of government. Council members are elected at-large and serve overlapping, four-year terms. The Mayor is also elected at-large for a two year term, and serves as an equal member of the Council. The Council appoints the City Manager and City Attorney. All other department heads are appointed by the City Manager.

SLO is located eight miles from the Pacific Ocean and is midway between San Francisco and Los Angeles at the junction of Highway 101 and Highway 1. A number of federal and state regional offices and facilities are located in SLO, which also serves as the County seat, including, the Regional Water Quality Control Board and Caltrans District offices. California Polytechnic State University, San Luis Obispo and Cuesta Community College are located in the County, not far outside of SLO’s city limits. SLO’s current population is approximately 45,473. For additional financial information regarding SLO, see the excerpts of the financial statements submitted by SLO under the heading “AUDITED FINANCIAL STATEMENTS.”

SLO is a party to a Delivery Contract with the Flood Control District, pursuant to which SLO covenanted, *inter alia*, to pay its *pro rata* share of various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimiento Project.

Governance and Management

SLO has provided water service to its residents for over 100 years. During this time SLO has developed its water sources and treatment facilities (the “SLO Water System”) to satisfy SLO’s growing water needs. The operation of the SLO Water System is administered and managed by a separate Utilities Department, which includes a Water Division and a Wastewater Division as separate enterprise funds. The SLO Water System’s operation is aided by the use of computers, automated controls and telemetry systems.

Land and Land Use

SLO’s existing water treatment plant is located on Stenner Creek Road, northwest of the California Polytechnic State University, San Luis Obispo campus. This facility was originally constructed in 1964 to provide treatment of surface water from Salinas and Whale Rock Reservoirs. Since 2011, this plant also treats water from Nacimiento Reservoir (the Water Plant). The plant was originally designed to treat up to 8 million gallons per day (mgd). The plant has been upgraded three times and is capable of treating 16.0 mgd, a level consistent with the SLO’s Water and Wastewater Element of the General Plan.

A group of property owners in the Paso Robles Basin has filed a quiet title action seeking an adjudication of water rights among AMWC, the City of Paso Robles, the Templeton Community Services District and other water purveyors and users.

Water Rights

The existing city water system is made up of raw water supply from Whale Rock, Salinas, and Nacimiento Reservoirs, the Stenner Canyon water treatment plant, and four groundwater wells. Brief descriptions of the water sources are as follows:

Salinas Reservoir. The Salinas Dam was built in 1941 by the War Department to supply water to Camp San Luis Obispo and, secondarily, to meet the water needs of SLO. The Salinas Reservoir (Santa Margarita Lake) captures water from a 112 square mile watershed and can currently store up to 23,843 acre-feet. In 1947, the Salinas Dam and delivery system was transferred from the regular Army to the U.S. Army Corps of Engineers. Since 1965, the Flood Control District has operated this water supply for the exclusive use of SLO under a lease from the U.S. Army Corps of Engineers. Water from the reservoir is pumped through the Cuesta Tunnel (a one mile long tunnel through the mountains of the Cuesta Ridge) and then flows by gravity to SLO's Water Treatment Plant on Stenner Creek Road. SLO has water rights to store up to 45,000 acre feet in the Salinas Reservoir. The original design of the dam included a gate in the spillway to increase the storage capacity. In 2014, the Salinas Reservoir supplied 2,433 acre feet of water, constituting 43% of the total supply for that year.

Whale Rock Reservoir. The Whale Rock Reservoir, owned and operated by a joint exercise of powers agency formed by SLO and the State, is a 38,967 acre foot reservoir created by the construction of an earthen dam on Old Creek near the town of Cayucos. The State Department of Water Resources designed and completed the dam in 1961 to provide water to SLO, California Polytechnic State University and the California Men's Colony. The Whale Rock Dam captures water from a 20.3 square mile watershed and water is delivered to the three agencies through 17.6 miles of shared 30-inch pipeline and two pumping stations. The Whale Rock Reservoir is considered a backup supply and provides water during off peak operations, when Salinas Reservoir has excessive turbidity problems following storm events, or to supplement supply when water demand exceeds delivery capacity from Salinas Reservoir. In 2014, the Whale Rock Reservoir supplied 2,761 acre feet of water, constituting 48% of the total supply for that year.

Nacimiento Reservoir. Since 1959, the Flood Control District has had an entitlement to 17,500 acre-feet per year (AFY) of water from the Nacimiento Reservoir for use in SLO County. This Reservoir provides flood protection and is a source of supply for groundwater recharge for the Salinas Valley. SLO has a contractual entitlement to 3,380 acre feet per year. Construction of the Nacimiento Project was substantially completed in December 2010 and water deliveries to SLO began in January 2011. The Nacimiento Reservoir is owned and operated by the Monterey County Water Resources Agency. Approximately 1,750 acre feet per year have been designated for uses around the lake, leaving 15,750 acre feet for allocation to other areas within the County. In 2014, the Nacimiento Reservoir supplied 541 acre feet of water, constituting 9 % of the total supply for that year.

Recycled Water. Recycled water is highly-treated wastewater approved for reuse by the California Department of Public Health for a variety of applications, including landscape irrigation and construction dust control. Completed in 2006, the Water Reuse Project created the first new source of water for SLO since 1961 following construction of Whale Rock Dam. The Project resulted in improvements at the SLO Water Resource Recovery Facility and an initial eight miles of distribution pipeline. The first delivery of recycled water to SLO took place in 2006. SLO estimates demand exists for approximately 1,000 acre feet of recycled water for landscape irrigation and other approved uses. In Fiscal Year 2013-14, the City delivered 196 acre feet for irrigation to SLO parks, the school district, and private development landscape areas.

Ground Water. Until recently, one of SLO’s four wells supplied water for domestic use. This well delivered 54 acre feet of potable water (0.9% of domestic water use), but was shut-down on March 30, 2015 due to the detection of Hexavalent Chromium levels in the water. One well supplies water for irrigating the SLO municipal golf course, one well provides water to SLO City Farm, and one well at SLO’s Corporation Yard is used for construction purposes. The groundwater basin is relatively small and recharges very quickly following normal rainfall periods, but it also lowers relatively quickly following the end of the rainy season. Extensive use of groundwater sustained SLO through the drought of 1986-1991. However SLO’s two largest producing wells, the Auto Parkway and Denny’s wells, were shut down when elevated nitrate levels were detected. This loss meant SLO could not rely on groundwater for future drought protection.

No Litigation Related to the 2015 Bonds

SLO is presently involved in certain matters of litigation that have arisen in the normal course of its city business. SLO management believes, based upon consultation of the SLO City Attorney, that these cases, in the aggregate, are adequately covered by insurance and not expected to result in a material adverse financial impact on SLO.

THE WATER SYSTEM OF THE CITY OF SAN LUIS OBISPO

Service Area

The SLO Water System currently provides water within a service area which consists primarily of the incorporated boundaries of SLO, serving a population of approximately 45,473. In addition, the SLO Water System serves several users located outside city limits, including the California Polytechnic State University, under separate agreements. The following table shows active accounts in SLO by type of customer for Fiscal Year 2014-15.

**Table A3-1
SLO Water System
Estimated Active Accounts by Type of Customer
Fiscal Year Ended June 30, 2014**

<u>Type of Customer</u>	<u>Active Accounts</u>	<u>Percent</u>
Single Family	11,299	76.0%
Multi-Family	1,333	9.0
Non-Residential	1,681	11.0
Dedicated Irrigation	<u>529</u>	<u>4.0</u>
TOTAL	14,842	100.0%

Source: SLO.

Water Facilities

SLO’s existing water distribution facilities include 13 reservoirs/tanks, 10 booster pumping stations, 20 pressure regulating stations, and a total of approximately 187 miles of pipeline. SLO’s existing water storage facilities have a total nominal capacity of approximately 24 million gallons. The water system is divided into 15 pressure zones due to the wide range in ground elevations. The engineering estimate for the life expectancy of these facilities is 50 years. SLO operates a water treatment plant (“WTP”) which is located approximately one mile north of Highway 1 along Stenner Creek Road.

SLO's current drinking water permit allows its WTP to treat up to 16 mgd from its three surface water sources - Whale Rock Reservoir, Salinas Reservoir and Nacimiento Lake. The WTP was upgraded in 2008 to provide full-conventional treatment for the entire 16 mgd rated flow. The water is first oxidized and disinfected using ozone, then flows to rapid mixers where alum and polymer are added for coagulation and then to a ballasted flocculation process (Actiflo) which uses micro-sand to enhance removal of floc particles from the water. The water is then finally filtered, chlorinated and fluoride is added before the treated water is stored for use in the SLO water distribution system.

Water Permits, Licenses and Other Regulations

SLO's water production and distribution system is permitted and regulated by the State Department of Health Services pursuant to amended Water Permit No. 04-06-94P-000, System No. 4010009. The State Department of Health Services conducts annual system inspections and generates an annual Engineering Report. The State Water Resources Control Board, Division of Water Rights regulates the appropriation and use of water from Salinas and Whale Rock Reservoirs pursuant to permit numbers 5882 and 11390 respectively. Permit No. 5882 (Salinas) limits annual diversion to storage to 45,000 acre feet per year and the amount allowed for direct diversion to 12.4 cubic feet per second. Permit No. 11390 (Whale Rock) limits annual diversion to storage to 22,040 acre feet per year and the amount allowed for direct diversion to 16 cubic feet per second.

Water System and Water Supply

As of June 30, 2015, it is estimated that there are 14,909 active consumer connections compared with 14,899 as of June 30, 2014. The SLO Water System consists of raw water supply from Whale Rock, Salinas and Nacimiento Reservoirs, the Stenner Canyon water treatment plant and four groundwater wells. For additional water supply information, see "THE CITY OF SAN LUIS OBISPO—City of San Luis Obispo's Water Rights." SLO is not currently involved in, and is unaware of, any material litigation between any of the water users in SLO Groundwater Basin. The water rights of individual water users within SLO Groundwater Basin have not been adjudicated.

Water Supply

Historically, SLO has met its water supply demand primarily from surface water supplies and a small amount of groundwater. These water supplies are expected to meet all future water demands through 2018. Completion of the Nacimiento Project further augmented the SLO water supply with additional surface water supplies.

Water Connections

The following table shows the growth in the number of water connections, excluding recycled water connections, to the SLO Water System for the five most recent fiscal years.

**Table A3-2
SLO Water System
Water Connections**

<u>Fiscal Year Ending June 30</u>	<u>Connections</u>	<u>Increase/(Decrease)</u>
2011	14,684	—
2012	14,773	0.61%
2013	14,767	(0.04)
2014	14,842	0.51
2015 [†]	14,941	0.67

[†] Estimated
Source: SLO.

Water Deliveries

The following table presents a summary of historic water deliveries, excluding recycled water deliveries, for the SLO Water System in acre-feet per year for the five most recent fiscal years.

**Table A3-3
SLO Water System
Water Deliveries in Acre Feet Per Year**

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Increase/(Decrease)</u>
2011	5,909	5.30%
2012	5,999	1.52
2013	5,823	(2.93)
2014	5,933	1.89
2015 [†]	5,955	0.37

[†] Estimated
Source: SLO.

Water Sales Revenues

The following table shows annual water sales revenues from water sales, excluding recycled water sales, for the five most recent fiscal years.

**Table A3-4
SLO Water System
Water Sales Revenues**

<u>Fiscal Year Ending June 30</u>	<u>Sales Revenues</u>	<u>Increase/(Decrease)</u>
2011	\$13,302,800	2.13%
2012	15,291,000	14.9
2013	16,163,000	5.7
2014	18,398,900	13.8
2015 [†]	16,910,000	(8.09)

[†] Estimated
Source: SLO

Largest Customers

The following table sets forth the 10 largest customers of the SLO Water System as of June 30, 2014 as determined by water use.

Table A3-5
SLO Water System
Largest Water Customers
(As of June 30, 2014)

<u>Customer[†]</u>	<u>Water Use</u> <u>(acre-feet)</u>
Silver City Mobile Home Park	56.0
Mustang Village	54.7
Sierra Vista Hospital	41.5
Laguna Lake Mobile Homes	34.7
City of San Luis Obispo Parks	32.5
Creekside Mobile Homes	32.4
Irish Hills Hamlet	32.1
Embassy Suites	30.1
SLO Coastal Unified School District	29.3
Chumash Village	28.0

(1) Does not include water users located outside SLO, including California Polytechnic State University, San Luis Obispo, the largest water customer.

Source: SLO.

SLO serves several customers located outside its city limits, including California Polytechnic State University (the “University”), the largest customer of the SLO Water System. Under the agreement with the University, SLO charges rates based on the actual consumption of water, in accordance with a formula established by SLO which is based on rates charged to commercial users generally as modified to reflect the part of the rate structure which is applicable to the University. For the Fiscal Year ended June 30, 2014, the University used 606 acre feet of water supplied by the SLO Water System, for which it paid \$906,566 which was approximately 5% of total revenues derived from water sales in that year.

Water System Rates and Charges

SLO water rates applies a flat fee and a volumetric charge based on a unit fee for the amount of water used. SLO also charges for disconnections and reconnections to the SLO Water System. In addition, SLO charges impact fees for new connections to the SLO Water System.

Unit Charge. SLO’s unit charge is based on the number of 100 cubic feet (“HCF”) used and calculated at the rate shown on the following schedule (as of July 2014).

<u>Quantity</u>	<u>Cost/HCF</u> <u>Inside City</u>	<u>Cost/HCF</u> <u>Outside City</u>
Base Fee	\$5.28	\$10.56
0-8	6.92	13.84
9+	8.65	17.30

Source: SLO.

Rate Increases. The SLO City Council reviews its water rate schedule on an annual basis, and adjusts water rates by resolution at a public meeting. For Fiscal Years beginning July 1, 2004 and 2005, the SLO City Council adopted annual rate increases of 8%. On July 1, 2006, the SLO City Council adopted a rate increase of 12%. In connection with this rate increase, the SLO City Council also established an additional tier of water rates for single-family residential customers using more than 25 units per month.

As part of a multi-year rate setting program, on June 19, 2007, the SLO City Council adopted a rate increase of 13% effective July 1, 2007 and another 13% effective July 1, 2008. SLO complied with the requirements for noticing customers of the water rate increases per the requirements of Proposition 218 for all increases applied to water fees. Subsequent fee increases were as follows:

<u>Fiscal Year</u>	<u>Fee Increase</u>
2009-10	12.0%
2010-11	11.0
2011-12	10.0
2012-13	9.0
2013-14 [†]	7.5
2014-15	5.5

[†] Change from three tiers to two tiers.

See “CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES–Proposition 218” for information regarding a pending effort to qualify an initiative with respect to current rates.

The SLO Water System receives revenues from three primary sources: (i) monthly water rates and service charges, (ii) development impact fees and (iii) miscellaneous sources including interest income. SLO’s current rate structure imposes charges based solely on consumption, and does not include any fixed components. The following rates are expressed as the amount of water (per 100 cubic feet) used on a monthly basis.

