STATE OF CALIFORNIA
STANDARD AGREEMENT
STD. 213 (Rev 12/03)

AGREEMENT NUMBER	04-806-550-0
ISA NUMBER:	C-06-4014-110
REGISTRATION NUMBER:	3940080590140

1. This Agreement is entered into between the State Agency and the Contractor named below:

STATE AGENCY'S NAME
State Water Resources Control Board (Hereafter referred to as "SWRCB"

CONTRACTOR'S NAME
Los Osos Community Services District (Hereafter referred to as "Agency" or "Contractor")

2. The term of this Agreement is: February 14, 2005 through October 15, 2027

3. The maximum amount of this Agreement is: $ 134,761,390.00
One hundred thirty four million seven hundred sixty one thousand three hundred ninety dollars and no cents.

4. The parties agree to comply with the terms and conditions of the following exhibits which are by this reference made a part of the Agreement:

Exhibit A	Scope of Work	8 page(s)
Exhibit B	Budget Detail and Payment Provisions	5 page(s)
Exhibit C	General Terms and Conditions (GTC 304)	3 page(s)
Exhibit D	Special Conditions	1 page(s)
Exhibit E	Approval To Award Letter	4 page(s)
Exhibit F	Applicable Effluent Limitations and Approved Final Plans and Specifications	1 page(s)
Exhibit G	Final Plans and Specifications Approval Letter	4 page(s)
Exhibit H	Facilities Plan Approval Letter	8 page(s)
Exhibit I	SRF Installment Sale Agreement Payment Schedule	4 page(s)
Exhibit J	Schedule of System Obligations	1 page(s)
Exhibit K	Tax Covenants	5 page(s)
Exhibit L	NA	1 page(s)
Exhibit M	SWRCB Special Terms and Conditions	5 page(s)

IN WITNESS WHEREOF, this Agreement has been executed by the parties hereto.

CONTRACTOR

CONTRACTOR'S NAME (if other than an individual, state whether a corporation, partnership, etc.)
Los Osos Community Services District

BY (Authorized Signature)
✍ [signature]

DATE SIGNED (Do not type)
7/27/05

PRINTED NAME AND TITLE OF PERSON SIGNING
Bruce Buel, General Manager

ADDRESS
2122 9th Street, Los Osos, CA 93402

STATE OF CALIFORNIA

AGENCY NAME
State Water Resources Control Board

BY (Authorized Signature)
✍ [signature]

DATE SIGNED (Do not type)
8/2/05

PRINTED NAME AND TITLE OF PERSON SIGNING
Esteban Almanza, Chief, Division of Administrative Services

ADDRESS
1001 I Street, Sacramento, CA 95814

California Department of General Services Use Only

APPROVED
AUG - 8 2005
DEPT OF GENERAL SERVICES

[signature]

EXHIBIT A — SCOPE OF WORK

SECTION 1. PROJECT DESCRIPTION.

The Project, commonly known as the Wastewater Collection, Treatment and Disposal System Project generally consists of the construction of pipelines, wastewater treatment facilities and effluent disposal system within the Prohibition Zone as established by the Central Coast Regional Water Quality Control Board for purposes of protecting water quality within the District's jurisdiction in a manner consistent with waste discharge requirements, resolutions, and enforcement orders, as more particularly described in the financial assistance application of the Agency and the approved plans and specifications (see Exhibits F and G) for the Project".

SECTION 2. OFFICIAL REPRESENTATIVES.

(1) The SWRCB Assistance Coordinator shall be the Chief of the Division of Financial Assistance.

(2) The SWRCB Assistance Coordinator shall be the SWRCB's representative for administration of the Agreement and shall have authority to make determinations and findings with respect to any controversy arising under or in connection with interpretation of this Agreement.

(3) The Agency's Authorized Representative shall be the General Manager or his/her designee, who shall administer the Agreement and who shall have full authority to act on behalf of the Agency, including authority to execute disbursement requests. All communications given to the Agency representative shall be as binding as if given to the Agency.

(4) Either party may change its official representative upon written notice to the other party.

SECTION 3. DEFINITIONS.

"Additional Payments" means the Additional Payments described in Exhibit B Section 2.3(C) of this Agreement.

"Allowance" means an amount based on a percentage of the accepted bid for an eligible project to help defray the planning, design, and construction engineering and administration costs of the Project.

"Authorized Representative" means the Mayor of a City, the Chairperson of the County Board of Supervisors, the Chairperson of the Board of Directors of the Agency, or another duly appointed representative. For all authorized representatives, a certified original copy of the authorizing resolution that designates the authorized representative, by title, must accompany any contract, the first payment request, and any other documents or requests required or allowed under this Agreement.

"Bank" means the California Infrastructure and Economic Development Bank.

"Bonds" means any series of bonds issued by the Bank all or a portion of the proceeds of which may be applied to fund the Project in whole or in part or that are secured in whole or in part by Installment Payments paid hereunder.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor provisions and the regulations of the U.S. Department of the Treasury promulgated thereunder.

"Completion of Construction" means the date, as determined by the Division after consultation with the Agency, that the work of building and erection of the Project is substantially complete.

EXHIBIT A — SCOPE OF WORK

"CWSRF" means Clean Water State Revolving Fund.

"Division" means the Division of Financial Assistance of the SWRCB, or any other segment of the SWRCB authorized to administer the CWSRF.

"Fiscal Year" means the period of twelve (12) months terminating on June 30 of any year, or any other annual period hereafter selected and designated by the Agency as its Fiscal Year in accordance with applicable law.

"Force Account" means the use of the Agency's own employees or equipment for construction of the Project.

"Initiation of Construction" means the date that notice to proceed with work is issued for the Project, or, if notice to proceed is not required, the date of commencement of building and erection of the Project.

"Installment Payments" means Installment Payments due and payable by the Agency to the SWRCB under this Agreement to repay the Project Costs, the amounts of which are set forth as Exhibit I hereto.

"Net Revenues" means, for any Fiscal Year, so long as there may be outstanding System Obligations, as such term is defined under the authorizing instruments for such System Obligations, and thereafter all Revenues received by the Agency less the Operations and Maintenance Costs for such Fiscal Year. Net Revenues includes connection fees and capacity charges that are either collected at the time of connection or financed over time and collected on individual property tax bills.

"Obligation" means the obligation owed by the Agency to make Installment Payments and Additional Payments as provided herein, as evidenced by the execution of this Agreement, to be used to fund the Project as specified in the Project Description attached hereto as Exhibits F and G.

"Operations and Maintenance Costs" means, so long as outstanding System Obligations are outstanding, the definition of such term as defined therein, and thereafter, the reasonable and necessary costs paid or incurred by the Agency for maintaining and operating the System, determined in accordance with generally accepted accounting principles, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the System in good repair and working order, and including all reasonable and necessary administrative costs of the Agency that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits, licenses and charges to operate the System and insurance premiums; but excluding, in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

"Pledged Revenues" means and include user fees and charges, or other sources of income including capacity charges and connection fees, which are consistent with federal and state requirements.

"Policy" means the SWRCB's "Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities," adopted on February 16, 1995, as amended.

"Project" means the Project as described in Exhibit A, Section 1 and Exhibits F and G.

"Project Completion" means the date, as determined by the Division after consultation with the Agency, that operation of the Project is initiated or is capable of being initiated, whichever comes first. This date shall be synonymous with the date specified in the "Initiation of Operation" form submitted as part of the ATA package.

EXHIBIT A — SCOPE OF WORK

"Project Costs" means the incurred costs of the Agency which are eligible for financial assistance from the CWSRF under the Statute, which are allowable costs as defined under the Policy and which are reasonable, necessary and allocable by the Agency to the Project under generally accepted accounting principles, plus capitalized interest.

"Project Funds" means funds disbursed by the SWRCB to the Agency for purposes of this Agreement.

"Revenue Program" means a system of charges, fees, or other means of income production adopted by the Agency which provides for recovery of appropriate capital costs of the Project, generates adequate income to reasonably assure repayment of the Obligation under this Agreement, generates adequate income to provide for reasonable operation and maintenance of the Project, and provides adequate income for reasonable future expansion and improvement of the Project.

"Revenues" means, for each Fiscal Year, all gross income and revenue received or receivable by the Agency from the ownership or operation of the System, determined in accordance with generally accepted accounting principles, including all rates, fees and charges (including connection fees and capacity charges) as received by the Agency from property owners connecting to the System, and all other income and revenue howsoever derived by the Agency from the ownership or operation of the System or arising from the System, and also including all income from the deposit or investment of any money in the Enterprise Fund or any rate stabilization fund, and any refundable deposits made to establish credit, and advances or contributions in aid of construction.

"State" means State of California.

"System" means all wastewater collection, transport, treatment, storage and disposal facilities, including land and easements thereof, owned by the Agency, including the Project, and all other properties, structures or works hereafter acquired and constructed by the Agency and determined to be a part of the System, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof hereafter acquired and constructed.

"System Obligations" means all senior, parity and subordinate obligations of the Agency payable from Revenues as identified as of the date of this Agreement in Exhibit J and such additional obligations as may hereafter be issued in accordance with the provisions of such obligations.

SECTION 4. GENERAL AGENCY COMMITMENTS.

The Agency accepts and agrees to comply with all terms, provisions, conditions, and commitments of this Agreement, including all incorporated documents, and to fulfill all assurances, declarations, representations, and commitments made by the Agency in its application, accompanying documents, and communications filed in support of its request for financial assistance.

SECTION 5. COMPLETION OF PROJECT.

