meyers | nave riback silver & wilson
professional law corporation

Samuel A. Sperry
Attorney at Law
(510) 808-2000

March 22, 2010

Pete Yribarren
Community Programs Specialist
USDA Rural Development
3530 West Orchard Court
Visalia, CA 93277

Re: County of San Luis Obispo; Wastewater Sewer Assessment District (Los Osos)

Dear Pete:

As follow-up to our conversation several days ago, our firm is serving as special legal counsel and bond counsel to the County of San Luis Obispo (the "County") for the above-entitled assessment district (the "Assessment District"). I am the attorney, initially while still with Orrick, Herrington & Sutcliffe in San Francisco and continuing since I've come to Meyers Nave here in Oakland last March, who has provided the legal services for the establishment of the assessment district and will provide bond counsel services as the County prepares to implement the financing program, assuming that the Board of Supervisors decides, after completing its due diligence review, to go ahead with the proposed community wastewater system project (the "'Project") and makes the formal determination by resolution in accordance with subsection (i) of Section 25825.5 of the California Government Code.

This is to confirm the following:

1. The legal authority for the County to borrow money for this project is the Municipal Improvement Act of 1913 (Sections 10000 and following, California Streets and Highways Code) (the "1913 Act"). This is the legal authority under which we formed the Assessment District, leading to the levy of approximately $126 million of assessments on the improved parcels within the Assessment District in December, 2007, followed by the recording of the Notice of Assessment in February, 2008.

2. In its legal proceedings, the County has reserved the entitlement to borrow against the unpaid assessments through the issuance and sale of either (a) limited obligation improvement bonds under the Improvement Bond Act of 1915 ("1915 Act Bonds") or (b) other financing instruments. We have had some preliminary discussions about each of three forms of borrowing against the unpaid assessments, each of which is legally authorized, namely:

   a. Loan Anticipation Notes or Loan and Grant Anticipation Notes ("Notes"), pursuant to Sections 53859 and following, California Government Code;

   b. Loan Agreement with the appropriate California state agency for funds from the clean water program state revolving fund (SRF Loan); and

c. 1915 Act Bonds.

While these three forms of borrowing are not the only forms legally available, they are the borrowing methods which have been discussed to date in discussions in which I've been a participant.

3. With respect to "other existing debt," our discussion focused on the assessment liens previously imposed by the Los Osos Community Services District (the "CSD") and the 1915 Act bonds issued by the CSD on the security of those prior assessments. As I believe you know, the CSD is in bankruptcy, although as best I know the bondholders of the CSD's 1915 Act bonds are being paid by the bond insurer (MBIA).

Unless something has occurred within the bankruptcy proceedings to alter the lien priority, then the liens which secure the CSD assessments are still valid and enforceable and are superior to the liens securing the County's assessments.

While this fact of lien subordination for the County's Assessment District is a credit consideration, it does not present any kind of legal issue with respect to the Assessment District or borrowing against the unpaid assessments.

I know of no other "existing debt" which has any bearing on the Assessment District or the financing program of the County for the Project.

4. The legal fees which will become payable to Meyers Nave for our services to the County in connection with issuance and sale of either Notes or 1915 Act Bonds will be computed in accordance with an Agreement for Bond Counsel Services which has been submitted to the County staff, has been approved by staff, but (as best I know) is pending approval by the Board of Supervisors. The legal fees are contingent in nature and are payable solely from the proceeds of sale of the Notes or Bonds, and the amount of fees is computed on the basis of a sliding scale of the principal amount of the Notes or Bonds.

The scale for the first series of either Notes or Bonds is (a) 1% for the first $5.0 million (b) 0.5% of the next $5.0 million (up to a total of $10.0 million) and (c) 0.25% of any excess over $10.0 million.

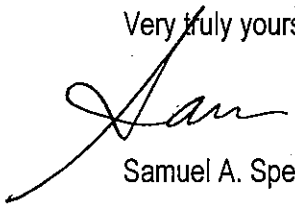
The scale for each subsequent series of Notes or Bonds is (a) 0.5% of the first $10.0 million and (b) 0.25% of any excess over $10.0 million.

I am unable to estimate the amount of legal fees that might be eventually payable under these provisions until we have at least a preliminary estimate of the principal amount of the first and subsequent series of either Notes or Bonds.

5. With respect to any outstanding litigation that could affect the County's borrowing, I know of no such litigation. The 30-day statute of limitations for any person to bring litigation to challenge the validity of the assessments of the Assessment District has long since expired.

In conclusion, I hope this is the information you were seeking from the County with respect to the County's application to USDA for loan and grant assistance for the Project. Please do not hesitate to call on me if discussion of these topics would be useful.

Very truly yours,



Samuel A. Sperry

cc: Will Clemens
John Diodati
Warren Jensen