**Table A3-6
SLO Water System
Water Sales Rates⁽¹⁾**

<u>As of July 1</u>	<u>Monthly Base Fee</u>	<u>Monthly Consumption 0-8 ccf</u>	<u>Monthly Consumption 9 ccf</u>
2012	\$5.73	\$7.17	\$8.99
2013	5.00	6.56	8.20
2014	5.28	6.92	8.65
2015 ⁽²⁾	7.63	6.92	8.65
2015 Drought Surcharge ⁽²⁾	0.37	0.98	1.23
2016 ⁽²⁾	9.98	6.92	8.65
2016 Drought Surcharge ⁽²⁾	0.74	1.10	1.37

(1) Rates are double for customers outside of SLO’s city limits.

(2) Proposed rates.

Source: SLO.

Water Services Charge

The following table sets forth a comparison of the average monthly water services charge of SLO and those of nearby water purveyors as of July 1, 2014.

**Table A3-7
SLO Water System
Rate Comparison
As of July 1, 2014
CENTRAL COAST SERVICE AREAS**

<u>Community</u>	<u>Total Monthly Charge⁽¹⁾⁽²⁾</u>
AMWC ⁽³⁾	\$39.40
Templeton CSD	67.46
Nipomo	48.81
Pismo Beach	54.82
Paso Robles	102.50
Heritage Ranch	56.81
Santa Margarita	58.78
Grover Beach ⁽⁴⁾	60.57
Arroyo Grande	63.62
Morro Bay	85.13
SLO⁽⁵⁾	207.69

- (1) Total charge calculated is based on 18,700 gallons per month of metered water. Where several rates exist based on elevation or zone, the lowest rate is assumed.
- (2) Total monthly charge is the sum of monthly residential service charge and monthly commodity charge. Total monthly charges calculated using the inside city rate. Applicable base charges, service charges and surcharges are included in the calculation. The California Utilities Commission charges and taxes are not included.
- (3) Includes a \$2.50 monthly surcharge for Nacimiento Project.
- (4) Includes a 1% utility tax applied to water portion of the bill.
- (5) Includes a 5% utility users tax applied to the water portion of the bill.

Sources: Each Participant with respect to its respective monthly charge and AMWC with respect to other data.

Collection Procedures. The SLO Water System is on a monthly billing cycle for water service. Payment is due by the 30th day after the billing date and is considered delinquent if not paid by that date. If payment is not received, a delinquency message appears on the next monthly water bill. After 30 days, delinquent customers are billed the greater of \$15 or 1.5% as a late fee and have 26 days to bring the delinquent account current. All accounts not paid in full within 26 days after delinquency will be disconnected from service until full payment is made, including late penalties and a \$97 reconnection fee.

Development Impact Fees. SLO charges development impact fees for improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The current development impact fee for single family residences is \$10,775. Non-residential projects are charged based on meter size and range between \$18,317 (for a 1" meter) to \$359,869 (for a 6" meter). SLO will study changing to capacity and connection fees in 2015-16.

Assessed Valuations, Tax Collections and Tax Delinquencies

The following tables show the secured assessed valuation of taxable property (net of exemptions) within SLO during the five most recent fiscal years.

As a result of the implementation of the tax distribution system commonly referred to as the “Teeter Plan” by San Luis Obispo County, SLO began in the fiscal year ended June 30, 1994 to receive 100% of its share of the 1% property tax levies without regard to delinquencies. There can be no assurance that the Teeter Plan or the participation of SLO therein will be continued indefinitely.

Table A3-8
SLO
Secured Assessed Valuation
Fiscal Years ended June 30, 2011 Through 2015

<u>Fiscal Year Ended June 30</u>	<u>Total Secured Assessed Valuation</u>
2011	\$5,985,294,700
2012	5,894,189,700
2013	5,963,182,500
2014	6,152,693,400
2015	6,511,325,934

Sources: San Luis Obispo County Auditor-Controller; HdL; San Luis Obispo County Assessor Combined Tax Rolls.

SLO’s allocation of 1% property tax revenues in San Luis Obispo County for the Fiscal Year ended June 30, 2015 as reported by San Luis Obispo County is \$9,508,300 a 3.28% increase over the prior year.

Drought and Conservation Measures

On May 5, 2015, the SWRCB adopted regulations that require water purveyors to reduce water use until February 2016. SLO was given a target reduction of 12%. Since the reduction is based on 2013 use levels, SLO will need to reduce water use to 102 gallons per capita, per day. Current use is at 108 gallons. In its proposed rates for Fiscal Years 2015-16 and 2016-17, the reduction was considered and a drought surcharge was proposed to be added. As of the date of this Official Statement, the Proposition 218 protest hearing has not yet taken place and the outcome of the recommended fee increases has not been not concluded.

On June 2, 2015, the City Council [will be asked to adopt / adopted] a drought response strategy and declare a drought emergency, which [includes / included] the implementation of: (i) a water savings incentive program for low-flow toilets and/or high efficiency washing machines; (ii) limitation on outdoor irrigation to two days per week, with watering permitted only between 7 pm and 7 am.; (iii) requiring all new landscape associated with a planning or building application, unless served by recycled water, be deferred until the drought emergency is rescinded, with bonding or some other financial surety required to be posted; and (iv) implementation of the Water Shortage Contingency Plan that imposes water allotments per dwelling unit and per capita imposed for any community that fails to meet the required conservation targets, and penalties in form of 100% or 200% surcharges depending on the excess water used.

Future Water System Improvements

On May 5, 2015, the City Council reviewed the 2015 Potable Water Distribution System Operations Master Plan. The recommendations in the Operations Master Plan will assist the City in prioritizing both current and future water system needs. Implementation of the plan will eventually lead to the removal of assets such as pump stations and tanks. Additionally, the plan recommends numerous pressure zone consolidation projects to reduce operational and long-term infrastructure maintenance and replacement costs. For example, in 2014, after going out to bid, a project was canceled based on water model data that demonstrated how water could be re-routed and the pipeline abandoned instead of replaced. This resulted in savings of approximately \$750,000. The hydraulic model will be used to evaluate future development projects and contribute to the design of capital improvement projects.

SLO has a proposed capital improvement budget for the next five years in the amount of \$20,475,632 including improvements to the WTP, distribution systems, and fleet maintenance.

FINANCIAL INFORMATION OF THE CITY OF SAN LUIS OBISPO

Budgetary Process

SLO has received national recognition for its use of a two-year Financial Plan and budgetary process that emphasizes long-range planning and effective program management. Significant features of SLO's two-year Financial Plan include the integration of Council goal-setting into the budgetary process and the extensive use of formal policies and measurable objectives. The Financial Plan includes operating budgets for two years and a Capital Improvement Plan (the "CIP") covering five years.

Under this multi-year approach, appropriations continue to be made annually; however, the Financial Plan is the foundation for preparing the budget for the second year. Additionally, unexpended operating appropriations from the first year may be carried over for specific purposes into the second year with the approval of the City Manager.

Management Policies. The overall goal of SLO's Financial Plan is to establish and maintain effective management of SLO's financial resources. Formal statements of budgetary policies and major objectives provide the foundation for achieving this goal. Key budget principles include: continuing basic services at current levels and adequately funding them; maintaining fund balances at levels which will protect SLO from future uncertainties; estimating revenues at realistic levels; making all current expenditures with current revenues; finding solutions to SLO's financial challenges which maintain and promote a quality community; maintaining a traditional commitment to a strong General Fund; and complying with provisions of the State Constitution, City Charter, municipal code and sound fiscal policy. Key revenue policies include: maintaining a diversified and stable revenue base; setting enterprise fund rates at levels that fully recover the total cost of providing services; charging fees for General Fund programs in accordance with adopted user fee cost recovery goals; and ensuring that new development pays its fair share of the cost of constructing necessary community facilities.

Budget Process. The City Manager is responsible for preparing the budget and submitting it to the Council for approval. Although specific steps will vary from year to year, the following is an overview of the general approach used under SLO's two-year budgetary process:

First Year. The Financial Plan process begins with a Council goal-setting session to determine major objectives to be accomplished over the next two years. These are incorporated into the budget instructions issued to the operating departments, who are responsible for submitting initial budget

proposals. After these proposals are comprehensively reviewed and a detailed financial forecast is prepared, the City Manager issues the Preliminary Financial Plan for public comment. A series of study sessions and public hearings are then held leading to Council adoption of the Budget by July 1.

Second Year. Before the beginning of the second year of the two-year cycle, the Council reviews the progress during the first year, makes adjustments as necessary, and approves appropriations for the second fiscal year.

Mid-Year Reviews. The Council formally reviews SLO's financial condition and amends appropriations, if necessary, six months after the beginning of each fiscal year.

Status Reports. On-line access to "up-to-date" financial information is provided to staff throughout the organization. Additionally, comprehensive financial reports are prepared monthly to monitor SLO's fiscal condition; more formal reports are issued to the City Council on a quarterly basis. The status of major program objectives including CIP projects is formally reported to the City Council on an ongoing basis.

Accounting. Budgets are prepared for each fund in accordance with its respective basis of accounting. All governmental funds have legally adopted budgets except capital project funds. While budgets are prepared for SLO's capital project funds, the CIP projects generally span more than one year and are effectively controlled at the project level; accordingly, budgetary comparisons are not presented in the accompanying basic financial statements.

Administration. As provided under the City Charter, the City Council may amend or supplement the budget at any time after its adoption by majority vote of the Council. The City Manager has the authority to make or approve administrative adjustments to the budget as long as those changes will not have a significant policy impact nor affect the budgeted year-end fund balances. The level for which expenditures are not to exceed appropriations is at the fund level.

Investment Management Plan

SLO's investment management plan addresses a wide variety of investment practices, including primary investment objectives, investment authority, allowable invest vehicles, investment maturity terms eligible financial institutions, capital preservation and cash flow management. Under SLO's policies, investments in its portfolio are intended to be held until maturity. Accordingly, investment terms are selected for consistency with SLO's cash flow needs. SLO is authorized by its investment policy and the California Government Code to invest in securities issued or guaranteed by the federal government or its agencies, repurchase and reverse repurchase agreements, bankers' acceptances, commercial paper, corporate notes and mutual funds, negotiable certificates of deposit, financial futures and financial option contracts and State Local Agency Investment Fund.

Reports are issued monthly to the Council and Investment Oversight Committee by the Department of Finance & Information Technology, providing detailed information regarding SLO's investments and compliance with SLO policy. The Investment Oversight Committee, comprised of the City Manager, Assistant City Manager, Director of Finance and Information Technology/City Treasurer, Finance Manager, and an appointed member from the public at large meet quarterly to review SLO's investment activities. At these meetings, SLO's independent auditor reports to the committee on compliance with the Investment Management Plan. Under SLO's investment policies, its primary investment objective is to achieve a reasonable rate of return on public funds while minimizing risk and preserving capital. In evaluating the performance of SLO's portfolio in achieving this objective, it is

expected that yields on SLO’s investments will regularly meet or exceed the average return on three-month U.S. Treasury Bills.

Financial Statements

Certain excerpts of the most recent comprehensive annual financial report of SLO under the heading “AUDITED FINANCIAL STATEMENTS” prepared by Glenn, Burdette, independent certified public accountants, are included as Appendix B hereto. The independent auditor’s letter concludes that the comprehensive annual financial report present fairly, in all material respects, the financial position of the business-type activities of SLO as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. The summary operating results contained under the caption “–Operating Results” are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

Operating Results

The following table is a summary of operating results of the SLO Water System, for the last five fiscal years. These results have been derived from the Financial Statements of SLO but exclude certain receipts which are not included as Revenues under the Delivery Contract and certain non-cash items and include certain other adjustments. See the caption “–Outstanding Long-Term Indebtedness” below under this heading.

**Table A3-9
SLO Water System
Operating Results
Fiscal Year Ended June 30**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015⁽¹⁾</u>
Revenues					
Water sales	\$13,302,800	\$15,291,000	\$16,163,000	\$18,398,900	\$16,910,000
Development impact fees ⁽²⁾	639,600	646,000	1,583,800	662,000	1,870,000
Other revenue and income	<u>698,200</u>	<u>1,154,700</u>	<u>436,100</u>	<u>768,409</u>	<u>360,400</u>
TOTAL REVENUES	\$14,640,600	\$17,091,700	\$18,182,900	\$19,829,309	\$19,140,400
Operation/Maintenance Costs ⁽³⁾	\$12,346,500	\$14,258,300	\$13,384,200	\$13,452,830	\$14,866,820
Net Revenues	\$2,294,100	\$2,833,400	\$4,798,700	\$6,376,479	\$4,273,580

(1) Estimated.

(2) Including development impact fees but excludes the value of physical facilities dedicated to SLO by developers.

(3) Includes payments made to the Flood Control District pursuant to the SLO Delivery Contract. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS–The Delivery Contracts” in the forepart of this Official Statement. Excludes depreciation/amortization and loss on disposal of assets.

Source: SLO.

Gross Revenues. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Operations and Maintenance Costs. The water fund accounts for the provision of water services to the residents of SLO as well as some customers in the County of San Luis Obispo. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, improvements and debt service.

Insurance

The SLO City Council adopted a comprehensive risk management program in 1992, which is staffed by a full-time Risk Manager and includes systems for risk identification, evaluation and treatment and monitoring in the areas of tort liability, workers' compensation, property, contracts and safety. Some of the activities included in the program are maintaining an organized-wide Safety Committee and a wellness program, coordinating claims processing with workers' compensation and liability third-party administrators, reviewing contracts for proper insurance and evaluating the risks of proposed special events.

Pension and Post-Retirement Benefits

SLO contributes to CalPERS to provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by State statute and city ordinance. The amount of SLO's required annual contribution is determined actuarially. It is the policy of SLO to fully fund the annual contribution to ensure that the plan will be able to fully meet its obligation to retired employees on a timely basis. For the fiscal year ended June 30, 2014, SLO's annual pension cost for CalPERS was \$500,458 for miscellaneous employees, which were equal to SLO's annual required contribution and actual contributions. The unfunded actuarial accrued liability in the fiscal year ended June 30, 2013 was \$4.326 million pro-rated based on Water Fund's share of total payroll.

Capital Improvement Program

SLO forecasts capital improvements to the SLO Water System of approximately \$20.47 million over the next five years. Capital improvements will be financed by a combination of grants, loans and Revenues. Water conservation is a cornerstone of SLO's water management strategy. When planning for future water needs, SLO estimates what level of conservation the community will achieve. When water conservation measures like low flow shower heads and toilets, and water-efficient landscaping are used, the demand for future water supplies is eased. While SLO residents have reduced water use, conservation alone cannot meet all the city's future water needs.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. SLO is of the opinion that charges for Water Service do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. SLO has covenanted in the Delivery Contract that it will establish, fix and collect rates and charges from the customers of its Water Enterprise at levels sufficient to produce revenue from the Water Enterprise which are at least equal to: the costs of operating and maintaining the Water Enterprise; plus the Contract Payments (as defined herein). SLO is of the opinion that the water rates and use charges imposed by SLO do not exceed the costs SLO reasonably bears in providing such service.

Proposition 218

Article XIII D requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water or wastewater service is ultimately determined to be a “fee” or “charge” as defined in Article XIII D, the local government’s ability to increase such fee or charge may be limited by a majority protest. See the discussion under “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Articles XIII C and XIII D of the California Constitution” in this Official Statement.