The Agency agrees to expeditiously proceed with and complete construction of the Project in substantial accordance with Project plans and specifications approved by the SWRCB.

SECTION 6. PROJECT CERTIFICATION.

One (1) year after initiation of operations, the Agency shall certify to the SWRCB whether or not the Project, as of that date, meets applicable design specifications and effluent limitations. If the Agency cannot certify that the Project meets such specifications and limitations at that time, the Agency will, at its

EXHIBIT A — SCOPE OF WORK

own expense and in a timely manner, expeditiously make all needed corrections and perform all additional work necessary to allow affirmative certification for the Project.

Failure to submit an affirmative certification within fifteen (15) months, or a corrective action report that meets the above requirements and is satisfactory to the Division within fifteen (15) months of the Project Completion date will result in an interest penalty of the lesser of twelve percent (12%) per annum or the highest rate permitted under law being assessed on the outstanding balance due.

SECTION 7. FEDERAL OR STATE ASSISTANCE.

If federal or state funding for Project Costs is made available to the Agency from sources other than the CWSRF, the Agency may retain such funding up to an amount which equals the Agency's local share of Project Costs. To the extent allowed by requirements of other funding sources, any funding received in excess of the Agency's local share, not to exceed the total amount of the CWSRF financing assistance, shall be remitted to the SWRCB to be applied to Installment Payments due hereunder.

SECTION 8. REVENUE PROGRAM.

The Agency agrees to prepare and provide an acceptable final Revenue Program to the Division at the time of ninety percent (90%) disbursement of Project Costs. Further disbursements may be withheld until an acceptable final Revenue Program is submitted. The Agency further agrees to periodically review and modify the Revenue Program as necessary to assure reasonable adequacy of the Revenue Program. The final Revenue Program and all modifications thereof shall be consistent with applicable guidelines and shall be to the reasonable satisfaction of the Division. The Division may review the Agency's records to assure compliance with the approved Revenue Program at any time during the useful life of the Project.

SECTION 9. USER CHARGE SYSTEM.

The Agency shall adopt and maintain in effect a user charge system which at all times complies with the requirements of Section 204(b)(1) of the federal Clean Water Act and applicable federal and state rules, regulations and guidelines.

SECTION 10. OPERATION AND MAINTENANCE; INSURANCE.

The Agency agrees to properly staff, operate and maintain all portions of the Project during its useful life in accordance with all applicable state and federal laws, rules and regulations.

The Agency will procure and maintain or cause to be maintained insurance on the System with responsible insurers, or as part of a reasonable system of self-insurance, in such amounts and against such risks (including damage to or destruction of the System) as are usually covered in connection with systems similar to the System. Such insurance may be maintained by the maintenance of a self-insurance plan so long as any such plan provides for (i) the establishment by the Agency of a separate segregated self-insurance fund funded in an amount determined (initially and on at least an annual basis) by an independent insurance consultant experienced in the field of risk management employing accepted actuarial techniques and (ii) the establishment and maintenance of a claims processing and risk management program.

In the event of any damage to or destruction of the System caused by the perils covered by such insurance, the net proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the System. The Agency shall begin such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the

EXHIBIT A — SCOPE OF WORK

System shall be free and clear of all claims and liens. If such net proceeds are insufficient to enable the Agency to pay all remaining unpaid principal portions of the Installment Payments, the Agency shall provide additional funds to restore or replace the damaged portions of the System.

SECTION 11. USEFUL LIFE OF PROJECT.

For purposes of this Agreement, the parties agree that the useful life of the Project is at least twenty (20) years from and after Project Completion.

SECTION 12. AWARD OF CONSTRUCTION CONTRACTS; NOTIFICATION OF AWARD AND INITIATION OF CONSTRUCTION.

(A) The Agency agrees to award the prime construction contract within one hundred eighty (180) days after issuance of the Agreement. An extension may be granted by the Division.

(B) The Agency agrees to promptly notify the Division in writing both of the award of the prime construction contract for the Project and of Initiation of Construction of the Project. The Agency has established October 15, 2007 as the Completion of Construction date. The Agency agrees to make all reasonable efforts to complete construction in substantial conformance with the terms of the contract by this date. Such date shall be binding upon the Agency unless modified in writing by the Division upon a showing of good cause by the Agency. Extension of the Completion of Construction date by the Division shall not be unreasonably withheld.

SECTION 13. CONSTRUCTION ACTIVITIES; NOTIFICATIONS; PROTECTION OF ARCHEOLOGICAL AND HISTORICAL RESOURCES.

(A) The Agency agrees to promptly notify the Division in writing of:

(1) Any substantial change in scope of the Project. The Agency agrees that no substantial change in the scope of the Project will be undertaken until written notice of the proposed change has been provided to the Division and the Division has given written approval for such change;

(2) Cessation of all major construction work on the Project where such cessation of work is expected to or does extend for a period of thirty (30) days or more;

(3) Any circumstance, combination of circumstances, or condition, which is expected to or does delay Completion of Construction for a period of ninety (90) days or more beyond the estimated date of Completion of Construction previously provided to the Division;

(4) Discovery of any potential archeological or historical resource. Should a potential archeological or historical resource be discovered during construction of the Project, the Agency agrees that all work in the area of the find will cease until a qualified archeologist has evaluated the situation and made recommendations regarding preservation of the resource, and the Division has determined what actions should be taken to protect and preserve the resource. The Agency agrees to implement appropriate actions as directed by the Division; and

(5) Completion of Construction of the Project, and actual Project Completion.

EXHIBIT A — SCOPE OF WORK

SECTION 14. PROJECT ACCESS.

The Agency agrees to insure that the SWRCB, or any authorized representative thereof, will have suitable access to the Project site at all reasonable times during Project construction and thereafter for the term of the Obligation.

SECTION 15. PROJECT COMPLETION; INITIATION OF OPERATIONS.

Upon Completion of Construction of the Project, the Agency agrees to expeditiously initiate Project operations. The Agency has established January 15, 2008 as the estimated Project Completion date. The Agency agrees to make all reasonable efforts to meet the date so established. Such date shall be binding upon the Agency unless modified in writing by the Division upon a showing of good cause by the Agency. Extension of the Project Completion date by the Division shall not be unreasonably withheld.

SECTION 16. WASTEWATER CAPITAL RESERVE FUND.

The Agency agrees to establish and maintain a Wastewater Capital Reserve Fund (WCRF) for expansion, major repair, or replacement of the wastewater facilities and to maintain the WCRF for the term of the Agreement. The WCRF shall be maintained in compliance with the "Policy for Implementing The State Revolving Fund for Construction of Wastewater Treatment Facilities" in effect at the time the Agreement is signed by the Authorized Representative of the Agency. The Agency agrees to submit a report on WCRF activities and status five (5) years after the date of the final revenue program approval by the Division. Updated WCRF reports will be submitted every five (5) years thereafter until all Installment Payments and Additional Payments hereunder have been fully discharged. Thereafter, the WCRF will no longer be subject to the requirements of this Agreement or the above referenced policy. Certification by legal counsel of unused bonding capability for the wastewater enterprise may be used to offset required cash deposits to the WCRF.

SECTION 17. CONTINUOUS USE OF PROJECT; LEASE OR DISPOSAL OF PROJECT.

The Agency agrees that, except as provided in the Agreement, it will not abandon, substantially discontinue use of, lease, or dispose of the Project or any significant part or portion thereof during the useful life of the Project without prior written approval of the Division. Such approval may be conditioned as determined to be appropriate by the Division, including a condition requiring repayment of all or any portion of all remaining funds covered by this Agreement together with accrued interest and any penalty assessments which may be due.

SECTION 18. REPORTS.

The Agency agrees to expeditiously provide, during construction of the Project and thereafter during the useful life of the Project, such reports, data, and information as may be reasonably required by the Division, including but not limited to material necessary or appropriate for evaluation of the CWSRF Program or to fulfill any reporting requirements of the federal government.

The Agency agrees to expeditiously provide, during construction of the Project, status reports on the construction of the project no less frequently than quarterly, starting with the issuance of the Notice To Proceed to the construction contractor. At a minimum the reports will contain the following information: a summary of progress to date including a description of progress since the last report, percent construction complete, percent contractor invoiced, and percent schedule elapsed; a listing of change orders including amount, description of work, and change in contract amount and schedule; any problems encountered, proposed resolution, schedule for resolution, and status of previous problem resolutions. During the useful life of the Project, the Agency agrees to expeditiously provide such reports, data, and information

EXHIBIT A — SCOPE OF WORK

as may be reasonably required by the Division, including but not limited to material necessary or appropriate for evaluation of the CWSRF Program or to fulfill any reporting requirements of the federal government.

SECTION 19. RECORDS.

(A) Without limitation of the requirement to maintain Project accounts in accordance with generally accepted accounting principles the Agency agrees to:

(1) Establish an official file for the Project which shall adequately document all significant actions relative to the Project;

(2) Establish separate accounts which will adequately and accurately depict all amounts received and expended on the Project, including all assistance funds received under this Agreement;

(3) Establish separate accounts which will adequately depict all income received which is attributable to the Project, specifically including any income attributable to assistance funds disbursed under this Agreement;

(4) Establish an accounting system which will accurately depict final total costs of the Project, including both direct and indirect costs;

(5) Establish such accounts and maintain such records as may be necessary for the State to fulfill federal reporting requirements, including any and all reporting requirements under federal tax statutes or regulations; and

(6) If Force Account is used by the Agency for any phase of the Project, other than for planning, design and construction engineering, and administration provided for by allowance, accounts will be established which reasonably document all employee hours charged to the Project and the associated tasks performed by each employee. Indirect Force Account costs may be paid with prior written approval by the Division of the Agency's indirect cost proposal.