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AUDITED FINANCIAL STATEMENTS

APPENDIX A4

TEMPLETON COMMUNITY SERVICES DISTRICT

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TEMPLETON COMMUNITY SERVICES DISTRICT

General

Templeton Community Services District (“Templeton CSD”) operates public water supply system, and is a party to a Delivery Contract with the Flood Control District pursuant to which, *inter alia*, Templeton CSD has covenanted to pay its *pro rata* share (the “Templeton Share”) of various capital expenses relating to the funding of design costs, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, raising and building the Nacimiento Project.

For additional financial information regarding Templeton CSD, see the excerpts of the financial statements submitted by Templeton CSD in APPENDIX B–“PARTICIPANT AUDITED FINANCIAL INFORMATION.”

Governance and Management

Templeton CSD was organized under the authorization of the California Government Code for the purpose of providing all permissible services of a community services district, and is governed by an elected Board of Directors. As of April 2015, Templeton CSD provides water services to approximately 6,835 people. Templeton CSD also provides wastewater disposal services, storm water drainage, fire protection, street lighting, park and recreation services and a community center within its boundaries.

Land and Land Use

Templeton CSD serves an approximately 3.5 square mile service area with water service, which included approximately 40 miles of water lines and 2,678 water connections for the fiscal year ended June 30, 2014.

A group of property owners in the Paso Robles Basin has filed a quiet title action seeking an adjudication of water rights among AMWC, the City of Paso Robles, the Templeton Community Services District and other water purveyors and users.

Water Rights

Since 1959, the County of San Luis Obispo has held the rights to 17,500 acre-feet per year of water from Lake Nacimiento. The Board of Directors of Templeton CSD requested [and received] 250-acre feet from this amount, which is equivalent to supplying water to 500 residential units. Templeton CSD has its own surface water and groundwater rights which are more fully described in the Water System section below.

No Litigation Related to the 2015 Bonds

There are pending lawsuits in which Templeton CSD is involved. The management and legal counsel for Templeton CSD estimate that the potential claims against Templeton CSD, not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of Templeton CSD.

THE WATER SYSTEM OF TEMPLETON COMMUNITY SERVICES DISTRICT

Service Area

The Templeton CSD service area is located in the central coast area of the State. Its average monthly bill for residential, commercial and industrial customers for the fiscal year ended June 30, 2014 was \$59.80.

Water Facilities

Templeton CSD currently operates 9 groundwater and 2 underflow wells. Most of its wells are equipped with sand separators. No sewers or sewage disposal facilities are located within 100 feet of the wells sites. Templeton CSD well water complies with primary and most secondary drinking water standards.

As of December 2014, there were 2,678 active consumer connections, compared with 2,664 as of December 2013.

Water Permits, Licenses and Other Regulations

Templeton CSD possesses two permits and one license, which have been issued by the State Water Resources Control Board to pump water from the Salinas River. Permit 8964 authorizes Templeton CSD to directly divert from the Salinas River at a rate of 1.5 cubic feet per second (“cfs”) from October 1 to April 1 with a maximum diversion of 500 acre-feet per year. Permit 20785 authorizes Templeton CSD to directly divert from the Salinas River at a rate of 1.5 cfs from April 1 to May 15 with a maximum diversion of 133.7 acre-feet, but the total combined diversion under both permits cannot exceed 500 acre feet per year. Templeton CSD holds one license (License 4829) that authorizes it to divert from Paso Robles Creek at a rate of .26 cfs from April 1 to October 15.

Water System and Water Supply

The current water supply for Templeton CSD is by local wells and 250-acre feet from the Nacimiento Project.

The Groundwater Basin. Templeton CSD has traditionally met its service area customer needs during the summer months from groundwater through the primary water wells of Templeton CSD. These wells pump from the Atascadero Sub Basin (the “Templeton Basin”). During winter months, the customer water needs are primarily met with water pumped from Salinas River wells under its permits and license.

Templeton CSD currently has ten active and one standby river well available for use. Templeton CSD’s current pumping capacity is 1,875 gallons per minute (gpm) (does not include river wells). In calendar year 2014, 485.13 acre-feet were delivered to Templeton CSD customers from groundwater wells.

The quality of the currently pumped groundwater meets existing regulatory requirements, with average total dissolved solids of 728 mg/l in 2014.

There are pending lawsuits in which the District is involved. The District’s management and legal counsel estimate that the potential claims against the District, not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of Templeton CSD. The water rights of individual water users within Templeton Basin have not been adjudicated.

Drought and Conservation Measures. The Templeton CSD adopted Ordinance 2014-1 in March 2014 which comprehensively overhauled water conservation requirements. Also in March 2014, Templeton CSD entered into Stage 1 Conservation Requirements of the Ordinance. From April through the end of 2014, the District saw a reduction in water demand of about 15% as compared to 2013. It is anticipated that the District will declare Stage 2 Conservation Requirements on May 19, 2015 and could impose additional conservation requirements beyond Stage 2 at that time, to comply with the anticipated State Water Resources Control Board regulation regarding water conservation.

The revenue forecast of Templeton CSD for Fiscal Years 2014-15 and 2015-16 anticipates decreases in revenue due to enhanced conservation efforts. Even with the lower revenue forecast, it is anticipated that Water Fund revenue during each of these years will exceed expenditures.

Water Connections

The following table shows the growth in the number of water connections, excluding recycled water connections, to the Templeton CSD Water System for the four most recent fiscal years.

**Table A4-1
Templeton CSD
Water Connections**

<u>Fiscal Year Ending June 30</u>	<u>Connections</u>	<u>Increase</u>
2011	2,620	N/A
2012	2,651	1.5%
2013	2,664	0.5
2014	2,678	0.5
2015 [†]	2,698	0.8

[†] Estimated
Source: Templeton CSD.

Water Deliveries

The following table presents a summary of water deliveries, excluding recycled water deliveries, for the Templeton CSD Water System in acre-feet per year for the four most recent fiscal years.

**Table A4-2
Templeton CSD
Water Deliveries in Acre Feet Per Year**

<u>Fiscal Year Ending June 30</u>	<u>Total</u>	<u>Increase/(Decrease)</u>
2011	1,433	N/A
2012	1,479	3.5%
2013	1,592	8.0
2014	1,340	(16.0)
2015 [†]	1,194	(25.0)

[†] Estimated
Source: Templeton CSD.

Water Sales Revenues

The following table shows annual water sales revenues from water sales, excluding recycled water sales, for the five most recent fiscal years.

**Table A4-3
Templeton CSD
Water Sales Revenues**

<u>Fiscal Year Ending June 30</u>	<u>Sales Revenues</u>	<u>Increase/(Decrease)</u>
2011	\$1,584,982	N/A
2012	1,629,020	3.0%
2013	1,821,048	11.0
2014	1,770,000	(3.0)
2015 [†]	1,770,000	0.0

[†] Estimated
Source: Templeton CSD.

Largest Customers

The 10 largest customers of the Templeton CSD Water System accounted for approximately 9% of water sales from the Templeton CSD Water System, and less than 4% of total Templeton CSD revenues in the fiscal year ended June 30, 2014. The annual payments by these customers for Fiscal Year ended 2013-14 ranged from \$20,000 to \$7,600.

Water System Rates and Charges

Templeton CSD water rates are comprised of a monthly minimum charge and a unit charge based on the amount of water used. Templeton also charges for disconnections and reconnections to the Templeton Water System, and for construction meter rentals. Templeton currently charges connection fees for new connections to the Templeton Water System.

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Monthly Minimum Charge. Templeton’s monthly minimum charge is paid by all customer classes and, with the exception of multiple unit customers, is based on meter size. The monthly minimum charge is as follows:

**Table A4-4
Templeton
Water Monthly Minimum Charge**

<u>Meter Size (in inches)</u>	<u>Monthly Service Minimum Charge[†]</u>
Under 1”	\$17.05
1	26.85
1 ½	38.45
2	48.25
3	75.85
4	150.70
6	195.25

[†] Multiple unit customers pay a monthly minimum charge for each additional unit.
Source: Templeton CSD.

Unit Charge. Templeton CSD unit charge is based on the number of cubic feet used and calculated at the rate shown on the following schedule.

<u>Quantity</u>	<u>Cost</u>
301 – 2,000 HCF	\$2.13
2,001 – 4,000	2.84
4,001 – 8,000	3.69
8,001 & over	4.38

Source: Templeton CSD.

Rate Increases. Templeton CSD imposed a \$3.06 base rate increase in January 2010 to accommodate increased costs and inflation. The rate increases for residential customers are set forth in the following table.

**Table A4-5
Templeton CSD
Water Sales Rates**

<u>Fiscal Year Ending June 30</u>	<u>Water Monthly Minimum First 3 HCF</u>	<u>Increase</u>
2011	\$15.25	\$3.06
2012	15.25	0.00
2013	16.10	0.85
2014	17.05	0.95
2015	17.05	0.00

Source: Templeton CSD.

Water Service Charges. The table below sets forth a comparison of the average monthly water services charge of Templeton CSD with those of nearby water purveyors as of July 30, 2014.

**Table A4-6
Templeton CSD
Rate Comparison
Fiscal Year Ended July 30, 2014
CENTRAL COAST SERVICE AREAS**

<u>Community</u>	<u>Total Monthly Charge⁽¹⁾⁽²⁾</u>
AMWC ⁽³⁾	\$39.40
Templeton CSD	67.46
Nipomo	48.81
Pismo Beach	54.82
Paso Robles	102.50
Heritage Ranch	56.81
Santa Margarita	58.78
Grover Beach ⁽⁴⁾	60.57
Arroyo Grande	63.62
Morro Bay	85.13
SLO ⁽⁵⁾	207.69

- (1) Total charge calculated is based on 18,700 gallons per month of metered water. Where several rates exist based on elevation or zone, the lowest rate is assumed.
- (2) Total monthly charge is the sum of monthly residential service charge and monthly commodity charge. Total monthly charges calculated using the inside city rate. Applicable base charges, service charges and surcharges are included in the calculation. The California Utilities Commission charges and taxes are not included.
- (3) Includes a \$2.50 monthly surcharge for Nacimiento Project.
- (4) Includes a 1% utility tax applied to water portion of the bill.
- (5) Includes a 5% utility users tax applied to the water portion of the bill.

Sources: Each Participant with respect to its respective monthly charge and AMWC with respect to other data.

Collection Procedures. Templeton CSD is on a monthly billing cycle for water service. Payment is due by the 19th of the month following the billing cycle, and is considered delinquent if not paid by that date. If payment is not received, a late notice is mailed to the customer and a 10% penalty is assessed. Any account that is more than 15 days overdue is subject to shut-off. At least 48 hours before the scheduled shut-off, door hangers are placed on residences and assessed a door hanger fee of \$9.50. Phone calls are attempted at least 48 hours before the scheduled shut-off. Customers that are still delinquent as of noon on shut-off day will have their meters locked and a \$50.00 reconnection fee is added to the balance due. In order to restore service, the balance of the account including past due, current due and all fees must be paid in full. After 30 days, interest at the monthly rate of 0.5% accrues on any delinquent amount. Currently, delinquent payments account for less than 1/2% of total revenues of the Templeton CSD Water System.

Connection Fees. Templeton CSD charges connection fees for improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The current connection fee for single family residences and commercial and industrial units are \$24.478 per water unit of use.

Future Water System Improvements

Templeton CSD projects capital improvements to the Templeton CSD Water System for existing users of approximately \$11 million from Fiscal Year 2015-16 to Fiscal Year 2025-26, which are expected to be financed by a combination of grants, loans and revenues. Templeton CSD projects capital improvements to the Templeton CSD Water System to accommodate future growth of approximately 30% in the next 30 years which is also expected to be funded by connection fees, grants, loans and revenues.

FINANCIAL INFORMATION OF TEMPLETON COMMUNITY SERVICES DISTRICT

Budgetary Process

Templeton CSD utilizes accounting principles appropriate for an Enterprise Fund to records its activities. Accordingly, revenues and expenses are recognized on an accrual basis of accounting. Templeton CSD's books and records include a water fund, sewer fund, drainage fund, solid waste fund, fire fund, a parks and recreation fund, a street lighting fund, and an administrative fund.

Financial Statements

Certain excerpts of the most recent audited financial statements of Templeton CSD, prepared by Leaf & Cole, LLP, independent certified public accountants, are included as Appendix B hereto (the "Financial Statements"). The independent auditor's letter concludes that the audited financial statements present fairly, in all material respects, the financial position of the business-type activities of Templeton CSD as of June 30, 2014, and the respective changes in financial position, where applicable, and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The summary operating results contained under the caption "–Operating Results" are derived from these financial statements (excluding certain non-cash items and after certain other adjustments) and are qualified in their entirety by reference to such statements, including the notes thereto.

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Operating Results

The following table is a summary of operating results of the Templeton CSD Water System for the last five fiscal years. These results have been derived from the Financial Statements of Templeton CSD but exclude certain receipts which are not included as Revenues under the Delivery Contract and certain non-cash items and include certain other adjustments.

Table A4-7
Templeton CSD Water System
Operating Results

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Water sales	\$1,365,758	\$1,547,225	\$1,583,700	\$1,779,687	\$1,908,828
Service Charges	30,235	37,757	45,320	41,361	45,652
Plant Operating Expenses [†]	1,646,683	1,608,280	1,528,047	1,607,204	1,861,489
Non-Operating Revenue	70,515	108,343	182,596	178,038	218,704
Net revenue	(\$180,175)	\$85,045	\$283,569	\$391,882	\$311,695

(2) Includes payments made to the Flood Control District pursuant to the Templeton CSD Delivery Contract. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—The Delivery Contracts" in the forefront of this Official Statement.
Source: Templeton CSD.

Management's Discussion and Analysis

The following discussion relates to certain items in the table above.

Gross Revenues. Templeton CSD recognizes revenue from user fees, service charges, program fees and rental fees as they are earned. Taxes and assessments are recognized as revenue based upon amounts collected on behalf of Templeton CSD by the County.

Operations and Maintenance Costs. As part of the operation and maintenance of its water system, Templeton CSD routinely repairs line breaks, installs new services, monitors and records: tank levels, line pressures, chlorine levels and water demand flows. In addition, Templeton CSD routinely maintains and repairs: natural gas engines and electric motors for well pumps, five vehicles, one dump truck, backhoe, and other assorted equipment and machinery.

Outstanding Long-Term Indebtedness

As of June 30, 2014, Templeton CSD had a loan payable to the State that is payable from revenues of the Water System. The aggregate outstanding amount of the loan as of June 30, 2014 was \$990,731.

Insurance

Templeton CSD is insured through Special District Risk Management Authority (SDRMA), a risk-pooling self-insurance authority, created under provisions of Sections 6500 *et seq.* of the California Government Code for general, property and auto, liability, public officials' and employees' errors and omissions, employment practices, worker's compensation insurance, and maintains liability coverage at

the total risk financing limit of \$10 million with a combined single limit of \$10 million per occurrence, subject to applicable deductibles.

Employees and Employee Benefits

As of June 30, 2014, Templeton CSD employs 19 full-time employees and has an average head count of 68 employees per month including part-time/temporary employees.