(B) Notwithstanding Exhibit C, the Agency shall be required to maintain books, records and other material relative to the Project in accordance with generally accepted accounting principles. The Agency shall also be required to retain such books, records, and other material for each subcontractor who performed work on this project for a minimum of thirty-six (36) years after Project Completion. The Agency shall require that such books, records, and other material be subject at all reasonable times to inspection, copying, and audit by the SWRCB and by state auditors, or any authorized representatives thereof.

(C) Notwithstanding Exhibit C, the Agency agrees to retain its Project records for a minimum of thirty-six (36) years from the date of Project Completion, and for such longer period as may be required for the State to fulfill federal reporting requirements under federal tax statutes and regulations. All Agency records relative to the Project shall be subject at all reasonable times to inspection, copying and audit by the SWRCB and the U.S. Environmental Protection Agency, or any authorized representatives thereof.

EXHIBIT A — SCOPE OF WORK

SECTION 20. FINAL PROJECT REPORTS; AUDIT.

(A) Within ninety (90) days after Project Completion, the Agency agrees to submit to the Division a final Project summary report which briefly describes the Project as completed, its features, estimated capacity, and apparent treatment capability. The report shall note any unusual operational problems that have been encountered and shall indicate whether the Agency expects to be able to certify that the Project meets applicable design specifications and effluent limitations one (1) year after Project Completion.

(B) Within one hundred twenty (120) days after Project Completion, the Agency agrees to provide to the Division a final cost summary report on the Project. The summary shall include at a minimum, a statement of:

(1) Total Project Costs;

(2) Total Project Costs which are eligible for financing assistance under this Agreement;

(3) The total amount of assistance funds received;

(4) The amount of interest earned, if any, on assistance funds before disbursement on account of incurred Project costs. If no interest has been earned, this fact shall be expressly stated.

(5) The report shall be accompanied by such other financial information as may be reasonably required by the Division to verify Agency entitlement to financial assistance, to assure program integrity of the CWSRF Program, and to comply with any federal requirements. The report shall be certified as correct by a duly Authorized Representative of the Agency.

(C) The Division, at its option, may call for an audit of financial information relative to the Project, where the Division determines that an audit is desirable to assure program integrity or where such an audit becomes necessary because of federal requirements. Where such an audit is called for, the audit shall be performed by a certified public accountant independent of the Agency and at the cost of the Agency. The audit shall be in the form required by the Division.

(D) Audit disallowances will be returned to the SWRCB.

SECTION 21. NO OBLIGATION OF THE STATE.

Any obligation of the SWRCB herein contained shall not be an obligation, debt or liability of the State and any such obligation shall be payable solely out of the moneys in the CWSRF made available pursuant to this Agreement.

EXHIBIT B — BUDGET DETAIL AND PAYMENT PROVISIONS

SECTION 1. ESTIMATED COST OF PROJECT.

The estimated reasonable cost of the total Project at the time of SWRCB Approval, including associated planning and design costs, is one hundred thirty four million seven hundred sixty one thousand three hundred ninety dollars and no cents ($134,761,390.00).

SECTION 2. ASSISTANCE AMOUNT AND FINANCING PROVISIONS.

Section 2.1. Project Funds; Repayment from Installment Payments.

The maximum funding amount will be established by the Approval to Award (ATA) budget issued by the SWRCB. This agreement will be amended accordingly at the time of the ATA issuance.

Subject to the conditions and in accordance with the terms of this Agreement, the SWRCB hereby agrees to provide the Project Funds and the Agency hereby agrees to accept the Project Funds in the maximum principal component, of one hundred thirty four million seven hundred sixty one thousand three hundred ninety dollars and no cents ($134,761,390.00) and to repay the Project Funds in Installment Payments at an interest rate of two and three tenths percent (2.3%) per annum as set forth in Exhibits B and I attached hereto. The Agency agrees that it shall not be entitled to interest earned on undisbursed project funds. Upon execution of this Agreement, the SWRCB shall encumber an amount equal to the Obligation. The Agency hereby agrees to pay Installment Payments solely from Net Revenues and/or other amounts legally available to the Agency. Interest on any funds disbursed to the Agency shall begin to accrue as of the date of each disbursement. This rate is based on the sale of State General Obligation Bonds held on June 16, 2005, and is set when the Agreement is certified to the Agency.

Section 2.2. Purchase and Sale of Project.

The Agency hereby sells to the SWRCB and the SWRCB hereby purchases from the Agency the Project. Simultaneously therewith, the Agency hereby purchases from the SWRCB, and the SWRCB hereby sells to the Agency, the Project in accordance with the provisions of this Agreement. All right, title and interest in the Project shall immediately vest in the Agency on the date of execution and delivery of this Agreement without further action on the part of the Agency or the SWRCB.

Section 2.3. Amounts Payable by the Agency.

(A) Installment Payments. Repayment of the Project Funds, together with all interest accruing thereon, shall be repaid in annual installments commencing on the date that is one (1) year after Completion of Construction, and shall be fully amortized not later than twenty (20) years after Completion of Construction.

The repayment amount is based on a standard fully amortized assistance amount with equal annual repayments. The remaining balance is the previous balance, plus the disbursements, plus the accrued interest on both, less the repayment. Repayment calculations will be made beginning one (1) year after Completion of Construction and shall be fully amortized not later than twenty (20) years after Completion of Construction. Exhibit I is a SRF Installment Sale Agreement Payment Schedule based on the provisions of this article and an estimated disbursement schedule. The actual repayments will be based on actual disbursements.

EXHIBIT B — BUDGET DETAIL AND PAYMENT PROVISIONS

Upon Completion of Construction and submission of necessary reports, the Division will prepare an appropriate SRF Installment Sale Agreement Payment Schedule and supply the same to the Agency. The SRF Installment Sale Agreement Payment Schedule may be amended as necessary to accurately reflect amounts due under this agreement. Any amended SRF Installment Sale Agreement Payment Schedule which is necessary will be prepared by the Division and furnished to the Agency.

The Agency agrees to make each installment payment on or before the due date therefor. A ten (10) day grace period will be allowed. A penalty in the amount of one-tenth of one percent (0.1%) of the amount due will be due for each day of nonpayment. For purposes of penalty assessment, repayment will be deemed to have been made if repayment is deposited in the U.S. Mail within the grace period with postage prepaid and properly addressed. Any penalties assessed will not be added to the assistance amount balance, but will be treated as a separate account and obligation of the Agency. The interest penalty will be assessed from the repayment due date.

The Agency as a whole is obligated to make all payments required by this agreement to the SWRCB, notwithstanding any individual default by its constituents or others in the payment to the Agency of fees, charges, taxes, assessments, tolls or other charges ("Charges") levied or imposed by the Agency. The Agency shall provide for the punctual payment to the SWRCB of all amounts which become due under this agreement and which are received from constituents or others in the payment to the Agency. In the event of failure, neglect or refusal of any officer of the Agency to levy or cause to be levied any Charge to provide payment by the Agency under this agreement, to enforce or to collect such Charge, or to pay over to the SWRCB any money collected on account of such Charge necessary to satisfy any amount due under this agreement, the SWRCB may take such action in a court of competent jurisdiction as it deems necessary to compel the performance of all duties relating to the imposition or levying and collection of any of such Charges and the payment of the money collected therefrom to the SWRCB. Action taken pursuant hereto shall not deprive the SWRCB of, or limit the application of, any other remedy provided by law or by this agreement.

Attached as Exhibit I is a SRF Installment Sale Agreement Payment Schedule based on the provisions of this section and an estimated disbursement schedule. SRF Installment Sale Agreement Payment Schedule will be revised based on actual disbursements following Completion of Construction.

Each Installment Payment shall be paid by check and in lawful money of the United States of America.

(B) Project Costs. The Agency agrees to pay any and all costs connected with the Project including, without limitation, any and all Project Costs. If the Project Funds are not sufficient to pay the Project Costs in full, the Agency shall nonetheless complete the Project and pay that portion of the Project Costs in excess of available Project Funds, and shall not be entitled to any reimbursement therefor from the SWRCB.

(C) Additional Payments. In addition to the Installment Payments required to be made by the Agency, the Agency shall also pay to the SWRCB the reasonable extraordinary fees and expenses of the SWRCB, and of any assignee of the SWRCB's right, title and interest in and to this Agreement, in connection with this Agreement, including all expenses and fees of accountants, trustees, attorneys, litigation costs, insurance premiums and all other extraordinary costs reasonably incurred by the SWRCB or assignee of the SWRCB.

EXHIBIT B — BUDGET DETAIL AND PAYMENT PROVISIONS

Additional Payments shall be billed to the Agency by the SWRCB from time to time, together with a statement executed by a duly authorized representative of the SWRCB, stating that the amounts billed pursuant to this section have been incurred by the SWRCB or its assignee for one or more of the above items and a copy of the invoice or statement for the amount so incurred or paid. Amounts so billed shall be paid by the Agency within thirty (30) days after receipt of the bill by the Agency.

(D) The Agency may without penalty prepay all or any portion of the outstanding principal amount of the Obligation provided that the Agency shall also pay at the time of such prepayment all accrued interest on the principal amount prepaid through the date of prepayment.