Pension Benefits

Miscellaneous Plan Description. Templeton CSD contributes to the California Public Retirement Plan System (CalPERS), a cost sharing multiple-employer defined benefit pension plan. Templeton CSD participates in the miscellaneous 3% at 60 pool for employees hired prior to December 22, 2012, the 2.5% at 55 pool for employees hired after December 22, 2012, and the 2% at 62 pool for employees hired after January 1, 2013 with no prior CalPERS membership or those with CalPERS membership who have had a break in service greater than six months. CalPERS provides retirement and disability benefits, annual cost-of living adjustments; and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in a risk pool. A menu of benefit provisions as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The Plan selects optional benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS executive office Lincoln Plaza North, 400 Q Street, Sacramento, California 95814.

Miscellaneous Plan Funding Policy. Active plan members in the 3% at 60 and 2.5% at 55 pools are required to contribute 8% of their annual covered salary, which Templeton CSD paid on behalf of the employee until August 16, 2013. Beginning August 17, 2013, all employees began making this contribution. Plan members in the 2% at 62 pool are required to contribute 6.25% of their annual covered earnings. Templeton CSD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by CalPERS Board of Administration. The required employer contribution rate for the Fiscal Years ended June 30, 2014 and 2013, were 24.881% and 24.204%, respectively for the 3% at 60 pool, 14.083% and 13.307% for the 2.5% at 55 pool, and 6.25% and 6.25% for the 2% at 60 pool. The contribution requirements of the plan members and Templeton CSD are established and may be amended by CalPERS. The contributions for Templeton CSD for the years ended June 30, 2014, 2013 and 2012 were \$298,018, \$259,921 and \$278,906, respectively, which were equal to the required contributions each year.

Safety Plan Description. Templeton CSD contributes to CalPERS, a cost sharing multiple-employer defined benefit pension plan. Templeton CSD participates in the miscellaneous 3% at 50 pool for employees hired prior to December 22, 2012, the 3% at 55 pool for employees hired after December 22, 2012, and the 2.7% at 57 pool for employees hired after January 1, 2013 with no prior CalPERS membership or those with CalPERS membership who have had a break in service greater than six months. CalPERS provides retirement and disability benefits, annual cost-of living adjustments; and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS requires agencies with less than 100 active members in the plan to participate in a risk pool. A menu of benefit provisions as well as other requirements is established by State Statutes within the Public Employees Retirement Law. The Plan selects optional benefits through District resolution. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be

obtained from the CalPERS executive office, Lincoln Plaza North, 400 Q Street, Sacramento, California 95814.

Safety Plan Funding Policy. Active plan members in the 3% at 50 and 3% at 55 pools are required to contribute 9% of their annual covered salary, which Templeton CSD paid on behalf of the employee until August 16, 2013. Beginning August 17, 2013, all employees began making this contribution. Plan members in the 2.7% at 57 pool are required to contribute 11.5% of their annual covered earnings. Templeton CSD is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions are those adopted by CalPERS Board of Administration. The required employer contribution rate for the Fiscal Years ended June 30, 2014 and 2013, were 57.901% and 54.472%, respectively for the 3% at 50 pool, 20.774% and 20.057% for the 3% at 55 pool, and 11.5% and 11.5% for the 2.7% at 50 pool. The contribution requirements of the plan members and Templeton CSD are established and may be amended by CalPERS. The contributions of Templeton CSD for the years ended June 30, 2014, 2013 and 2012 were \$144,605, \$92,742 and \$95,501, respectively, which were equal to the required contributions each year.

Post-Retirement Benefits

Templeton CSD provides postretirement health care benefits pursuant to a resolution passed by the Templeton CSD Board of Directors, providing for all employees who qualify for Templeton CSD's postretirement health care benefits.

Investment Policy

Templeton CSD is authorized to make investments authorized by Section 53652 of the California Government Code to invest in obligations of the United States Treasury, and its agencies and instrumentalities. The investment policy of Templeton CSD is more restrictive than the California Government Code. The policy only allows the Templeton CSD to invest in the California Local Agency Investment Fund, FDIC insured accounts and investments collateralized pursuant to Section 53652 of the California Government Code.

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AUDITED FINANCIAL STATEMENTS

APPENDIX B

SUMMARY OF THE DELIVERY CONTRACTS

The following is a summary of selected provisions of the Delivery Contracts that are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the Delivery Contracts for full and complete statements of their provisions.

Definitions

“*Additional Debt*” means, as to the Participant and its Water Enterprise, and as to the Water Enterprises, individually, of the respective Other Participants, such debt or similar obligations to be payable from the revenues of such Water Enterprise, as may be permitted under the terms of the Legal Documents.

“*Approved Additional Project*” means a capital improvement to the Nacimiento Facilities that has been agreed to by the Participant and/or certain Other Participants, and that will be paid by that group within All Participants which has requested or agreed to such capital improvement.

“*Capital Projects Installment Debt Service*” means payments on debt or similar obligations incurred by the District for the Nacimiento Facilities consisting of, in the aggregate, (a) principal and interest (or mandatory sinking fund payments, installments or lease or similar payments due) with respect to all Municipal Obligations at the time outstanding in accordance with their terms, *provided* that capitalized interest funded from the proceeds of Municipal Obligations need not be taken into account, (b) annual costs of administering the Municipal Obligations, including the annual fees of any trustee or paying agent therefor, and (c) the costs, if any, of annual credit enhancement for the Municipal Obligations, whether or not based on a derivative structure as provided in Section 5922(a) of the Government Code. In the event, and to the extent that, any Additional Capital Project is financed by means of the issuance of a series of additional Municipal Obligations, then the payments and costs associated with the additional Municipal Obligations will become a part of the Capital Projects Installment Debt Service.

“*Capital Reserve Costs*” means the District’s annual costs of maintaining Capital Reserves, determined by the District and budgeted annually by the District as provided for in the Delivery Contracts, to be apportioned among all Participants as provided for in the Delivery Contracts.

“*Capital Reserves*” means those reserves established and maintained by the District for (i) Scheduled Maintenance or (ii) for anticipated costs of a Required Additional Project imposed, or likely to be imposed, by a Governmental Authority (an “External Requirement”) in order for the District to continue to operate the Nacimiento Facilities, *provided* however, that the District shall not expend any portion of the Capital Reserves for any External Requirement until and unless such External Requirement becomes a final order of such Governmental Authority, not subject to further appeal. Such Capital Reserves may be established either, (i) on a year-to-year basis by the District in its annual budgets, copies of which shall be supplied to the Participant promptly following adoption, or (ii) on a multi-year basis by the District through the development and promulgation to the Participant of a long-term capital improvement plan of the District; *provided*, however, that no Approved Additional Projects will be funded from the Capital Reserves.

“*Contract Payments*” means those payments due from the Participant to the District, representing the Participant’s pro rata share of Nacimiento Project Costs.

“*Coverage Factor*” means one 125% of Participant’s pro rata share of Capital Projects Installment Debt Service, determined in accordance with the Delivery Contract, calculated for each Fiscal Year.

“*Debt Service Shortfall*” means the aggregate amount of Delinquent Debt Service Payments due from Defaulting Participants on the Due Date in question.

“*Delinquent Debt Service Payment*” means those payments of Capital Projects Installment Debt Service due under the Delivery Contract or any Like-Contract that are not, in fact, paid on its Due Date.

“*Delivery Entitlement*” means the quantity of Nacimiento Project Water which the Participant is entitled to have delivered by the District to the Participant under the Delivery Contract in any given Water Year.

“*Delivery Entitlement Share*” means the proportion of the Delivery Entitlement as compared to the Total Delivery Entitlement Obligation in any given Water Year.

“*District*” means the San Luis Obispo County Flood Control and Water Conservation District, a Flood Control and Water Conservation District duly established and existing under the San Luis Obispo County Flood Control and Water Conservation District Act, Act 7205 of the Uncodified Acts of the California Water Code.

“*Effective Date*” means the date upon which all Initial Participants have executed and delivered the Delivery Contract and the Like-Contracts to the District, and the District has executed each of the Delivery Contracts and such Like-Contracts.

“*Emergency Projects*” means those Additional Capital Projects undertaken by the District without notice to or consultation with the Participant, any Other Participant, or the Commission, whenever the District determines that there is a substantial risk of harm to the Nacimiento Facilities or to the operation of the Nacimiento Facilities which requires immediate remedy.

“*Fiscal Year*” means the 12-month period from July 1 of a Calendar Year to June 30 of the immediately following Calendar Year, both dates inclusive or such other dates constituting the designated fiscal year of the Participant as will be determined by the governing board of the Participant.

“*Legal Documents*” means any legal documents entered into by or on behalf of the District with respect to the Municipal Obligations.

“*Long-Term Project Debt*” means those Municipal Obligations, whether Tax-Exempt or Taxable as to their interest component, whose proceeds are to be expended for the costs of the Construction Phase of the Nacimiento Project.

“*Master Water Contract*” means that certain Agreement, entered into by and between the District and the Monterey Water Agency (the “Monterey Water Agency”), successor to the Monterey County Flood Control and Water Conservation District, on October 19, 1959, and all amendments thereto.

“*Master Water Contract Costs*” means those amounts that the District is obligated to pay under the Master Water Contract and which are attributable to the 15,750 acre-feet per year of Nacimiento Project Water.

“Municipal Obligations” means all the Taxable Obligations and the Tax-Exempt Obligations, in the form of bonds, notes, certificates or similar securities, sold by or on behalf of the District to finance all or a portion of the Nacimiento Facilities or an Additional Capital Project, and specifically includes the Notes and Long-Term Project Debt.

“Nacimiento Facilities” means all those facilities comprising the water delivery and treatment facilities bringing water from the Nacimiento Reservoir to the Participants, to be purchased hereunder, including without limitation, the Nacimiento Project, any Additional Capital Project, the land underlying the same and any easements or similar rights associated therewith or appurtenant thereto, as they may exist from time to time.

“Nacimiento Project Construction Costs” means the costs of constructing any portion of the Nacimiento Project, including design, engineering, planning, environmental mitigation, equipping new facilities and/or construction efforts, accounting services, project administration and management, installation, grading, razing and building the Nacimiento Project, and includes the costs attributable to environmental mitigation requirements, the costs attributable to the District’s Reserved Capacity, and costs attributable to all other construction costs.

“Nacimiento Project” means the project described in the Nacimiento Water Project Environmental Impact Report SCH # 2001061022 certified January 2004.

“Nacimiento Project Costs” means the sum of (i) the Nacimiento Project Construction Costs; and (ii) all other costs of operating and maintaining the Nacimiento Facilities and of all Additional Capital Projects.

“Nacimiento Project Water” means in each Water Year, the Total Delivery Entitlement Obligation plus the Reserve Water, but not more than 15,750 Acre-Feet of Nacimiento Reservoir Water. Nacimiento Project Water is the source of the Delivery Entitlement, Surplus Water and Reserve Water.

“Nacimiento Reservoir Water” means the 17,500 Acre-Feet of water which the District has the right to take from the Nacimiento Reservoir pursuant to the Master Water Contract in each Water Year.

“Nacimiento Water Fund” means the separate fund established and maintained by the District within the County Treasury Pool, into which the District shall deposit all Net Revenues and all payments received by the District under each Delivery Contract and each Like-Contract.

“Net Revenues” means the sum of (a) the proceeds of sale by the District of Surplus Water, (b) revenues received by the District from Wheeling Customers, and (c) revenues received by the District from the sale of Reserve Water, less the costs of making such sales and collecting said revenues.

“Notes” means those short-term notes to be issued by the District after the Effective Date, whether Tax-Exempt or Taxable as to their interest component, whose proceeds are to be expended for the costs of design, engineering and planning for the construction of the Nacimiento Project.

“Operation and Maintenance Costs” means the reasonable and necessary current expenses of maintaining, repairing and operating the Nacimiento Facilities, including District administrative expenses directly attributable to the Nacimiento Facilities, but excluding the Capital Reserve Costs and the Capital Projects Installment Debt Service, all computed in accordance with generally accepted accounting principles applicable to enterprise funds of government agencies.

“Parity Debt” means, as to the Participant and its Water Enterprise, and as to the Water Enterprises, individually, of the respective Other Participants, all Additional Debt that, by its terms, is payable on a parity with the obligations of the Participant under each Delivery Contract

“Participant’s Capital Share” means the portion of the Total Nacimientto Project Construction Costs to be borne by the Participant, and as set forth in the Delivery Contract.

“Prior Commitment Water” means 1,750 acre-feet of Project Water available to the District each Water Year from the Nacimientto Reservoir under the terms of the Master Water Contract that has been committed to persons and entities other than the Participant and the Other Participants.

“Required Additional Project” means any capital improvement to the Nacimientto Facilities that the District has determined to be necessary in order to keep the Nacimientto Facilities in good repair and operating condition and to maintain the water supply at the quality required hereunder, or which has been ordered or directed by a Governmental Authority.

“Reserved Capacity” means that part of the capacity of the Nacimientto Facilities which is not needed by the District for the delivery of the Total Delivery Entitlement Obligation.

“Reserve Water” means that part of the Nacimientto Reservoir Water remaining after the subtraction of the Prior Commitment Water and the Total Delivery Entitlement Obligation.

“Scheduled Maintenance” means the maintenance tasks for the Nacimientto Facilities which are required to be accomplished less frequently than annually, a portion of the costs of which will be set aside in each annual budget of the District in anticipation of such requirement.

“Surplus Water” means, beginning with the first Water Year during which Nacimientto Project Water is delivered to the Participant, and in each Water Year thereafter, the sum of (i) the Reserve Water for such Water Year, if any, plus (ii) the Tum-Back Pool Water for such Water Year, if any.

“Taxable Obligations” means those certain obligations of the District under an indenture of trust or evidenced by an installment purchase agreement or similar instrument whose proceeds are used in whole or in part to pay the costs of the Nacimientto Project, any Approved Additional Project or any Required Additional Project, the interest on which is included in gross income pursuant to federal income tax law.

“Tax-Exempt Obligations” means those certain obligations of the District under an indenture of trust or evidenced by an installment purchase agreement or similar instrument whose proceeds are used in whole or in part to pay the costs of the Nacimientto Project, any Approved Additional Project, or any Required Additional Contract, the interest on which is excluded from gross income for federal income tax purposes.

“Total Delivery Entitlement Obligation” means, subject to the Master Water Contract, the total amount of Nacimientto Project Water which the District shall make available in each Water Year as Delivery Entitlements to the Participant and Other Delivery Entitlements to the Other Participants under each Delivery Contract and under all the other Like-Contracts, and which total shall not exceed the Nacimientto Reservoir Water, less the Prior Commitment Water and less the Reserve Water.

“Total Nacimientto Project Construction Costs” means the costs and expenses incurred by the District in the acquisition and construction of the Nacimientto Facilities.

“Total Participant Contract Payments” means all of the payments due from the Participant and the Other Participants pursuant to the Delivery Contract and pursuant to the Like-Contracts with the Other Participants.

“Unit Percentage Share” shall mean the Participant’s pro rata share of the Capital Reserve Costs, the Operation and Maintenance Costs and All Other Construction Costs Component for each Unit and as set forth in Article 16(C)(1) and (3)(c) of the Delivery Contract; or, in the context of a Like-Contract with any Other Participant, the term “Unit Percentage Share” shall mean and refer to the correlative pro rata share of such Other Participant or Participants.

“Variable Energy Costs” means the actual Nacimientto Facilities pumping energy costs incurred by the District in conveying and delivering: (i) the Delivery Entitlement and Surplus Water to the Participant and (ii) the respective Other Delivery Entitlements and surplus water to the Other Participants as defined under their respective Like-Contracts and as set forth in the Delivery Contracts.

“Water Delivery Entitlement Contracts” means each Delivery Contract and the other Nacimientto Project Water Delivery Entitlement Contracts entered into by and between the District and the Other Participants.

“Water Enterprise” means the water system operated and to be operated by the Participant for sales of water to its customers or to the general public within the Participant’s jurisdiction.

“Water Enterprise Charges” means the rates and charges imposed and collected by the Participant for the provision of water through its Water Enterprise.

“Water Rights” means (a) water rights, (b) claims to water rights or (c) agreements concerning water rights, including, but not limited to, overlying, prescriptive, appropriative, riparian or pueblo rights.

“Water Year” means the twelve (12)-month period from October 1 of each year to and including September 30 of next following year.

“Wheeling Customer” means any person or entity to which the District conveys water, other than Nacimientto Project Water, through any Unit.

Ownership of the Nacimientto Facilities

The Nacimientto Facilities and all of its pumps, machinery, conduits, apparatus, fixtures, fittings and equipment of any kind, real property (including rights-of-way) and capacity are and will be owned by the District and will be held and operated and maintained by the District.

Term of Delivery Contracts; Rescission

Term. Each Delivery Contract remains in effect throughout the term provided by the Master Water Contract; provided, that if and when, through no fault of the District, one or more provisions of the Master Water Contract will be terminated or suspended in the manner and for a cause specified in the Master Water Contract, the District’s obligations to the Participant and to the Other Participants under each Delivery Contract and under Like-Contracts shall likewise be terminated or suspended; provided, however, that the Delivery Contract may not be terminated, suspended or rescinded so long as there remain outstanding any Municipal Obligations issued by the District for the Nacimientto Facilities, including the 2015 Bonds.

Rescission Following Construction of the Nacimiento Project. Subject to the provisions of above, the Delivery Contract may be rescinded by the unanimous written consent of the Flood Control District, the Participant and all Other Participants.

Ownership, Operation and Maintenance of Nacimiento Facilities

District Ownership of the Nacimiento Facilities. The Nacimiento Facilities and all of its pumps, machinery, conduits, apparatus, fixtures, fittings and equipment of any kind, real property (including rights-of-way) and capacity are and will be, owned by the District and will be held and operated and maintained by the District as provided for herein.

District's Objectives and Covenants. The parties hereto acknowledge and agree that the primary goal of the District under the Delivery Contract will be to deliver Nacimiento Project Water to the Participant and to the Other Participants, subject to cost considerations, as to which the District will be expected to exercise sound business judgment. In this regard, the District covenants and agrees that it will operate and maintain the Nacimiento Facilities in accordance with the Master Water Contract, all governmental laws, ordinances, approvals, rules, regulations and requirements, including, without limitation, such zoning, sanitary, pollution, environmental and safety ordinances and laws and such rules and regulations thereunder as may be binding upon the District. The District further covenants and agrees that it will maintain and operate the Nacimiento Facilities in good repair, working order and condition, and that it will from time to time inspect and test all Nacimiento Facilities against then-current water supply industry standards, and that the District will pursue all necessary and proper replacement, repairs, renewals and improvements thereto. In its operation of the Nacimiento Project, the District shall have as an objective the maximum beneficial use of the Nacimiento Project Water and its conservation. The District, the Participant and the Other Participants agree that they shall individually and collectively cooperate and work towards this objective. The District, the Participant and the Other Participants, individually and collectively, agree further that, to the extent feasible, all revenues received from the Nacimiento Facilities will be used for the sole benefit of the Nacimiento Facilities and that all parties shall pay their respective shares of Nacimiento Project Costs for Nacimiento Project Water received.

The District further covenants and agrees that it will take any and all action necessary to enforce the rights vested in the District by the Delivery Contract and the Master Water Contract as the District deems most appropriate. However, in the event the District fails to enforce any such rights, the Participant may assert such rights on behalf of the District by such means as the Participant deems most appropriate. Nothing in the Delivery Contract shall impair or otherwise affect, in any manner, the Participant's right to assert, defend, enforce or otherwise protect any and all rights vested in the Participant by the Delivery Contract.

District's Capital Reserves; Annual Budgets to Be Prepared by the District. In order to satisfy its covenants set forth in each Delivery Contract, the District is required to determine the amount of Capital Reserves necessary for the Nacimiento Facilities for the upcoming Water Year and shall prepare its draft annual budget by no later than March 1 to reflect such Capital Reserves. The District shall provide copies of each such budget to the Nacimiento Project Commission, the Participant and the Other Participants for review and comment prior to the distribution of the draft annual budget to the Board of Supervisors, and shall, if deemed necessary or advisable, develop and promulgate to the Nacimiento Project Commission, the Participant and the Other Participants a multi-year improvement plan for the Nacimiento Facilities reflecting the annual requirements for the Capital Reserves.

Existing Obligations; Master Water Contract and Prior Commitment Water

Primacy of Master Water Contract. The obligations of the District under the Delivery Contract and the obligations of the District under each and every Like-Contract with the Other Participants, will be

subject to the provisions of the Master Water Contract and should the provisions of the Master Water Contract restrict, impair or prohibit the District from the performance of any or all of the District's obligations under each Delivery Contract and/or the Like-Contracts with the Other Participants, then the District shall, to the extent that the District is so restricted, impaired or prohibited, be relieved of its said performance obligations to the Participant under the Delivery Contract. The Delivery Contract does not create in the Participant any right, rights or interest in or to the Master Water Contract. The Participant has been provided with a copy of the Master Water Contract for review. On advice of counsel, the Participant has reviewed the Master Water Contract and determined that the terms of the Master Water Contract do not conflict with the terms of the Delivery Contract or the Participant's obligations hereunder.

Prior-Commitment Water. No part of the Prior-Commitment Water will be used by the District to satisfy any of the District's obligations under the Delivery Contract with the Participant, Like-Contracts with Other Participants or the District's agreements with Reserve Water Customers or third parties.

Delivery Entitlement

Amount of Delivery Entitlement. Subject to the provisions of Article 14(D) of the Delivery Contract, and so long as water is made available to the District under the Master Water Contract, the District shall make available to the Participant, in each Water Year, the Delivery Entitlement of 2,000 acre-feet of Nacimiento Project Water. Notwithstanding the foregoing:

(1) The Total Delivery Entitlement Obligation available under the Delivery Contract and under the Like-Contracts with the Other Participants may be reduced, following written notice given to the Participant from the District, for any of the conditions or reasons set forth in Articles 13, 14 and 15 of the Delivery Contract; and

(2) Under each Delivery Contract and all Like-Contracts, the District is not obligated to deliver to the Participant or to any Other Participants, nor shall said Participants have any rights in or to, any of the District's Prior-Commitment Water.

Limit on Rate of Deliveries of Water to Participant. In no event shall the District be obligated to deliver the Delivery Entitlement and/or Surplus Water through any delivery structure of the Nacimiento Facilities at a total combined instantaneous rate of flow exceeding 3.0 cubic feet per second. The maximum amount of said water to be delivered by the District to the Participant from the Nacimiento Facilities in any one month of any year shall not exceed 183 acre-feet. While the District is not required to deliver more than 183 acre-feet of water to the Participant in any one month of any year, and while the District is not obligated to deliver the Delivery Entitlement and/or Surplus Water through any delivery structure of the Nacimiento Facilities at a total combined instantaneous rate of flow exceeding 3.0 cubic feet per second, in the event deliveries required to be made by the District to the Other Participants do permit a higher monthly rate of delivery to the Participant, then the District shall have the discretion temporarily to exceed the maximum monthly deliveries provided for in the Delivery Contract.

No District Obligation to Deliver at Particular Head or Pressure. The District is under no obligation to the Participant to deliver the Delivery Entitlement at any particular head or pressure; however, the Nacimiento Project shall be designed to deliver water to the Participant's turnout at a hydraulic grade line of 1,020 feet.

Participant's Right to Acquire Additional Delivery Entitlement. To the extent that the District has available Reserved Water, Participant shall have the right to apply to, and acquire from, the District, additional delivery entitlement as provided for in the Delivery Contract.

Water Year Delivery Amounts and Schedules

Preliminary Water Delivery Schedule. On or before October 1 of each Calendar Year, the Participant is required to submit in writing to the District a preliminary water delivery schedule which sets forth the amounts, rates and times of the conveyance and delivery of the Delivery Entitlement as is desired by the Participant for each month of the next succeeding three (3) Water Years.

Coordination with Other Participant Preliminary Schedules. Upon receipt of the Participant's preliminary water delivery schedule, the District will consider the Participant's requested schedule, and the preliminary water delivery schedules submitted to the District by the Other Participants, and, after consultation with the Participant, the District shall make such modifications in the Participant's preliminary water delivery schedule as will allow the District to schedule the amounts, times and rates of the conveyance and delivery of the Delivery Entitlement, and those of the Other Participants, so that the requests of the respective Participants will match as closely as possible their respective requests but in a manner which is consistent with the efficient and economical operation of the Nacimiento Facilities.

Amendment of Schedules. The Participant's water delivery schedule may be amended, from time to time, upon the written request of the Participant to the District, subject to the pre-existing obligations of the District under the water delivery schedules of Other Participants for the same period of time.

No Responsibility

After the Delivery Entitlement or any portion thereof, and/or after the Surplus Water or any portion thereof, shall have passed the place(s) of delivery established for the Participant under Article 8 of the Delivery Contract, neither the District nor its officers, agents or employees will be liable for the control, carriage, conveyance, handling, use, disposal, distribution or changes occurring in the quality or quantity of such water, or for any claim for damages of any nature whatsoever, including, but not limited to, property damage or personal injury or death arising out of or connected with the control, carriage, conveyance, handling, use, disposal, distribution or changes occurring in the quality or quantity of such water beyond such place(s) of delivery. The Participant shall defend, indemnify and hold harmless the District and its officers, agents and employees from and against any such damages or claims of damage.

Water Quality

When the District shall deliver the Delivery Entitlement and/or any Surplus Water to the Participant from the Nacimiento Project Water, said water will be at a quality that is substantially the same as the quality of said water at the time it was taken from the Nacimiento Reservoir by the District. The District shall assume no further or additional responsibility for the quality of the water delivered to the Participant under the Delivery Contract and the District does not warrant the quality of any such water for any particular use. The Participant will be responsible for the treatment of all such water to the minimum water quality standards for water for domestic use as may be established from time to time by the State of California and/or by the federal government and the Participant shall defend, indemnify and hold harmless the District from and against any and all claims, damages, costs, expenses, judgments, attorney fees or other liability to any person or entity asserting that said water does not meet or has not met said domestic use water quality standards.

Surplus Water

District Determination of Amount of Surplus Water; Reserve Pool; Turn-Back. The District shall notify All Participants of the total amount of Surplus Water, if any, available for a Water Year on or about the first day of the then-current Water Year, and once so declared by the District, said amount shall not be changed without first obtaining the consent of All Participants. Surplus Water purchased by the

Participant will be delivered to the Participant in the same manner provided for the delivery of the Participant's Delivery Entitlement and to the extent that all of said Surplus Water purchased is not in fact taken by the Participant by the end of the Water Year in question, then such undelivered amount of Surplus Water shall revert to the District and shall not thereafter be available to the Participant.

Sale of Surplus Water by District; Rates. From the Surplus Water held by the District, the District shall first sell any and all of the Reserve Pool Water portion of the Surplus Water. No Turn-Back Pool Water will be sold by the District so long as any Reserve Pool Water remains unsold.

Curtailment of Delivery

The District may temporarily discontinue or reduce the amount of Nacimiento Project Water to be furnished to the Participant during such time as the District is maintaining, repairing, replacing, investigating, or inspecting any of the portions of the Nacimiento Facilities necessary for the furnishing of water to the Participant. Insofar as it is feasible, the District shall give the Participant notice in advance of any such temporary discontinuance or reduction, except in the case of emergency, in which case no notice need be given. In the event of such discontinuance or reduction, the District will upon resumption of service, deliver, as nearly as may be feasible, the quantity of Nacimiento Project Water which would have been furnished to the Participant in the absence of such discontinuance or reduction. Notwithstanding the foregoing, under no circumstances shall the Participant be relieved of any obligation to make Contract Payments as a result of such temporary discontinuance or reduction of Nacimiento Project Water.

Participant Credits Against Contract Payments. The following shall constitute credits against the Contract Payments to the District:

(i) If, prior to the date upon which the District causes the Municipal Obligations (as defined below and including the Bonds) to be sold, each Participant shall contribute to the District, in cash, a sum as and for the Participant's Capital Share of the District's estimate of the Total Nacimiento Project Construction Costs, or any portion of the Participant's Capital Share of said construction costs, then the amount of Capital Projects Installment Debt Service allocated to the Participant as provided in the Delivery Contracts will be reduced accordingly, but in no event to less than zero; and

(ii) If any Participants, following the date of delivery of the Municipal Obligations, successfully implement a financing plan within its jurisdiction to fund all or a portion of the Participant's Contract Payments, during the term of the Municipal Obligations, by means of a levy of ad valorem property taxes, special assessments or special taxes, then all or a portion of the amount of Capital Projects Installment Debt Service to be allocated to the Participant as provided in the Delivery Contracts, will be credited to the Participant from amounts paid under such levy as though such amounts were paid directly by the Participant under the Delivery Contract, subject to the prior approval of each rating agency then rating the Municipal Obligations and any bond insurer then providing insurance therefor; provided however, that, to the extent legally permissible, the District will be made a third-party beneficiary of any pledge of such alternate source of revenues, with the power to enforce collection thereof, in the event that the Participant should fail to do so; and

(iii) Each Participant will be entitled to a credit against the Participant's obligations to the District under the Delivery Contract in the form of a share of the Net Revenues the District shall have received during the Fiscal Year in question. In determining the amount of such credits against the obligations of the Participant under the Delivery Contract, the District shall apportion the District's net revenues from the foregoing sources; (A) first, against the obligations allocated to the Participant and to the Other Participants for the Reserved Capacity Construction Cost component and in the same amount as the percentage allocation set forth for the Participant in the Delivery Contracts, and then (B) against the

obligations allocated to the Participant and to the Other Participants for the All Other Construction Costs component and in the same amount as the percentage allocation set forth for the Participant in the respective Delivery Contract.

As defined in the Delivery Contracts, the term “Municipal Obligations” means all the Taxable Obligations and the Tax-Exempt Obligations, in the form of bonds, notes, certificates or similar securities, sold by or on behalf of the District to finance all or a portion of the Nacimiento Facilities or an Additional Capital Project, and specifically includes the Notes and Bonds, including the 2015 Bonds.