Section 2.4. Obligation Absolute. The obligation of the Agency to make the Installment Payments and other payments required to be made by it under this Agreement, solely from Net Revenues, is absolute and unconditional, and until such time as the Installment Payments and Additional Payments have been paid in full, the Agency shall not discontinue or suspend any Installment Payments or other payments required to be made by it hereunder when due, whether or not the System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such Installment Payments and other payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Section 2.5. Disbursement of Project Funds; Availability of Funds.

(A) Except as may be otherwise provided in this Agreement, disbursement of Project Funds will be made as follows:

(1) Upon execution and delivery of this Agreement, the Agency may request immediate disbursement of any incurred planning and design allowance as specified in Exhibit A from the Project Funds through submission to the SWRCB of the Disbursement Request Form 260, or any amendment thereto, duly completed and executed.

(2) Additional Project Funds will be promptly disbursed to the Agency upon receipt of Disbursement Request Form 260, or any amendment thereto, duly completed and executed by the Agency for incurred costs consistent with this Exhibit.

Disbursement shall not be made more frequently than every thirty (30) days. The Agency agrees that it will not request disbursement for any Project Cost until such cost has been incurred and is currently due and payable by the Agency, although the actual payment of such cost by the Agency is not required as a condition of disbursement request. Notwithstanding any other provision of this Agreement, no disbursement shall be required at any time or in any manner which is in violation of or in conflict with federal or state laws, rules, or regulations.

(B) The SWRCB's obligation to disburse Project Funds is contingent upon the availability of sufficient funds to permit the disbursements provided for herein. If sufficient funds are not available for any reason, including but not limited to failure of the federal or State government to appropriate funds necessary for disbursement of Project Funds, the SWRCB shall not be obligated to make any disbursements to the Agency under this

EXHIBIT B — BUDGET DETAIL AND PAYMENT PROVISIONS

Agreement. This provision shall be construed as a condition precedent to the obligation of the SWRCB to make any disbursements under this Agreement. Nothing in this Agreement shall be construed to provide the Agency with a right of priority for disbursement over any other agency. If any disbursements due the Agency under this contract are deferred because sufficient funds are unavailable, such disbursement will be made to the Agency when sufficient funds do become available.

SECTION 3. WITHHOLDING OF DISBURSEMENTS.

(A) The SWRCB may withhold all or any portion of the funds provided for by this Agreement in the event that:

(1) The Agency has materially violated, or threatens to materially violate, any term, provision, condition, or commitment of this Agreement;

(2) The Agency fails to maintain reasonable progress toward completion of the Project; or

(3) An acceptable Revenue Program is not submitted at the time of ninety percent (90%) disbursement of funds provided for by this Agreement.

SECTION 4. PLEDGE AND LIEN OF NET REVENUES; RATES, FEES AND CHARGES; ADDITIONAL PAYMENTS.

Section 4.1. Establishment of Enterprise Fund. In order to carry out its obligation to pay the Installment Payments, Additional Payments and, where applicable, System Obligations, the Agency agrees and covenants that it shall establish and maintain the Enterprise Fund. All Revenues received shall be deposited when and as received in trust in the Enterprise Fund.

Section 4.2. Pledge of Net Revenues. The Net Revenues are hereby pledged and a security interest granted therein in order to secure the payment of Installment Payments and Additional Payments. The Net Revenues in the Enterprise Fund shall be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency.

Section 4.3. Application and Purpose of the Enterprise Fund. Subject to the provisions of any outstanding System Obligations, money on deposit in the Enterprise Fund shall be applied and used first, to pay Operations and Maintenance Costs, and thereafter, all amounts due on Installment Payments, Additional Payments and System Obligations due. After making all payments hereinabove required to be made in each Fiscal Year, the Agency may expend in such Fiscal Year any remaining money in the Enterprise Fund for any lawful purpose of the Agency, including payment of subordinate debt.

Section 4.4. Rates, Fees and Charges. The Agency agrees, to the extent permitted by law, to fix, prescribe and collect rates, fees and charges for the System during each Fiscal Year which are reasonable, fair and nondiscriminatory and which will be at least sufficient to yield during each Fiscal Year, Net Revenues equal to the Installment Payments, Additional Payments and debt service on System Obligations for such Fiscal Year. The Agency may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates,

EXHIBIT B — BUDGET DETAIL AND PAYMENT PROVISIONS

fees and charges then in effect unless the Net Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this section.

Section 4.5. Future Local Debt. All future debt secured by the pledged revenue source shall be on parity with, or subordinate to, the Obligation.

SECTION 5. FINANCIAL MANAGEMENT SYSTEM AND STANDARDS.

The Agency agrees to comply with federal standards for financial management systems. The Agency agrees that, at a minimum, its fiscal control and accounting procedures will be sufficient to permit preparation of reports required by the federal government and tracking of Project funds to a level of expenditure adequate to establish that such funds have not been used in violation of federal or state law or the terms of this Agreement. To the extent applicable, the Agency agrees to be bound by and to comply with, the provisions and requirements of the federal Single Audit Act of 1984 (Pub. L.98-502) Office of Management and Budget (OMB) Circular No. A-133, and updates or revisions, thereto.

SECTION 6. ACCOUNTING AND AUDITING STANDARDS.

The Agency will maintain separate Project accounts in accordance with generally accepted accounting principles. The contractor shall comply with "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" promulgated by the U.S. General Accounting Office. (40 CFR § 35.3135(l).)

SECTION 7. BUDGET.

Budget costs are contained in the Approval to Award Letter(s) (or engineer's estimates) which is attached hereto and referenced as Exhibit E.

EXHIBIT C —GENERAL TERMS AND CONDITIONS (GTC 304)

1. APPROVAL: This Agreement is of no force or effect until signed by both parties and approved by the Department of General Services, if required. Contractor may not commence performance until such approval has been obtained.

2. AMENDMENT: No amendment or variation of the terms of this Agreement shall be valid unless made in writing, signed by the parties and approved as required. No oral understanding or Agreement not incorporated in the Agreement is binding on any of the parties.

3. ASSIGNMENT: This Agreement is not assignable by the Contractor, either in whole or in part, without the consent of the State in the form of a formal written amendment.

4. AUDIT: Contractor agrees that the awarding department, the Department of General Services, the Bureau of State Audits, or their designated representative shall have the right to review and to copy any records and supporting documentation pertaining to the performance of this Agreement. Contractor agrees to maintain such records for possible audit for a minimum of three (3) years after final payment, unless a longer period of records retention is stipulated. Contractor agrees to allow the auditor(s) access to such records during normal business hours and to allow interviews of any employees who might reasonably have information related to such records. Further, Contractor agrees to include a similar right of the State to audit records and interview staff in any subcontract related to performance of this Agreement. (GC 8546.7, PCC 10115 et seq., CCR Title 2, Section 1896).

5. INDEMNIFICATION: Contractor agrees to indemnify, defend and save harmless the State, its officers, agents and employees from any and all claims and losses accruing or resulting to any and all contractors, subcontractors, suppliers, laborers, and any other person, firm or corporation furnishing or supplying work services, materials, or supplies in connection with the performance of this Agreement, and from any and all claims and losses accruing or resulting to any person, firm or corporation who may be injured or damaged by Contractor in the performance of this Agreement.

6. DISPUTES: Contractor shall continue with the responsibilities under this Agreement during any dispute.

7. TERMINATION FOR CAUSE: The State may terminate this Agreement and be relieved of any payments should the Contractor fail to perform the requirements of this Agreement at the time and in the manner herein provided. In the event of such termination the State may proceed with the work in any manner deemed proper by the State. All costs to the State shall be deducted from any sum due the Contractor under this Agreement and the balance, if any, shall be paid to the Contractor upon demand.

8. INDEPENDENT CONTRACTOR: Contractor, and the agents and employees of Contractor, in the performance of this Agreement, shall act in an independent capacity and not as officers or employees or agents of the State.

9. RECYCLING CERTIFICATION: The Contractor shall certify in writing under penalty of perjury, the minimum, if not exact, percentage of recycled content, both post consumer waste and secondary waste as defined in the Public Contract Code, Sections 12161 and 12200, in materials, goods, or supplies offered or products used in the performance of this Agreement, regardless of whether the product meets the required recycled product percentage as defined in the Public Contract Code, Sections 12161 and 12200. Contractor may certify that the product contains zero recycled content. (PCC 10233, 10308.5, 10354)

10. NON-DISCRIMINATION CLAUSE: During the performance of this Agreement, Contractor and its subcontractors shall not unlawfully discriminate, harass, or allow harassment against any employee or applicant for employment because of sex, race, color, ancestry, religious creed, national origin, physical disability (including HIV and AIDS), mental disability, medical condition (cancer), age (over 40), marital status, and denial of family care leave. Contractor and subcontractors shall insure that the evaluation and

EXHIBIT C —GENERAL TERMS AND CONDITIONS (GTC 304)

treatment of their employees and applicants for employment are free from such discrimination and harassment. Contractor and subcontractors shall comply with the provisions of the Fair Employment and Housing Act (Government Code Section 12990 (a-f) et seq.) and the applicable regulations promulgated thereunder (California Code of Regulations, Title 2, Section 7285 et seq.). The applicable regulations of the Fair Employment and Housing Commission implementing Government Code Section 12990 (a-f), set forth in Chapter 5 of Division 4 of Title 2 of the California Code of Regulations, are incorporated into this Agreement by reference and made a part hereof as if set forth in full. Contractor and its subcontractors shall give written notice of their obligations under this clause to labor organizations with which they have a collective bargaining or other Agreement.

Contractor shall include the nondiscrimination and compliance provisions of this clause in all subcontracts to perform work under the Agreement.

11. CERTIFICATION CLAUSES: The CONTRACTOR CERTIFICATION CLAUSES contained in the document CCC 304 are hereby incorporated by reference and made a part of this Agreement by this reference as if attached hereto.

12. TIMELINESS: Time is of the essence in this Agreement.

13. COMPENSATION: The consideration to be paid Contractor, as provided herein, shall be in compensation for all of Contractor's expenses incurred in the performance hereof, including travel, per diem, and taxes, unless otherwise expressly so provided.

14. GOVERNING LAW: This contract is governed by and shall be interpreted in accordance with the laws of the State of California.

15. ANTITRUST CLAIMS: The Contractor by signing this agreement hereby certifies that if these services or goods are obtained by means of a competitive bid, the Contractor shall comply with the requirements of the Government Codes Sections set out below.

a. The Government Code Chapter on Antitrust claims contains the following definitions:

1). "Public purchase" means a purchase by means of competitive bids of goods, services, or materials by the State or any of its political subdivisions or public agencies on whose behalf the Attorney General may bring an action pursuant to subdivision (c) of Section 16750 of the Business and Professions Code.

2). "Public purchasing body" means the State or the subdivision or agency making a public purchase. Government Code Section 4550.

b. In submitting a bid to a public purchasing body, the bidder offers and agrees that if the bid is accepted, it will assign to the purchasing body all rights, title, and interest in and to all causes of action it may have under Section 4 of the Clayton Act (15 U.S.C. Sec. 15) or under the Cartwright Act (Chapter 2 (commencing with Section 16700) of Part 2 of Division 7 of the Business and Professions Code), arising from purchases of goods, materials, or services by the bidder for sale to the purchasing body pursuant to the bid. Such assignment shall be made and become effective at the time the purchasing body tenders final payment to the bidder. Government Code Section 4552.

c. If an awarding body or public purchasing body receives, either through judgment or settlement, a monetary recovery for a cause of action assigned under this chapter, the assignor shall be entitled to receive reimbursement for actual legal costs incurred and may, upon demand, recover from the public body any portion of the recovery, including treble damages, attributable to overcharges that were paid by

EXHIBIT C —GENERAL TERMS AND CONDITIONS (GTC 304)

the assignor but were not paid by the public body as part of the bid price, less the expenses incurred in obtaining that portion of the recovery. Government Code Section 4553.

d. Upon demand in writing by the assignor, the assignee shall, within one (1) year from such demand, reassign the cause of action assigned under this part if the assignor has been or may have been injured by the violation of law for which the cause of action arose and (a) the assignee has not been injured thereby, or (b) the assignee declines to file a court action for the cause of action. See Government Code Section 4554.

16. CHILD SUPPORT COMPLIANCE ACT: "For any Agreement in excess of $100,000, the contractor acknowledges in accordance with, that:

a). The contractor recognizes the importance of child and family support obligations and shall fully comply with all applicable state and federal laws relating to child and family support enforcement, including, but not limited to, disclosure of information and compliance with earnings assignment orders, as provided in Chapter 8 (commencing with section 5200) of Part 5 of Division 9 of the Family Code; and

b) The contractor, to the best of its knowledge is fully complying with the earnings assignment orders of all employees and is providing the names of all new employees to the New Hire Registry maintained by the California Employment Development Department."

17. UNENFORCEABLE PROVISION: In the event that any provision of this Agreement is unenforceable or held to be unenforceable, then the parties agree that all other provisions of this Agreement have force and effect and shall not be affected thereby.

18. UNION ACTIVITIES: For all contracts, except fixed price contracts of $50,000 or less, the Contractor acknowledges that:

By signing this agreement Contractor hereby acknowledges the applicability of Government Code Section 16645 through Section 16649 to this agreement and agrees to the following:

a) Contractor will not assist, promote or deter union organizing by employees performing work on a state service contract, including a public works contract

b) No state funds received under this agreement will be used to assist, promote or deter union organizing.

c) Contractor will not, for any business conducted under this agreement, use any state property to hold meetings with employees or supervisors, if the purpose of such meetings is to assist, promote or deter union organizing, unless the state property is equally available to the general public for holding meetings.

d) If Contractor incurs costs, or makes expenditures to assist, promote or deter union organizing, Contractor will maintain records sufficient to show that no reimbursement from state funds has been sought for these costs, and that Contractor shall provide those records to the Attorney General upon request.

EXHIBIT D — SPECIAL CONDITIONS

[ ] None at this time.

[X] Special condition as follows:

1. This agreement shall be void and of no further effect if the Agency does not issue the Notice-to-Proceed with construction of the project by September 20, 2005. The agency shall immediately return all funds to the SWRCB. The Division may approve up to a ninety (90) day extension for good cause.

2. The Agency shall comply with all stipulations and conditions contained in the Memorandum of Agreement Between the California State Water Resources Control Board (SWRCB) and the California State Historic Preservation Officer Regarding the Los Osos Wastewater Facilities Project, San Luis Obispo County, California, executed October 29, 2003.

3. The Agency shall comply with all conditions and restrictions contained in the U.S. Fish and Wildlife Service (FWS) Biological Opinion for the Los Osos Wastewater Project, San Luis Obispo County, California (1-8-04-F-48), issued April 20, 2005.

4. The Agency shall comply with all procedures, conditions, or measures determined by the U.S. Environmental Protection Agency (USEPA) and/or the SWRCB to be necessary and appropriate for ensuring compliance with the procedural and substantive requirements of sections 7 and 9 of the Federal Endangered Species Act. These procedures, conditions and measures include, but are not limited to, the reasonable and prudent measures, terms and conditions included in the Biological Opinion issued by FWS.

5. The Agency shall document and notify SWRCB of any dispute or problem encountered with achieving compliance with any of the above conditions. Such notification shall be made to SWRCB within a reasonable period of time, but in no case later than ten (10) days after the LOCSD's discovery of any such problem or dispute.

EXHIBIT E — APPROVAL TO AWARD LETTER

See Approval to Award letter dated May 20, 2005. This letter shows how the maximum financing assistance amount, as described in Exhibit B, was determined.

State Water Resources Control Board

Division of Financial Assistance
1001 I Street • Sacramento, California 95814
P.O. Box 944212 • Sacramento, California • 94244-2120
(916) 341-5700 • FAX (916) 341-5707 http://www.waterboards.ca.gov

Alan C. Lloyd, Ph.D.
Agency Secretary

STEVE

Arnold Schwarzenegger
Governor

MAY 20 2005

CERTIFIED MAIL NO.: 7099 3400 0004 7568 6563

Mr. Bruce Buel, General Manager
Los Osos Community Services District
P. O. Box 6064
Los Osos, CA 93412

Dear Mr. Buel:

APPROVAL TO AWARD (ATA) – WASTEWATER COLLECTION, CONVEYANCE, TREATMENT, AND TREATED EFFLUENT DISPOSAL, LOS OSOS COMMUNITY SERVICES DISTRICT, STATE REVOLVING FUND (SRF) LOAN PROJECT
NO. C-06-4014-110

We have reviewed the ATA request package submitted with the SRF ATA Form 555-1 executed on May 3, 2005. The Division of Financial Assistance (Division) approves the ATA construction budget as follows:

CONTRACTORS	AMOUNT BID	APPROVED
1. Whitaker Contractor, Inc. (1)	$24,507,014	$24,507,014
2. Barnard Construction Co., Inc. (1)	$43,493,400	$43,493,400
3. Monterey Mechanical Co. (1)	$46,167,000	$46,167,000
4. Far Western (2) (3)	$1,512,624	$1,512,624
5. Crawford Multari & Clark (2)	$1,206,723	$1,206,723
TOTAL	**$116,886,761**	**$116,886,761**

	REQUESTED	APPROVED
A. Construction	$116,886,761	$116,886,761
B. Allowances		
1. Planning	$1,802,274	$1,802,274
2. Design	$4,250,003	$4,250,003
3. Construction	$10,512,872	$10,512,872
4. Administration	$1,051,981	$1,051,981
5. Prime Engineering	$257,499	$257,499
TOTAL	**$134,761,390**	**$134,761,390**

(1) Refer to the enclosed Construction Contractor Spreadsheets (Form No. 259) for the construction eligibility calculations on each prime contractor.

(2) Environmental works individually approved as part of construction costs.

(3) Combined approvals as follows: A. $74,385, B. $367,607, and C. $1,070,632.

B Ward 5-18-05

SURNAME | K Goyaly 5-19-05 | California Environmental Protection Agency | 5/19/05 | Recycled Paper

MAY 20 2005

Please provide this office with a written response within 30 days of the date of this letter stating your agreement or disagreement with this decision. Send your response to:

Ms. Alice Stebbins, Chief
Administration and Contracts Section
State Water Resources Control Board
P. O. Box 944212
Sacramento, CA 94244-2120

If you have not contacted Ms. Stebbins within 30 days, this letter will serve as our final decision.

Please be advised that there are several steps remaining and several documents you must sign and submit prior to receipt of your loan contract. All documentation requested should be sent to your Project Manager, Mr. Leo Sarmiento.

First, your binding loan agreement requires about three months to process following your agreement to the ATA budget and completion of any other prerequisites identified by your Project Manager. Within 30 days of receipt of this letter, please submit a preliminary **SRF Disbursement Schedule** (see enclosed format) which shows the estimated monthly amounts to be requested during the construction period. The total should equal the approved SRF ATA budget amount. This is needed to establish a preliminary repayment schedule for your proposed loan contract.