(iv) On or before December 1 of each year, the District shall deliver to each Participant a statement as to the actual Operation and Maintenance Costs and Capital Reserve charges incurred or imposed during the Fiscal Year most recently concluded, and shall set forth in such statement the District’s determination as to whether the Contract Payments theretofore paid by the Participant were in excess of or less than the Participant’s allocated share of the actual costs incurred by the District for said items. If any Participant shall have paid less than the Participant’s actual Unit Percentage Share for said items for such Fiscal Year, the Participant shall remit the difference to the District within 180 days of the date upon which the Participant receives such a statement from the District. If any Participant shall have paid more than the Participant’s actual Unit Percentage Share for such items for such Fiscal Year, the District shall credit the difference against the Participant’s future Contract Payments to the District.

(v) If, in any Fiscal Year, the Nacimiento Water Fund receives its allocated portion of the ad valorem taxes levied on the real property within the County of San Luis Obispo under the authority of Article XIII A, Section 1(a) of the California Constitution, then the District shall apply said apportioned amount received by the District to the reduction of Reserved Capacity Construction Cost component and the District shall continue to do so in each Fiscal Year in which the District receives such apportioned amounts up to and until the said Reserved Capacity Construction Cost component is paid. The District shall credit to the Participant the Delivery Entitlement Share of said apportioned tax proceeds received by the Nacimiento Water Fund of the District, less any amounts (A) which the District is obligated to pay under the terms of the Master Water Contract and/or (B) any amounts which are not received or retained by the District because of the operation of the Community Redevelopment Law (California Health and Safety Code Sections 33000 et seq.) or any other applicable law.

Water Enterprise Operation and Maintenance

No Sale, Lease or Disposing of Participant’s Water Enterprise. The Participant covenants and agrees not to sell, lease or otherwise dispose of its Water Enterprise or any part thereof essential to the proper operation thereof or to the earning or collection of the gross revenues of the Participant’s Water Enterprise, nor to enter into any agreement or lease which would impair the operation of the Participant’s Water Enterprise, or any part thereof necessary in order to secure adequate revenues for the payment of amounts due under the Delivery Contract; *provided*, however, that any real or personal property which has become nonfunctional or obsolete or which is not needed for the efficient operation of the Participant’s Water Enterprise may be sold or disposed of if such disposition will not have the effect of reducing revenues of the Participant’s Water Enterprise below the levels required under the Delivery Contract.

Participant to Maintain Participant’s Water Enterprise. The Participant covenants and agrees to maintain and preserve the Participant’s Water Enterprise in good repair and working order at all times, to operate the same in an efficient and economical manner and to pay all operation and maintenance costs of the Participant’s Water Enterprise as they become due, all in accordance with the best business judgment of the Participant.

Participant's Budgets. The Participant covenants and agrees to adopt and deliver a budget to the District approved by the Participant's governing body setting forth the amounts budgeted to be paid under the Delivery Contract no later than the first day of each Fiscal Year.

Participant's Covenants. The Participant covenants and agrees to comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by the Participant contained in all contracts for the use of the Participant's Water Enterprise and all contracts affecting or involving the Participant's Water Enterprise to the extent that the Participant is a party thereto.

No Superior Liens or Payments. The Participant covenants and agrees not to create or allow any lien on or payment from the revenues of the Participant's Water Enterprise or any part thereof prior to, or superior to, the Participant's obligations to amounts payable under the Delivery Contract.

Participant to Insure Water Enterprise. The Participant covenants and agrees to procure and maintain insurance relating to the Participant's Water Enterprise which the Participant shall deem advisable or necessary to protect its interests. Such insurance shall afford protection in such amounts and against such risks as are usually covered in connection with similar water enterprises in the State of California; provided, that the Participant shall not be required to procure or maintain any such insurance unless such insurance is commercially available at reasonable cost; and provided further, that any such insurance may be maintained under a self-insurance program, so long as such self-insurance program is maintained in accordance with standards and in such amounts as are then usually maintained for similar water enterprises in the State of California.

Participant to Pay Obligations: Observe Laws. The Participant covenants and agrees to pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Participant's Water Enterprise or any part thereof when the same will become due and to duly observe and conform to all valid regulations and requirements of any governmental authority relative to the operation of the Participant's Water Enterprise that are not being contested by the Participant in good faith.

Eminent Domain. The Participant covenants and agrees that if all or any material part of the Participant's Water Enterprise will be taken by eminent domain proceedings, or if the Participant receives any insurance proceeds resulting from a casualty loss to any material portion of the Participant's Water Enterprise, the proceeds thereof will be used by the Participant to construct or install replacements for the condemned or destroyed components of the Participant's Water Enterprise or to prepay the Participant's share of Capital Projects Installment Debt Service under Article 16(C)(3) of the Delivery Contract.

No Outside Service

Neither the Delivery Entitlement nor the Participant's Surplus Water, nor any portion of either, shall be sold or delivered or otherwise disposed of by the Participant outside the boundaries of the District.

Failure to Levy, Set or Collect Taxes, Rates and Charges; Establishment of Coverage Account

Participant's Failure to Establish Taxes, Rates and Charges; Establishing Coverage Account. If the Participant for any reason shall fail or refuse to establish or levy taxes or rates and charges sufficient to satisfy the requirements of the Delivery Contract, or if the Participant will be precluded from establishing rates and charges at the levels required by said provisions, then the Participant shall promptly notify the District of such fact in writing, and shall establish a Coverage Account either with the District or with a Depository designated by the Participant to the District in writing. The Coverage Account will

be pledged to the District for the purposes described in the Delivery Contract, and the Participant covenants and agrees to execute such instruments as may be necessary in order to effect a pledge of amounts on deposit in the Coverage Account, acknowledging and agreeing as well to follow the advice of special tax counsel to the District in connection with the pledge and investment of the Coverage Account, as may be necessary or advisable in order to maintain the tax status of the Tax-Exempt Obligations.

Amendments to Delivery Contract

Each Delivery Contract is subject to amendment at any time by mutual agreement of the parties thereto, respectively, except insofar as any proposed amendments are in any way contrary to applicable law, or would have a material adverse effect upon the owners of any of the Municipal Obligations. As a condition to any amendment to the Delivery Contract or to the Like-Contracts with the Other Participants, the District shall first have received written confirmation from the rating agency or agencies then providing a rating for the Municipal Obligations, to the effect that the proposed amendments will not adversely affect the rating of the Municipal Obligations and, in the event that the Municipal Obligations, or any portion thereof, will be covered by municipal bond insurance, the District shall have received prior written consent to such proposed amendments from the provider of such bond insurance. Amendments to the Delivery Contract and to the Like-Contracts of the Other Participants shall occur only after the written and unanimous consent of the District, the Participant and all Other Participants, except, that the following Additional Projects may be effected without said unanimous consent and upon the following conditions:

Approved Additional Projects. Upon the request of the Participant or of any Other Participant, the District may enter into an amendment of the Delivery Contract, and/or of Like-Contracts, in order to undertake the acquisition and construction of an Approved Additional Project; provided, however, the Participant and/or Other Participants desiring such Project shall first demonstrate that said Approved Additional Project will be economically feasible with the financial support of only the Participant and/or the Other Participants participating in said Approved Additional Project.

Required Additional Project/Emergency Projects. The undertaking of a Required Additional Project or of any Emergency Project by the District shall not require the consent of the Participant or of any Other Participant nor the amendment of the Delivery Contract or of any Like-Contract(s).

Approval of Amendments by Participant. The Participant covenants and agrees to act in good faith to approve or reject any proposed amendments to each Delivery Contract respectively within a reasonable period of time. The failure to either approve or reject any such proposed amendment within 60 days from the date of adoption by the Board of Supervisors of a resolution approving such proposed amendment shall constitute a lack of good faith.

Participant's Obligations Several and not Joint; Step-Up Provisions and Reimbursement

Participant Not Responsible for Failures of Other Participants: Exception. Except as provided in the Delivery Contract, the Participant will be solely responsible and liable for performance under the Delivery Contract and is not responsible for any failures of any Other Participant to perform such Other Participant's obligations under any other Like-Contract. The obligations to the District to make payments under the Delivery Contract and under the other Like-Contracts are expressly recognized by the District as several, and not joint, and no default on the part of one, or more, of the Other Participants shall, in and of itself, create an event of default under the Delivery Contract. The Coverage Account of a Participant, if any is established under the Delivery Contract, is not available for any failure of any Other Participant to make payments under any of the other Like-Contracts between the District and the Other Participants, unless otherwise directed or approved in writing by such Participant.

Repayment to Participant by Delinquent Participant(s). If payments are made by the Participant as a Non-Delinquent Participant during any Water Year, the District is required to, beginning on the first Due Date when a Debt Service Shortfall is created by a Delinquent Participant, declare a default as to such Delinquent Participant under the Delinquent Participant's Like-Contract and the District will be entitled to suspend deliveries of the Delivery Entitlement established for such Delinquent Participant under its Like-Contract; notwithstanding the foregoing, by the terms of its Like-Contract, such Delinquent Participant shall nonetheless continue to be obligated for amounts paid on its behalf by the Non-Delinquent Participants, until the Defaulting Participant has reimbursed each Non-Defaulting Participant in full for the amounts they have previously paid in as their pro rata shares of the Debt Service Shortfall. Reimbursement of amounts advanced by the Participant and the Other Participants as Non-Delinquent Participants (or, in the case of multiple Delinquent Participants, the proportionate share thereof) is immediately due and payable to the District by the responsible Delinquent Participant or Participants, and, if not so paid, and notwithstanding the provisions of the Delinquent Participant's Like-Contract, shall incur interest on the unpaid portion until paid in full at a rate per annum equal to the average rate for the County Treasury Pool, plus 2% per annum, for the month for which the County Treasury Pool rate was most recently calculated, based on a 360-day year of twelve 30-day months; provided, however, that payments to be made as reimbursements by a Delinquent Participant are deemed and understood to be subordinate to the obligations of the Delinquent Participant to pay the amounts allocated to the Delinquent Participant as the Delinquent Participant's share of the District's Capital Projects Installment Debt Service under the Delinquent Participant's Like-Contract.

District's Covenant to Owners of Municipal Obligations. The District covenants and agrees to enforce the provisions of the Delivery Contract with due diligence, including, without limitation, the provisions of this Article for the benefit of the owners, from time to time, of the Municipal Obligations.

Events of Default; District's Remedies

Events of Default by Participant. The following constitutes events of default under the Delivery Contracts:

- (1) The Participant fails to make timely payments in full of all amounts due from the Participant under the terms of the Water Delivery Contract; or
- (2) The Participant fails to establish or collect, or cause to be collected, all rates and charges, and other sums, necessary to enable Participant to make the payments required hereunder, as provided in the Delivery Contract, and, following thirty (30) days written notice from the District to the Participant, the Participant shall fail to remedy such failure to the satisfaction of the District; or
- (3) The Participant fails to perform any other obligation or covenant hereunder and shall fail to remedy such failure to the satisfaction of the District within 30 days following the Participant's receipt of written notice from the District, or for such additional time as is reasonably required, in the sole discretion of the District, to correct the same; or
- (4) The Participant files any petition or institute any proceedings under any act or acts, State or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendments to such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the Participant seeks or prays to be adjudicated a bankrupt or is to be discharged from any or all of its debts or obligations, or offers a reorganization of its obligations for the benefit of creditors, or asks for similar relief.

District's Remedies. Upon the occurrence of an event of default hereunder, the District will be entitled to protect and enforce the rights vested in the District by the Delivery Contract by appropriate judicial proceedings as the District may deem most effective or convenient, either in equity or law. The use by the District of any remedy specified in the Delivery Contract for the enforcement of thereof is not exclusive and will not deprive the District of, or limit the application of, any other remedy provided hereunder or by law or by equity. Without limiting the generality of the foregoing, the District will be entitled to pursue any of the following remedies:

(1) The District may suspend the delivery to the Participant of water hereunder during the period when the Participant is delinquent in its payments or other obligations to the District hereunder, but only following notice to the Participant and the imposition of such remedy following a formal hearing conducted by the Board of Supervisors, unless such failure to pay is as described in subparagraph (5) below;

(2) The District may compel the Participant, or its governing board, by action in any court of competent jurisdiction to account to the District as the trustee of an express trust;

(3) The District may pursue an action in any court of competent jurisdiction to enjoin any acts or things which may be unlawful or in violation of the rights of the District under the Delivery Contract; and

(4) The District may proceed in mandamus or other suit, action or proceeding at law or in equity to enforce its rights against the Participant (and its governing board, officers, agents and employees) and to compel the Participant to perform and carry out its duties and obligations under the law and its covenants and obligations as set forth in the Delivery Contract.

(5) If the Participant shall fail to make timely payments in full of all amounts due from the Participant under the terms of the Delivery Contract, and if, as a result, payments are made by any Non-Delinquent Participant during any Water Year under Article 25(B) of the Delivery Contract, then the District shall, beginning on the first Due Date, declare a default as to the Participant and the District will be entitled to suspend deliveries of the Delivery Entitlement without referring the matter to the Board of Supervisors for a hearing; notwithstanding the foregoing, by the terms of the Delivery Contract, the Participant shall nonetheless continue to be obligated for amounts paid on its behalf by the Non-Delinquent Participants, until such time as the Participant has reimbursed each Non-Defaulting Participant in full. Said amounts advanced by the Non-Delinquent Participants are immediately due and payable by the Participant, and, if not so paid, and notwithstanding the provisions of the Delivery Contract, shall incur interest on the unpaid amounts until paid in full at a rate per annum equal to the average rate for the County Treasury Pool, plus 2% per annum, for the month for which the County Treasury Pool rate was most recently calculated, based on a 360-day year of twelve 30-day months; *provided*, however, that payments to be made as reimbursements under this paragraph are deemed and understood to be subordinate to the obligations of the Participant to pay the amounts allocated to the Participant as the Participant's share of the District's Capital Projects Installment Debt Service under the Delivery Contract.

Assignment of Delivery Contract

The provisions of the Delivery Contract applies to and binds the successors and assigns of the respective parties, but no assignment or transfer of the Delivery Contract, or any part of the Delivery Contract or interest in the Delivery Contract, will be valid until and unless approved by the District. The District shall not approve any such assignment or transfer to any person or entity that is not one or more of the Initial Participants, or a then-existing New Participant, unless and until the proposed assignment or transfer of the Delivery Contract has been offered to and refused in writing by all said Participants. The

offer of any such assignment or transfer of the Delivery Contract will be on the same basis to all Participants and if more than one of the said Participants desires to accept the offer, the Delivery Contract or portion thereof to be assigned or transferred will be prorated among them in proportion to their respective unit percentage share in the facilities involved in the assignment or transfer. The foregoing notwithstanding, no assignment or transfer of the Delivery Contract or any part of the Delivery Contract or interest in the Delivery Contract will be valid until such time as the District has received assurances from each rating agency then rating the Municipal Obligations, to the effect that such assignment or transfer will not adversely affect the rating on the Municipal Obligations, and, so long as any Municipal Obligations are then being insured by a municipal bond insurance company, until such time as the District has received the written consent from such bond insurer as to such assignment or transfer. The Participant understands and acknowledges that the District may pledge amounts received and to be received under the Delivery Contract and under the other Like-Contracts to a financial institution and/or Joint Exercise of Powers Authority as further support for the District's obligations under the Municipal Obligations.