Second, mail the following documents, if you have not already done so, to your Project Manager: a copy of the **Certification of Bond and Insurance Coverage** form, a copy of the **executed agreement** between your agency and the construction contractor, and a copy of the **Notice to Proceed.**

Third, SRF loan recipients are required to report minority-and women-owned business utilization information to the Division every quarter following issuance of the **Notice to Proceed.** The **Form MBE/WBE UR334** and the associated instructions are enclosed.

Fourth, the enclosed **Notice to Labor Unions or Other Organizations of Workers** must be reproduced in the quantity desired, completed by the contractor, and distributed to all unions and organizations that might represent workers on the job.

Please note that disbursements for costs incurred prior to the binding loan contract may be subject to the refinance rules in the SRF Policy.

If you have any questions, please contact Mr. Sarmiento at (916) 341-5830 or lsarmiento@waterboards.ca.gov.

Sincerely,

ORIGINAL SIGNED BY

Doug Tsuda, Chief
Grants and Contracts Administration

Enclosures

MAY 20 2005

bc: Leo Sarmiento, DFA
Eva Kawada, DFA
Steve Alexander, DFA

S:\Disburs&repay\SRF\ATA&MBE/WBE\40014

EXHIBIT F
APPLICABLE EFFLUENT LIMITATIONS AND APPROVED FINAL PLANS AND SPECIFICATIONS

Incorporated by reference are the following supporting documents:

APPLICABLE EFFLUENT LIMITATIONS

Waste Discharge Requirements, Order No. R3-2003-0007, adopted by the California Regional Water Quality Control Board, Central Coast Region, on February 7, 2003.

APPROVED FINAL PLANS AND SPECIFICATIONS

Incorporated by reference are the Final Plans and Specifications approved by the Division on February 14, 2005, which are the basis for the construction contracts to be awarded by the Los Osos Community Services District to various low bid contractors following competitive advertising.

EXHIBIT G — FINAL PLANS AND SPECIFICATIONS APPROVAL LETTER

See the Final Plans and Specifications Approval letter dated February 14, 2005 for the Wastewater Collection, Treatment and Disposal System Project.

State Water Resources Control Board

Division of Financial Assistance
1001 I Street • Sacramento, California 95814 • (916) 341-5700 FAX (916) 341-5707
Mailing Address: P.O. Box 944212 • Sacramento, California • 94244-2120
Internet Address: http://www.swrcb.ca.gov

Alan C. Lloyd, Ph.D.
Agency Secretary

Arnold Schwarzenegger
Governor

FEB 14 2005

Mr. Bruce Buel
General Manager
Los Osos Community Services District
P. O. Box 6064
Los Osos, CA 93412

Dear Mr. Buel:

FINAL PLANS AND SPECIFICATIONS (P&S) APPROVAL AMENDMENT; LOS OSOS COMMUNITY SERVICES DISTRICT (DISTRICT); WASTEWATER COLLECTION, TREATMENT AND DISPOSAL SYSTEM (PROJECT); STATE REVOLVING FUND (SRF) LOAN PROGRAM; PROJECT NO. C-06-4014-110

Thank you for submitting the signed amendment to the P&S Approval form and the Project Performance Standards for the District's Project. We hereby approve the amended Final P&S and will initiate preparation of the SRF Installment Service Agreement for the subject project using the Engineer's estimate and approved environmental and cultural monitoring costs.

Prior to receiving the Division of Financial Assistance's Approval-to-Award (ATA) the construction contract, the District must complete the following items:

<u>During Advertisement of Construction Contract and Before the Opening of Bids</u>:

- Correct specifications on equipment or components that do not meet "Sole-Source Requirements". Items that do not comply with Sole-Source Requirements will be ineligible for SRF Loan funding.
- Submit one copy of the As-Advertised P&S (preferably half-size drawings) and all addenda. Clearly note the location, purpose, and estimated cost of any subsequent changes in the final P&S.
- Make the P&S available to bidders for at least 30 days before bid opening. Bid advertisement shall include publication at least twice in a local newspaper or posted in at least three appropriate public places in the agency's service area if no newspapers serve the area.
- Provide all addenda to all potential bidders a minimum of ten working days prior to the bid opening date.

Enclosed are Minority and Women Business Enterprise (MBE/WBE) Compliance Guidelines to assist potential contractors in meeting the MBE/WBE requirements.

After Bid Opening

- Assure that the selected bidder is not excluded (debarred) from participating on federally funded programs. You can determine if a contractor bidding on this project is among the list of debarred contractors by contacting Mr. Leo Sarmiento at (916) 341-5830.
- Notify your Project Manager, Mr. Leo Sarmiento of the Pre-construction meeting in advance of the scheduled date.
- Within one month after the final selection of the contractor, please submit a complete ATA Request package including:
  A. A transmittal letter listing all items enclosed in the submittal;
  B. A completed *State Revolving Fund Approval To Award Request* form (enclosed);
  C. Completed Completion of Construction and Initiation of Operation forms (enclosed); and
  D. All items listed in Section 6 of the ATA form.

This package should be sent to:

Mr. Leo Sarmiento, Project Manager
Division of Financial Assistance
State Water Resources Control Board
1001 I Street, 16th Floor
Sacramento, CA 95814

If the mailing cannot be made, please contact Mr. Sarmiento at (916) 341-5830.

Please note that the amended Final P&S Approval contained herein assumes that the District has obtained the necessary approval(s), permit(s), or exemption(s) from other regulatory agencies, especially where construction activities might affect public health or water quality. This approval does not supersede any Regional Water Quality Control Board or local health department orders or requirements.

If you have any questions regarding this letter or the enclosed amended P&S Approval forms, please contact Mr. Sarmiento by phone or by email at lsarmiento@waterboards.ca.gov.

Sincerely,

ORIGINAL SIGNED BY

Darrin Polhemus, Assistant Chief
Division of Financial Assistance

Enclosures

cc: Mr. Gerhardt Hubner
Ms. Sorrel Marks
Central Coast Regional
Water Quality Control Board
895 Aerovista Place, Suite 101
San Luis Obispo, CA 93401

Mr. Steve Hyland, P.E. (w/enc.)
MWH Americas, Inc.
1340 Treat Boulevard, Suite 300
Walnut Creek, CA 94596

bcc: Shahla Farahnak, DFA

S:\Funding Programs\SRF\Projects\Los Osos\Project Mngmt\Los Osos (Leo's Files)\P&S Approvals\Final P&S Approval Letter\2004 Amendment\FP&SAPPR2004Amendment.doc/8 Feb 05/ANNE

EXHIBIT H — FACILITIES PLAN APPROVAL LETTER

See the Facilities Plan Approval letter dated December 24, 2004.

Alan C. Lloyd, Ph.D.
Agency Secretary

State Water Resources Control Board

Division of Financial Assistance
1001 I Street • Sacramento, California 95814 • (916) 341-5700 FAX (916) 341-5707
Mailing Address: P.O. Box 944212 • Sacramento, California • 94244-2120
Internet Address: http://www.waterboards.ca.gov

Arnold Schwarzenegger
Governor

DEC 24 2004

CERTIFIED MAIL NO. 7001 0320 0000 7544 5309
Return Receipt Requested

Mr. Bruce Buel
General Manager
Los Osos Community Services District
P. O. Box 6064
Los Osos, CA 93412

Dear Mr. Buel:

FACILITIES PLAN APPROVAL (FPA) AMENDMENT; LOS OSOS COMMUNITY SERVICES DISTRICT (DISTRICT); WASTEWATER COLLECTION, TREATMENT AND DISPOSAL SYSTEM (PROJECT); STATE REVOLVING FUND (SRF) PROJECT NO. C-06-4014-110

In accordance with the State Water Resources Control Board's (SWRCB) February 16, 1995, *Policy for Implementing the SRF for Construction of Wastewater Treatment Facilities* (Policy) and amended on January 22, 2003, the Division of Financial Assistance (Division) approves the amended facilities plan for the proposed Project. This approval supersedes the previous FPA, dated January 31, 1990, and subsequent amendments dated May 14, 1996, August 1, 1996 and September 28, 2001. Our approval is based on the following determinations and conditions:

1. A complete Project report, *Wastewater Collection, Treatment, and Disposal for the Los Osos Community Service District,* dated March 7, 2001, and subsequent amendments thereto dated March 24, 2003 and November 12, 2004, has been submitted and complies with Section IX.A. of the Policy.
2. The Environmental Services Unit has approved the Project, contingent upon the Conditions of Approval contained in this letter.
3. The updated draft revenue program, submitted by the District on December 17, 2004, and approved by the Division on December 22, 2004.
4. The District has submitted an Urban Water Management Plan (UWMP) adopted by the District's Board on December 7, 2000. The UWMP includes the current list of 14 Best Management Practices developed by the California Urban Water Conservation Council. The water purveyors within the District's boundaries cover at least 75 percent of the water connections within the applicant's Project sewer service area.

PROJECT DESCRIPTION

The community of Los Osos is located along the central coast of California on the southern edge of the Morro Bay estuary in San Luis Obispo County. Los Osos is predominantly a residential community with 14,606 residents. The community's drinking water system is composed of a series of groundwater wells in the Los Osos area.