Water Rights

The parties hereto acknowledge and agree that Delivery Contract is an agreement for service, and only contractual rights are created by the Delivery Contract. The Water Delivery Contract does not create an entitlement to nor does it convey to the Participant any property right or interest in the Master Water Contract. Except as to rights associated with imported water discussed in this Article, no provision of the Delivery Contract will be considered, interpreted or applied in any fashion to derogate or otherwise diminish, reduce or detrimentally affect, in any fashion, any parties' existing or subsequently developed or acquired Water Rights. This Contract shall not be considered, interpreted nor applied in any fashion to result in any relinquishment or adjustment of any such Water Rights. In particular, no provision of the Delivery Contract will be considered, interpreted or applied in any fashion to diminish, reduce or detrimentally affect, in any fashion, any party's rights pursuant to Water Code Section 1005.1 or Section 1005.2. Notwithstanding anything to the contrary set forth in the Delivery Contract, the parties to the Delivery Contract acknowledge that the water delivered to the Participant pursuant to the Delivery Contract constitutes "imported water." The District agrees to support any effort of the Participant to establish that the water delivered to the Participant pursuant to the Delivery Contract constitutes "imported water." The parties further acknowledge that any rights to water which may arise from the importation and/or use by the Participant of the water delivered pursuant to the Delivery Contract (including, but not limited to the use, storage, capture, recapture and/or reuse of such water) are held exclusively by the Participant and no other party.

APPENDIX C
SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX D

FORMS OF CONTINUING DISCLOSURE CERTIFICATE AND AGREEMENTS

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER
CONSERVATION DISTRICT CONTINUING DISCLOSURE CERTIFICATE D-1

PARTICIPANTS CONTINUING DISCLOSURE AGREEMENTS

Atascadero Mutual Water Company..... D-9
City of Paso Robles..... D-16
City of San Luis Obispo..... D-16
Templeton Community Services District..... D-23

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

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of July __, 2015, is executed and delivered by the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”) in connection with the execution and delivery of \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “Taxable 2015 Series A Bonds” and together with the 2015 Series A Bonds, the “2015 Bonds”). The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the SLO County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The Flood Control District covenants and agrees on behalf of the Authority as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Flood Control District for the benefit of the Beneficial Owners of the 2015 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“*Annual Disclosure Report*” shall mean any Annual Disclosure Report provided by the Flood Control District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“*Disclosure Representative*” shall mean the Chairman of the Flood Control District or such other official as may be designated in writing to the Dissemination Agent (if other than the Flood Control District) from time to time.

“*Dissemination Agent*” shall mean the Flood Control District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Flood Control District and which has filed with the Flood Control District a written acceptance of such designation.

“*Filing Date*” shall mean March 31 of each Fiscal Year of the Flood Control District (or the next succeeding business day if such day is not a business day), commencing March 31, 2016.

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

“*MSRB*” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Official Statement*” means the Official Statement dated _____, 2015 relating to the 2015 Bonds.

“*Participating Underwriter*” shall mean the original underwriter of the 2015 Bonds required to comply with the Rule in connection with offering of the 2015 Bonds.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*Specified Event*” shall mean any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Certificate and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Flood Control District shall provide, or shall cause the Dissemination Agent to provide, not later than the Filing Date, to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Disclosure Certificate. If the fiscal year of the Flood Control District changes, it shall give notice of such change in the same manner as for a Specified Event under this Disclosure Certificate.

(b) Not later than fifteen (15) Business Days prior to each Filing Date, the Flood Control District shall provide the Annual Disclosure Report to the Dissemination Agent (if other than the Flood Control District). The Flood Control District shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) If the Flood Control District is unable to provide to the Annual Disclosure Report to the MSRB by the date required in subsection (a), the Flood Control District shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) If not previously filed by the Flood Control District, send a notice to the MSRB in substantially the form attached as Exhibit A, if the Flood Control District is unable to provide to the Annual Disclosure Report to the MSRB by the date required in subsection (a).

(ii) File a report with the Flood Control District certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports.

- (a) The Annual Disclosure Report shall contain or include by reference the following:
- (i) A statement of the amounts on deposit in the Nacimientto Water Fund;
 - (ii) A summary of receipts of Water Revenues received from the Delivery Contracts by Participant and any delinquencies attributable to each Participant or Participants;
 - (iii) The proceeds of sale by the Flood Control District of Surplus Water;
 - (iv) Water Revenues received by the District from Wheeling Customers;
 - (v) Water Revenues received by the Flood Control District from the sale of Reserve Water; and
 - (vi) The costs of making such sales and collecting such revenues.

(b) The presentation and format of the Annual Disclosure Reports may be modified from time to time as determined in the judgment of the Flood Control District to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Flood Control District to reflect changes in the business, structure, operations, legal form of the Flood Control District or any mergers, consolidations, acquisitions or dispositions made by or affecting the Flood Control District; provided that any such modifications shall comply with the requirements of the Rule.

(c) In addition to any of the information expressly required to be provided under Sections 4(a) and 4(b), the Flood Control shall provide such other information, if any, necessary to the required statements, in light of the circumstances under which they were made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Flood Control District or related public entities, which have been made available to the public on the MSRB website. The Flood Control District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Specified Events.

(a) Pursuant to the provisions of this Disclosure Certificate, the Flood Control District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2015 Bonds not later than ten (10) business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (iv) Substitution of credit or liquidity providers, or their failure to perform;
- (v) Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

- (vi) Tender offers;
- (vii) Defeasances;
- (viii) Rating changes; or

(ix) Bankruptcy, insolvency, receivership or similar event of the obligated person. This event is considered to occur upon the happening of any of the following: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Flood Control District shall give, or cause to be given, notice to the MSRB of the occurrence of any of the following events described in this Section 5(b) with respect to the 2015 Bonds, if material, not later than ten (10) business days after the occurrence of the event:

(i) Unless described in Section 5(a)(v) above, adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2015 Series A Bonds or other material events affecting the tax status of the 2015 Series A Bonds;

(ii) Modifications to rights of the Bond holders;

(iii) Optional, unscheduled or contingent 2015 Bond calls;

(iv) Release, substitution, or sale of property securing repayment of the 2015 Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Flood Control District acknowledges that it is required to make a determination whether a Specified Event in in Section 5(b) above is material under applicable federal securities laws in order to determine whether a filing with the MSRB is required under Section 5(b). Notwithstanding the foregoing, notice of Specified Events described in Section 5(a)(vii) and Section 5(b)(iii) above need not be given any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Flood Control District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2015 Bonds. If such termination occurs prior to the final maturity of the 2015 Bonds, the Flood Control District shall give notice of such termination in the same manner as for a Specified Event under Section 5(c).

SECTION 7. Dissemination Agent. The Flood Control District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Flood Control District.

The initial Dissemination Agent shall be the [Flood Control District].

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Flood Control District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2015 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the 2015 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2015 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2015 Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Flood Control District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Specified Event, in

addition to that which is required by this Disclosure Certificate. If the Flood Control District chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Certificate, the Flood Control District shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Specified Event.

SECTION 10. Default. This Disclosure Certificate shall be solely for the benefit of the holders and beneficial owners from time to time of the 2015 Bonds. In the event of a failure of the Flood Control District to comply with any provision of this Disclosure Certificate, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the Flood Control District to comply with its obligations under this Disclosure Certificate, *provided* that any holder or beneficial owner seeking to require the Flood Control District to comply with this Disclosure Certificate shall first provide at least thirty (30) days prior written notice to the Flood Control District of the failure of the Flood Control District, giving reasonable detail of such failure. Failure by the Flood Control District to comply with any provision of this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Flood Control District to comply with the terms of this Disclosure Certificate shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Certificate.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Flood Control District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Flood Control District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Flood Control District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2015 Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Flood Control District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the 2015 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The Flood Control District shall maintain records of Annual Disclosure Reports and notices of Specified Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Party: San Luis Obispo County Flood Control and Water Conservation District

Name of Bonds: SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series A

SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series B (Taxable)

Date of Delivery: July __, 2015

NOTICE IS HEREBY GIVEN that the Flood Control District has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of July __, 2015, with respect to the 2015 Bonds. [The Flood Control District anticipates that the Annual Disclosure Report will be filed by _____.]

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____

[cc: Trustee]

ATASCADERO MUTUAL WATER COMPANY

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July __, 2015, is executed and delivered by the Atascadero Mutual Water Company (the “Obligated Person”) and the San Luis Obispo County Flood Control and Water Conservation District (the “District”) in connection with the execution and delivery of \$ __, __, 000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$ __, __, 000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “Taxable 2015 Series A Bonds” and together with the 2015 Series A Bonds, the “2015 Bonds”). The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the SLO County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The Obligated Person covenants and agrees on behalf of the Authority as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Person for the benefit of the Beneficial Owners of the 2015 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“*Annual Disclosure Report*” shall mean any Annual Disclosure Report provided by the Obligated Person pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“*Disclosure Representative*” shall mean the _____ of the Obligated Person or such other official as may be designated in writing to the Dissemination Agent (if other than the Obligated Person) from time to time.

“*Dissemination Agent*” shall mean the Flood Control District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Person and which has filed with the Obligated Person a written acceptance of such designation.

“*Filing Date*” shall mean January 30 of the Fiscal Year of the Obligated Person (or the next succeeding business day if such day is not a business day), commencing January 30, 2016.

“*Fiscal Year*” shall mean the period beginning on March 1 of each year and ending on the next succeeding April 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Obligated Person and certified to the Trustee in writing by an Authorized Representative of the Obligated Person.

“*MSRB*” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Official Statement*” means the Official Statement dated _____, 2015 relating to the 2015 Bonds.

“*Participating Underwriter*” shall mean the original underwriter of the 2015 Bonds required to comply with the Rule in connection with offering of the 2015 Bonds.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*Specified Event*” shall mean any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Obligated Person shall provide, or shall cause the Dissemination Agent to provide, not later than the Filing Date, to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Disclosure Agreement. If the fiscal year of the Obligated Person changes, it shall give notice of such change in the same manner as for a Specified Event under this Disclosure Agreement.

(b) Not later than fifteen (15) days prior to each Filing Date, commencing January 15, 2016, the Obligated Person shall provide the Annual Disclosure Report to the Dissemination Agent (if other than the Obligated Person). The Obligated Person shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished under the Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) The Flood Control District shall use its best efforts to assist the Obligated Person in preparing the Annual Disclosure Report for delivery to the Dissemination Agent no later than January 15 of each year.

(d) Not later than the Filing Date, the Dissemination Agent shall provide written notice confirming whether or not such Annual Disclosure Report has been furnished by the Obligated Person.

(e) If the Obligated Person is unable to provide the Annual Disclosure Report to the Dissemination Agent by the Filing Date of each year commencing January 30, 2016, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

- (f) The Dissemination Agent shall:
 - (i) If not previously filed by the Obligated Person, send a notice to the MSRB if the Participating Agency, is unable to provide to the Annual Filing to the MSRB by the date required in subsection (a); and
 - (ii) to the extent information is known to it, file a report with the Obligated Person certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Annual Disclosure Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligated Person prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Filing Date, financial and operating data with respect to the Obligated Person for the preceding Fiscal Year, substantially similar to the financial and operating data in the Official Statement as Follows:

- (i) Principal and interest payment delinquencies;
- (ii) Table A1-1 Water Connections;
- (iii) Table A1-2 Water Deliveries;
- (iv) Table A1-3 Water Sales Revenues;
- (v) Table A1-7 Operating Results;
- (vi) Information concerning any revisions to the adopted rates and charges which are generally imposed by the Obligated Person upon users within the service area of its Water Enterprise; and
- (vii) For any customer whose total billings in the preceding Fiscal Year represent 10% or more of Gross Revenues of the Water Enterprise: (A) the total amount of Gross Revenues derived from such customer; and (B) the percent of Gross Revenues represented by such customer for such Fiscal Year.

(c) In addition to any of the information expressly required to be provided under Sections 4(a) and 4(b), the Obligated Person shall provide such other information, if any, necessary to the required statements, in light of the circumstances under which they were made, not misleading.

(d) The presentation and format of the Annual Disclosure Reports may be modified from time to time as determined in the judgment of the Obligated Person to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Obligated Person to reflect changes in the business, structure, operations, legal form of the Obligated Person or any

mergers, consolidations, acquisitions or dispositions made by or affecting the Obligated Person; provided that any such modifications shall comply with the requirements of the Rule.

(e) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Obligated Person or related public entities, which have been made available to the public on the MSRB website. The Obligated Person shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The Obligated Person's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2015 Bonds. If such termination occurs prior to the final maturity of the 2015 Bonds, the Obligated Person shall give notice of such termination to the MSRB.

SECTION 6. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Obligated Person.

The initial Dissemination Agent shall be the Flood Control District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), or 4, 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 2015 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the 2015 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2015 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2015 Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

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

quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Person shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Specified Event.

SECTION 9. Default. This Disclosure Agreement shall be solely for the benefit of the holders and beneficial owners from time to time of the 2015 Bonds. In the event of a failure of the Obligated Person to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least twenty-five percent (25%) aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the Obligated Person to comply with its obligations under this Disclosure Agreement, *provided* that any holder or beneficial owner seeking to require the Obligated Person to comply with this Disclosure Agreement shall first provide at least thirty (30) days prior written notice to the Obligated Person of the failure of the Obligated Person, giving reasonable detail of such failure. Failure by the Obligated Person to comply with any provision of this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Person to comply with the terms of this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Person agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligated Person for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Obligated Person under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2015 Bonds.

SECTION 11. Notices. Any notices or communications to the Participating Agency or the Flood Control District may be given as follows:

Obligated Person:

Atascadero Mutual Water Company
P.O. Box 6075
5005 El Camino Real
Atascadero, California, California 93423
Attention: Chief Executive Officer
Phone: _____

Dissemination Agent:

San Luis Obispo Flood Control and Water Conservation District
County Government Center
1055 Monterey Street
San Luis Obispo, CA 93408
Attention: Auditor-Controller
Phone: 805-781-5040

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Flood Control District, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the 2015 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The Obligated Person shall maintain records of Annual Disclosure Reports and notices of Specified Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but on and the same instrument.

ATASCADERO MUTUAL WATER COMPANY

By: _____
President

Accepted:

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT, as
Dissemination Agent

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Party: Atascadero Mutual Water Company

Name of Bonds: SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series A

SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series B (Taxable)

Date of Delivery: July __, 2015

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July __, 2015, with respect to the 2015 Bonds. [The Obligated Person anticipates that the Annual Disclosure Report will be filed by _____.]

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____

[cc: Obligated Person]

**CITY OF PASO ROBLES
CITY OF SAN LUIS OBISPO**

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July __, 2015, is executed and delivered by the [City of Paso Robles / City of San Luis Obispo] (the “Obligated Person”) and the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”) in connection with the execution and delivery of \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “Taxable 2015 Series A Bonds”) and together with the 2015 Series A Bonds, the “2015 Bonds”). The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the SLO County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The Obligated Person covenants and agrees on behalf of the Authority as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Person for the benefit of the Beneficial Owners of the 2015 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“*Annual Disclosure Report*” shall mean any Annual Disclosure Report provided by the Obligated Person pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“*Disclosure Representative*” shall mean the _____ of the Obligated Person or such other official as may be designated in writing to the Dissemination Agent (if other than the Obligated Person) from time to time.