The purpose of the Project is to restore and protect water quality in the Los Osos area in a manner consistent with waste discharge requirements, resolutions, and enforcement orders of the Central Coast Regional Water Quality Control Board (CCRWQCB). Water quality data collected by the CCRWQCB showed elevated levels of nitrate that are present in the upper aquifers within the boundaries of the District that threatens drinking groundwater quality. To protect public health, the CCRWQCB amended its Basin Plan and adopted Resolution No. 83-13, which included a request to the SWRCB to prioritize funding for this Project.

The District's proposed Project involves the construction of a wastewater collection system including pump stations with standby power facilities, a wastewater treatment plant, and effluent disposal facilities and harvesting wells.

The collection system is a conventional gravity sewer system, which includes pump stations and standby power facilities, that includes approximately 200,000 linear feet of sewer mains, predominantly 8-inch diameter pipeline. The collection system will be divided into four geographic areas based on drainage characteristics, which will maximize gravity connections and minimize pumped connections for customers. The proposed eight submersible pump stations, seven standby power facilities, and twelve pocket pump stations will be designed with communication to the Supervisory Control and Data Acquisition (SCADA) system from the wastewater treatment facility.

The wastewater treatment facility will be located in the center of the Los Osos community, and will be designed with consideration of the adjoining park setting in close proximity to community facilities. All wastewater treatment processes are enclosed and/or buried, with containment and control facilities for potential odor problems.

The treatment facility will be composed of the following major components:

- Headworks, septage handling facility, extended aeration basins, denitrification basins, submerged membranes (MBR), UV disinfection, solids processing, odor control, operations building, standby power, and aesthetic mitigation as required by approved environmental permit conditions. Off-site reuse/recycling will be used to dispose of the community's biosolids.

The effluent disposal system will be composed of the following major components:

- Constructed leach fields will be used to dispose of the treated effluent. Effluent flows will be conveyed to subsurface percolation fields via pipelines with an average hydraulic capacity of 1.4 mgd. This concept consists of using subsurface percolation fields within the District's boundary that have at least 20 feet of groundwater separation, which is in excess of the minimum allowed by the Department of Health Services.

The Division has determined that the items listed below and discussed in the Final Project Report, dated March 7, 2001, and subsequent revisions dated March 24, 2003 and November 12, 2004, are eligible for a SRF loan. Detailed Project component eligibility and eligible component size will be determined in the final Plans and Specifications (P&S) approval and any subsequent amendments, which will be consistent with this FPA letter.

1. The following items are eligible for an SRF loan:
   A. Wastewater collection system;
   B. Facilities for administration, operations and/or maintenance;
   C. Instrumentation and control system (SCADA);
   D. Power supply and distribution facilities;
   E. Headworks;
   F. Septage handling facilities;
   G. Extended aeration basins;
   H. Denitrification basins;
   I. Submerged membranes (MBR);
   J. Biofilters for odor control;
   K. UV disinfection facilities;
   L. Effluent pump stations to leach fields;
   M. On-site solids handling facilities;
   N. Installation of standby power generation capacity required for emergency operation;
   O. Water harvesting facilities for groundwater control;
   P. Mitigation measures mandated by state and/or federal agencies (including any conditions required by the approved environmental documents); and
   Q. Reasonable buy-in for all of the proportional costs to connect to an existing treatment and/or collection system (or interceptor).

2. The following items are NOT eligible for loans:
   A. Facilities under construction prior to the issuance of Final P&S Approval by the Division;
   B. License fee(s) for proprietary treatment processes;
   C. Land, easements, and rights-of-way;
   D. Construction contingencies;
   E. Construction change orders and claims;
   F. House laterals for collection systems and any in-house facilities;
   G. Engineering costs included as part of the construction bid;
   H. Decorative items (art work, sculptures, reflective ponds, fountains, etc.);
   I. All other items not included in the construction contract, except allowances;
   J. Operation and maintenance costs and extended warranties for equipment and Act of God insurance costs; and
   K. Generally ineligible Project items as provided in Appendix H of the SRF Policy.

3. The eligible design capacity will provide a reserve treatment capacity for 20 years from the date of initiation of construction. The eligible design parameters are:

Table 1. Eligible Design Parameters	2020 Design
Population	18,428
Average Dry Weather Flow	1.3 MGD
Peak Dry Weather Flow	1.6 MGD
Peak Wet Weather Flow	1.6 MGD
Influent BOD5	340 (mg/l)
Influent Suspended Solids	390 (mg/l)
Influent Total Nitrogen (as N)	56 (mg/l)
Effluent BOD5	5 (mg/l)
Effluent Suspended Solids	5 (mg/l)
Effluent Total Nitrogen	7 (mg/l)

On November 12, 2004, the District submitted a revised Engineer's Estimate for construction of the proposed Project, which includes the conditions set forth by the Coastal Development Permit approved by California Coastal Commission on August 11, 2004. The revised construction cost of the proposed Project is estimated to be $78.2 million (adjusted for inflation to mid-point of construction and design changes based on permit conditions required by the California Coastal Commission). The total eligible Project cost, including engineering and administration allowances, and the required environmental and cultural research and monitoring, is estimated to be $93.3 million as shown in the following table.

DEC 2 4 2004

Description of Eligible Item		Estimated Cost
Collection System		$41,450,000
Hybrid Treatment Facility at Tri W		$25,600,000
Mitigation at Tri W		$3,700,000
Effluent Disposal		$6,210,000
Groundwater Mitigation		$1,250,000
	Subtotal:	$78,210,000
Construction Inflation		(Included above)
Project Allowances		$15,100,000
	Total:	$93,300,000

The first phase of the proposed Project will be constructed and ready for operation in May 2007, the second phase in October 2007. The first phase components will include construction of the wastewater treatment facility, effluent disposal facilities at the Broderson site, and approximately half of the collection system located in high groundwater areas adjacent to Morro Bay estuary. The second phase components include construction of the remaining half of the collection system and the remaining effluent disposal sites.

PROJECT MILESTONES

Milestone	Phase I	Phase II
Submit Loan Application	**Completed (12/21/01)**	**Completed (12/21/01)**
Submit Value Engineering Report	**Completed (5/14/03)**	**Completed (5/14/03)**
Submit Final P&S	**Completed (2/10/04)**	**Completed (2/10/04)**
Approve P&S	Completed (3/30/04)	Completed (3/30/04)
Advertise for Bids	**January 14, 2005**	**January 14, 2005**
Initiate Loan Contract	February 1, 2005	February 1, 2005
Open Bids	**March 1, 2005**	**March 1, 2005**
Submit ATA Package	**March 29, 2005**	**March 29, 2005**
ATA Construction Contract	April 15, 2005	April 15, 2005
Amend Loan Contract	April 15, 2005	April 15, 2005
Initiate Construction (NTP)	**June 20, 2005**	**June 20, 2005**
Execute Loan Contract	April 30, 2005	April 30, 2005
Execute Amended Loan Contract	June 30, 2005	June 30, 2005
Submit Final Revenue Plan	**August 30, 2007**	**August 30, 2007**
Complete Pipeline Construction	**December 22, 2006**	**August 31, 2007**
Complete Facilities Construction	**May 15, 2007**	**October 15, 2007**
Initiate Facilities Operation	**N/A**	**January 15, 2008**
Submit Performance Certification	**NA**	**January 15, 2009**

Normal Font – SWRCB/Division Activity
Bold Font -- LOCSD Activity

Recycled Paper

This schedule does not supersede any regulatory enforcement schedule. Special attention to the Project milestones schedule is critical. Schedules must be compatible with requirements of the CCRWQCB enforcement actions related to the planned facilities. Approval of a schedule not compatible with CCRWQCB requirements does not relieve the applicant of its responsibility to achieve compliance with said requirements.

CONDITIONS OF APPROVAL

1. This approval includes only the Project described above and does not include any associated projects that may have been referred to in the Project Report. This approval does not guarantee that loan assistance will be awarded for this Project;
2. The District must obtain written permission from the landowner for right-of-entry to the premises during the design process. A loan contract will not be issued unless this condition is met;
3. The District must meet all the requirements of the environmental conditions imposed by federal and state regulatory agencies. Specifically:
   a. Terms, conditions, and reasonable prudent measures contained in the Biological Opinion prepared by the U.S. Fish and Wildlife Service and approved by the U.S. Environmental Protection Agency; and
   b. Stipulations contained in the Memorandum of Agreement between the SWRCB and the State Historic Preservation Officer regarding the Los Osos Wastewater Facilities Project.

This letter constitutes a Final Staff Decision. The Division will request that the SWRCB increase the preliminary loan commitment for this Project's SRF loan **AFTER** an agreement in writing on the eligibility decisions, schedule, and other conditions in this letter have been received from you. To expedite this process, please notify me immediately in writing if you agree with this FPA amendment letter, so the process of requesting SWRCB approval for a SRF loan recommitment and increase for your proposed Project can be initiated.

If you are **NOT** in agreement, you must request a Final Division Decision **WITHIN 30 DAYS** from the date of this letter. Your request should be specific on the items of disagreement and suggest the exact changes with which you would agree. Please send the request to:

Ms. Barbara L. Evoy, Chief
Division of Financial Assistance
P. O. Box 944212
Sacramento, CA 94244-2120

Again, we **MUST** reach agreement in writing before your proposed Project can be scheduled for SWRCB approval of amendment of your preliminary funding commitment.

Please contact Mr. Leo Sarmiento at (916) 341-5830 or lsarmiento@waterboards.ca.gov if you have any questions or comments regarding this letter.