“*Dissemination Agent*” shall mean the Flood Control District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Person and which has filed with the Obligated Person a written acceptance of such designation.

“*Filing Date*” shall mean June 30 of the Fiscal Year of the Obligated Person (or the next succeeding business day if such day is not a business day), commencing June 30, 2016.

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

“*MSRB*” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Official Statement*” means the Official Statement dated _____, 2015 relating to the 2015 Bonds.

“*Participating Underwriter*” shall mean the original underwriter of the 2015 Bonds required to comply with the Rule in connection with offering of the 2015 Bonds.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*Specified Event*” shall mean any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Obligated Person shall provide, or shall cause the Dissemination Agent to provide, not later than the Filing Date, to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Disclosure Agreement. If the Fiscal Year of the Obligated Person changes, it shall give notice of such change in the same manner as for a Specified Event under this Disclosure Agreement.

(b) Not later than fifteen (15) days prior to each Filing Date, commencing June 15, 2016, the Obligated Person shall provide the Annual Disclosure Report to the Dissemination Agent (of other than the Obligated Person). The Obligated Person shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished under the Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) The Flood Control District shall use its best efforts to assist the Obligated Person in preparing the Annual Disclosure Report for delivery to the Dissemination Agent no later than March 15 of each year.

(d) Not later than the Filing Date, the Dissemination Agent shall provide written notice confirming whether or not such Annual Disclosure Report has been furnished by the Obligated Person.

(e) If the Obligated Person is unable to provide the Annual Disclosure Report to the Dissemination Agent by the Filing Date of each year commencing June 30, 2016, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

- (e) The Dissemination Agent shall:
 - (i) If not previously filed by the Obligated Person, send a notice to the MSRB if the Participating Agency, is unable to provide to the Annual Filing to the MSRB by the date required in subsection (a); and
 - (ii) to the extent information is known to it, file a report with the Obligated Person certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Annual Disclosure Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligated Person prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Filing Date, financial and operating data with respect to the Obligated Person for the preceding Fiscal Year, substantially similar to the financial and operating data in the Official Statement as Follows:

- (i) Principal and interest payment delinquencies;
- (ii) Table A[2/3]-__ Water Connections;
- (iii) Table A[2/3]-__ Water Deliveries;
- (iv) Table A[2/3]-__ Water Sales Revenues;
- [(v) Table A[2/3] -__ Secured Assessed Valuation;]
- (vi) Table A[2/3]-__ Operating Results;
- (vii) Information concerning any revisions to the adopted rates and charges which are generally imposed by the Obligated Person upon users within the service area of its Water Enterprise; and
- (viii) For any customer whose total billings in the preceding Fiscal Year represent 10% or more of Gross Revenues of the Water Enterprise: (A) the total amount of Gross Revenues derived from such customer; and (B) the percent of Gross Revenues represented by such customer for such Fiscal Year.

(c) In addition to any of the information expressly required to be provided under Sections 4(a) and 4(b), the Obligated Person shall provide such other information, if any, necessary to the required statements, in light of the circumstances under which they were made, not misleading.

(d) The presentation and format of the Annual Disclosure Reports may be modified from time to time as determined in the judgment of the Obligated Person to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Obligated Person to reflect changes in the business, structure, operations, legal form of the Obligated Person or any mergers, consolidations, acquisitions or dispositions made by or affecting the Obligated Person; provided that any such modifications shall comply with the requirements of the Rule.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Obligated Person or related public entities, which have been made available to the public on the MSRB website. The Obligated Person shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The obligations of the Obligated Person under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2015 Bonds. If such termination occurs prior to the final maturity of the 2015 Bonds, the Obligated Person shall give notice of such termination to the MSRB.

SECTION 6. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Obligated Person.

The initial Dissemination Agent shall be the Flood Control District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), or 4, 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 2015 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the 2015 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2015 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2015 Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligated Person shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or

operating data being presented by the Obligated Person. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Specified Event, and (ii) the Annual Disclosure Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Person shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Specified Event.

SECTION 9. Default. This Disclosure Agreement shall be solely for the benefit of the holders and beneficial owners from time to time of the 2015 Bonds. In the event of a failure of the Obligated Person to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least twenty-five (25%) aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the Obligated Person to comply with its obligations under this Disclosure Agreement, *provided* that any holder or beneficial owner seeking to require the Obligated Person to comply with this Disclosure Agreement shall first provide at least thirty (30) days prior written notice to the Obligated Person of the failure of the Obligated Person, giving reasonable detail of such failure. Failure by the Obligated Person to comply with any provision of this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Person to comply with the terms of this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Person agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligated Person for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Obligated Person under this Section 10 shall survive resignation or removal of the Dissemination Agent and payment of the 2015 Bonds.

SECTION 11. Notices. Any notices or communications to the Participating Agency or the Flood Control District may be given as follows:

Obligated Person:

[City of Paso Robles / City of San Luis Obispo]

[Address]

Attention: _____

Phone: _____

Dissemination Agent:

San Luis Obispo Flood Control and Water Conservation District

County Government Center

1055 Monterey Street

San Luis Obispo, CA 93408

Attention: Auditor-Controller

Phone: 805-781-5040

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Flood Control District, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the 2015 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The Obligated Person shall maintain records of Annual Disclosure Reports and notices of Specified Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but on and the same instrument.

[CITY OF PASO ROBLES / CITY OF SAN LUIS
OBISPO]

By: _____
Authorized Officer

Accepted:

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT, as
Dissemination Agent

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Person: [City of Paso Robles / City of San Luis Obispo]
Name of Bonds: SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series A
SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series B (Taxable)
Date of Delivery: July __, 2015

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July __, 2015, with respect to the 2015 Bonds. [The Obligated Person anticipates that the Annual Disclosure Report will be filed by _____.]

SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

By: _____

[cc: Obligated Person]

TEMPLETON COMMUNITY SERVICES DISTRICT
FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July __, 2015, is executed and delivered by the Templeton Community Services District (the “Obligated Person”) and the San Luis Obispo County Flood Control and Water Conservation District (the “Flood Control District”) in connection with the execution and delivery of \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series A (the “2015 Series A Bonds”) and \$____,000 principal amount of SLO County Financing Authority Nacimiento Water Project Revenue Refunding Bonds, 2015 Series B (Taxable) (the “Taxable 2015 Series A Bonds” and together with the 2015 Series A Bonds, the “2015 Bonds”). The 2015 Bonds will be issued and secured pursuant to the terms of an Indenture of Trust, dated as of September 1, 2007 (the “Original Indenture”), as supplemented and amended by the First Supplemental Indenture of Trust dated as of _____ 1, 2015 (the First Supplemental Indenture” and together with the Original Indenture, the “Indenture”), each by and between the SLO County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). The Obligated Person covenants and agrees on behalf of the Authority as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Person for the benefit of the Beneficial Owners of the 2015 Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

“*Annual Disclosure Report*” shall mean any Annual Disclosure Report provided by the Obligated Person pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“*Disclosure Representative*” shall mean the _____ of the Obligated Person or such other official as may be designated in writing to the Dissemination Agent (if other than the Obligated Person) from time to time.

“*Dissemination Agent*” shall mean the Flood Control District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Person and which has filed with the Obligated Person a written acceptance of such designation.

“*Filing Date*” shall mean June 30 of the Fiscal Year of the Obligated Person (or the next succeeding business day if such day is not a business day), commencing June 30, 2016.

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

“*MSRB*” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“*Official Statement*” means the Official Statement dated _____, 2015 relating to the 2015 Bonds.

“*Participating Underwriter*” shall mean the original underwriter of the 2015 Bonds required to comply with the Rule in connection with offering of the 2015 Bonds.

“*Rule*” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“*Specified Event*” shall mean any of the events listed in Section 5(a) or Section 5(b) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

SECTION 3. Provision of Annual Disclosure Reports.

(a) The Obligated Person shall provide, or shall cause the Dissemination Agent to provide, not later than the Filing Date, to the MSRB an Annual Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Disclosure Report shall be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Disclosure Agreement. If the Fiscal Year of the Obligated Person changes, it shall give notice of such change in the same manner as for a Specified Event under this Disclosure Agreement.

(b) Not later than fifteen (15) days prior to each Filing Date, commencing June 15, 2016, the Obligated Person shall provide the Annual Disclosure Report to the Dissemination Agent (of other than the Obligated Person). The Obligated Person shall provide, or cause the preparer of the Annual Disclosure Report to provide, a written certificate with each Annual Disclosure Report furnished to the Dissemination Agent to the effect that such Annual Disclosure Report constitutes the Annual Disclosure Report required to be furnished under the Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Disclosure Report.

(c) The Flood Control District shall use its best efforts to assist the Obligated Person in preparing the Annual Disclosure Report for delivery to the Dissemination Agent no later than March 15 of each year.

(d) Not later than the Filing Date, the Dissemination Agent shall provide written notice confirming whether or not such Annual Disclosure Report has been furnished by the Obligated Person.

(e) If the Obligated Person is unable to provide the Annual Disclosure Report to the Dissemination Agent by the Filing Date of each year commencing June 30, 2016, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

- (e) The Dissemination Agent shall:
 - (i) If not previously filed by the Obligated Person, send a notice to the MSRB if the Participating Agency, is unable to provide to the Annual Filing to the MSRB by the date required in subsection (a); and
 - (ii) to the extent information is known to it, file a report with the Obligated Person certifying that the Annual Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Disclosure Reports. The Annual Disclosure Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligated Person prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Disclosure Report is required to be filed pursuant to Section 3(a), the Annual Disclosure Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Disclosure Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Filing Date, financial and operating data with respect to the Obligated Person for the preceding Fiscal Year, substantially similar to the financial and operating data in the Official Statement as Follows:

- (i) Principal and interest payment delinquencies;
- (ii) Table A4-1 Water Connections;
- (iii) Table A4-2 Water Deliveries;
- (iv) Table A4-3 Water Sales Revenues;
- (v) Table A4-7 Operating Results;
- (vi) Information concerning any revisions to the adopted rates and charges which are generally imposed by the Obligated Person upon users within the service area of its Water Enterprise; and
- (vii) For any customer whose total billings in the preceding Fiscal Year represent 10% or more of Gross Revenues of the Water Enterprise: (A) the total amount of Gross Revenues derived from such customer; and (B) the percent of Gross Revenues represented by such customer for such Fiscal Year.

(c) In addition to any of the information expressly required to be provided under Sections 4(a) and 4(b), the Obligated Person shall provide such other information, if any, necessary to the required statements, in light of the circumstances under which they were made, not misleading.

(d) The presentation and format of the Annual Disclosure Reports may be modified from time to time as determined in the judgment of the Obligated Person to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Obligated

Person to reflect changes in the business, structure, operations, legal form of the Obligated Person or any mergers, consolidations, acquisitions or dispositions made by or affecting the Obligated Person; provided that any such modifications shall comply with the requirements of the Rule.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Obligated Person or related public entities, which have been made available to the public on the MSRB website. The Obligated Person shall clearly identify each such other document so included by reference.

SECTION 5. Termination of Reporting Obligation. The obligations of the Obligated Person under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2015 Bonds. If such termination occurs prior to the final maturity of the 2015 Bonds, the Obligated Person shall give notice of such termination to the MSRB.

SECTION 6. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the Obligated Person.

The initial Dissemination Agent shall be the Flood Control District.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Person may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), or 4, 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 2015 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the 2015 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the 2015 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2015 Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligated Person shall describe such amendment in the next Annual Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Obligated Person. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Specified Event, and (ii) the Annual Disclosure Report for the year in

which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Disclosure Report or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Disclosure Report or notice of occurrence of a Specified Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Person shall have no obligation under this Agreement to update such information or include it in any future Annual Disclosure Report or notice of occurrence of a Specified Event.

SECTION 9. Default. This Disclosure Agreement shall be solely for the benefit of the holders and beneficial owners from time to time of the 2015 Bonds. In the event of a failure of the Obligated Person to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Participating Underwriter or the Holders of at least twenty-five (25%) aggregate principal amount of Outstanding Bonds and upon receipt of indemnity satisfactory to the Trustee, shall), or any Holder or Beneficial Owner of the 2015 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by order of a court of competent jurisdiction in San Luis Obispo County, California, to cause the Obligated Person to comply with its obligations under this Disclosure Agreement, *provided* that any holder or beneficial owner seeking to require the Obligated Person to comply with this Disclosure Agreement shall first provide at least thirty (30) days prior written notice to the Obligated Person of the failure of the Obligated Person, giving reasonable detail of such failure. Failure by the Obligated Person to comply with any provision of this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Person to comply with the terms of this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Person agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligated Person for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Obligated Person under this Section 10 shall survive resignation or removal of the Dissemination Agent and payment of the 2015 Bonds.

SECTION 11. Notices. Any notices or communications to the Participating Agency or the Flood Control District may be given as follows:

Obligated Person:

Templeton Community Services District

[Address]

Attention: _____

Phone: _____

Dissemination Agent:

San Luis Obispo Flood Control and Water Conservation District

County Government Center

1055 Monterey Street

San Luis Obispo, CA 93408

Attention: Auditor-Controller

Phone: 805-781-5040

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Flood Control District, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the 2015 Bonds, and shall create no rights in any other person or entity.

SECTION 13. Record Keeping. The Obligated Person shall maintain records of Annual Disclosure Reports and notices of Specified Events, including the content of such disclosure, the name of the entities with which such disclosure was filed and the date of filing of such disclosure.

SECTION 14. 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.

TEMPLETON COMMUNITY SERVICES DISTRICT

By: _____
Authorized Officer

Accepted:

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT, as
Dissemination Agent

By: _____
Chairman

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL DISCLOSURE REPORT

Name of Obligated Person: Templeton Community Services District

Name of Bonds: SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series A

SLO County Financing Authority Nacimiento Water Project Refunding Revenue Bonds 2015 Series B (Taxable)

Date of Delivery: July __, 2015

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Disclosure Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of July __, 2015, with respect to the 2015 Bonds. [The Obligated Person anticipates that the Annual Disclosure Report will be filed by _____.]

SAN LUIS OBISPO COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT

By: _____

[cc: Obligated Person]

APPENDIX E
PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2015 Bonds, payment of principal, redemption premium, if any, and interest with respect to the 2015 Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2015 Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the County of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The County, the Trustee and the Underwriter understand that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2015 Bonds. The 2015 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each Series of the 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants

acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2015 Bonds, except in the event that use of the book-entry system for the 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2015 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the 2015 Bonds may wish to ascertain that the nominee holding the 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC, if less than all of the 2015 Bonds within a maturity are being redeemed. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the 2015 Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County 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 2015 Bonds at any time by giving reasonable notice to the County 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 County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the County nor the Trustee take any responsibility for the accuracy thereof.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the County nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the 2015 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

The County and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2015 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the County nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2015 Bonds or an error or delay relating thereto.