Sincerely,

ORIGINAL SIGNED BY

F. Wayne Pierson
Assistant Division Chief

cc: Mr. Gerhardt Hubner
Ms. Sorrel Marks
Central Coast Regional
Water Quality Control Board
895 Aerovista Place, Suite 101
San Luis Obispo, CA 93401

Mr. Steve Hyland, P.E.
MWH Americas, Inc.
1340 Treat Boulevard, Suite 300
Walnut Creek, CA 94596

bcc: Kathy Bare, DFA
Cookie Hirn, DFA
Ken Gonzales, DFA
Eva Kawada, DFA

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EXHIBIT I
SRF INSTALLMENT SALE AGREEMENT PAYMENT SCHEDULE

See the attached preliminary SRF Installment Sale Agreement Payment Schedule dated July 5, 2005. The final SRF Installment Sale Agreement Payment Schedule will be forwarded to the Agency after all disbursements have been paid and construction of the Project has been completed.

Disbursement Schedule

Loan No. 4014-110 - Los Osos Community Services District
Contract: 04806 - based on Actual + Projected Disbursements
COLLECTION, TRMT DIS FOR LOS OSOS/BAYWOOD PARK

Interest is capitalized using simple interest during construction.
Day of the month interest is calculated: 15th
Construction period interest rate on disbursements: 2.30000%

Warrant Date	Disbursement Amount	Cumulative Disbursement	Interest Calculation Date	First Month Day Count	First Month Interest	Interest on Cumulative Balance	Total Interest Amount	Periodic Interest	Transfer to Principal	Principal Payment	Ending Balance
8/15/2005	10,968,984.00	10,968,984.00	8/15/2005		0.00	0.00	0.00	0.00	0.00	0.00	10,968,984.00
9/15/2005	6,737,875.00	17,706,859.00	9/15/2005		0.00	21,023.89	21,023.89	0.00	0.00	0.00	17,706,859.00
10/15/2005	5,954,875.00	23,661,734.00	10/15/2005		0.00	33,938.15	33,938.15	0.00	0.00	0.00	23,661,734.00
11/15/2005	5,735,875.00	29,397,609.00	11/15/2005		0.00	45,351.66	45,351.66	0.00	0.00	0.00	29,397,609.00
12/15/2005	6,044,875.00	35,442,484.00	12/15/2005		0.00	56,345.42	56,345.42	0.00	0.00	0.00	35,442,484.00
1/15/2006	5,669,875.00	41,112,359.00	1/15/2006		0.00	67,931.43	67,931.43	0.00	0.00	0.00	41,112,359.00
2/15/2006	6,034,875.00	47,147,234.00	2/15/2006		0.00	78,798.69	78,798.69	0.00	0.00	0.00	47,147,234.00
3/15/2006	7,384,875.00	54,532,109.00	3/15/2006		0.00	90,365.53	90,365.53	0.00	0.00	0.00	54,532,109.00
4/15/2006	6,705,875.00	61,237,984.00	4/15/2006		0.00	104,519.88	104,519.88	0.00	0.00	0.00	61,237,984.00
5/15/2006	7,276,875.00	68,514,859.00	5/15/2006		0.00	117,372.80	117,372.80	0.00	0.00	0.00	68,514,859.00
6/15/2006	6,554,875.00	75,069,734.00	6/15/2006		0.00	131,320.15	131,320.15	0.00	0.00	0.00	75,069,734.00
7/15/2006	5,615,875.00	80,685,609.00	7/15/2006		0.00	143,883.66	143,883.66	0.00	0.00	0.00	80,685,609.00
8/15/2006	5,698,875.00	86,384,484.00	8/15/2006		0.00	154,647.42	154,647.42	0.00	0.00	0.00	86,384,484.00
9/15/2006	4,941,875.00	91,326,359.00	9/15/2006		0.00	165,570.26	165,570.26	0.00	0.00	0.00	91,326,359.00
10/15/2006	6,884,875.00	98,211,234.00	10/15/2006		0.00	175,042.19	175,042.19	0.00	0.00	0.00	98,211,234.00
11/15/2006	3,818,875.00	102,030,109.00	11/15/2006		0.00	188,238.20	188,238.20	0.00	0.00	0.00	102,030,109.00
12/15/2006	6,644,875.00	108,674,984.00	12/15/2006		0.00	195,557.71	195,557.71	0.00	0.00	0.00	108,674,984.00
1/15/2007	4,059,875.00	112,734,859.00	1/15/2007		0.00	208,293.72	208,293.72	0.00	0.00	0.00	112,734,859.00
2/15/2007	4,269,875.00	117,004,734.00	2/15/2007		0.00	216,075.15	216,075.15	0.00	0.00	0.00	117,004,734.00
3/15/2007	3,041,875.00	120,046,609.00	3/15/2007		0.00	224,259.07	224,259.07	0.00	0.00	0.00	120,046,609.00
4/15/2007	3,060,875.00	123,107,484.00	4/15/2007		0.00	230,089.33	230,089.33	0.00	0.00	0.00	123,107,484.00
5/15/2007	2,765,875.00	125,873,359.00	5/15/2007		0.00	235,956.01	235,956.01	0.00	0.00	0.00	125,873,359.00
6/15/2007	2,826,875.00	128,700,234.00	6/15/2007		0.00	241,257.27	241,257.27	0.00	0.00	0.00	128,700,234.00
7/15/2007	1,865,875.00	130,566,109.00	7/15/2007		0.00	246,675.45	246,675.45	0.00	0.00	0.00	130,566,109.00
8/15/2007	4,122,875.00	134,688,984.00	8/15/2007		0.00	250,251.71	250,251.71	0.00	0.00	0.00	134,688,984.00
9/15/2007	72,406.00	134,761,390.00	9/15/2007		0.00	258,153.89	258,153.89	0.00	0.00	0.00	134,761,390.00
	0.00	134,761,390.00	10/15/2007		0.00	258,292.66	258,292.66	4,139,211.27	4,139,211.27	0.00	138,900,601.27
	0.00	134,761,390.00	11/15/2007		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	12/15/2007		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	1/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	2/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	3/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	4/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	5/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	6/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27

JUL 5 2005

Disbursement Schedule

Loan No. 4014-110 - Los Osos Community Services District
Contract: 04806 - based on Actual + Projected Disbursements
COLLECTION, TRMT DIS FOR LOS OSOS/BAYWOOD PARK

Interest is capitalized using simple interest during construction.
Day of the month interest is calculated: 15th
Construction period interest rate on disbursements: 2.30000%

Warrant Date	Disbursement Amount	Cumulative Disbursement	Interest Calculation Date	First Month Day Count	First Month Interest	Interest on Cumulative Balance	Total Interest Amount	Periodic Interest	Transfer to Principal	Principal Payment	Ending Balance
	0.00	134,761,390.00	7/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	8/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	9/15/2008		0.00	266,226.15	266,226.15	0.00	0.00	0.00	138,900,601.27
	0.00	134,761,390.00	10/15/2008		0.00	266,226.15	266,226.15	3,194,713.83	0.00	5,547,899.89	133,352,701.38
	134,761,390.00						7,333,925.10	7,333,925.10	4,139,211.27	5,547,899.89	

JUL 5 2005

Loan Schedule

Loan No. 4014-110 - Los Osos Community Services District
Contract: 04806 - based on Actual + Projected Disbursements
COLLECTION, TRMT _DIS FOR LOS OSOS/BAYWOOD PARK

Principal is paid over: 20 Years
Loan repayment interest rate: 2.30000%

Ref Num	Due Date	Date Received	Principal Payment	Interest Rate %	Interest Payment	Loan Payment	Total Payment	Annual Payment	Ending Balance	CPI Interest
1	10/15/2008		5,547,899.89	2.3	3,194,713.83	8,742,613.72	8,742,613.72	8,742,613.72	133,352,701.38	165,326.35
2	10/15/2009		5,675,501.59	2.3	3,067,112.13	8,742,613.72	8,742,613.72	8,742,613.72	127,677,199.79	169,128.86
3	10/15/2010		5,806,038.12	2.3	2,936,575.60	8,742,613.72	8,742,613.72	8,742,613.72	121,871,161.67	173,018.82
4	10/15/2011		5,939,577.00	2.3	2,803,036.72	8,742,613.72	8,742,613.72	8,742,613.72	115,931,584.67	176,998.26
5	10/15/2012		6,076,187.27	2.3	2,666,426.45	8,742,613.72	8,742,613.72	8,742,613.72	109,855,397.40	181,069.21
6	10/15/2013		6,215,939.58	2.3	2,526,674.14	8,742,613.72	8,742,613.72	8,742,613.72	103,639,457.82	185,233.81
7	10/15/2014		6,358,906.19	2.3	2,383,707.53	8,742,613.72	8,742,613.72	8,742,613.72	97,280,551.63	189,494.18
8	10/15/2015		6,505,161.03	2.3	2,237,452.69	8,742,613.72	8,742,613.72	8,742,613.72	90,775,390.60	193,852.55
9	10/15/2016		6,654,779.74	2.3	2,087,833.98	8,742,613.72	8,742,613.72	8,742,613.72	84,120,610.86	198,311.16
10	10/15/2017		6,807,839.67	2.3	1,934,774.05	8,742,613.72	8,742,613.72	8,742,613.72	77,312,771.19	202,872.32
11	10/15/2018		6,964,419.98	2.3	1,778,193.74	8,742,613.72	8,742,613.72	8,742,613.72	70,348,351.21	207,538.38
12	10/15/2019		7,124,601.64	2.3	1,618,012.08	8,742,613.72	8,742,613.72	8,742,613.72	63,223,749.57	212,311.76
13	10/15/2020		7,288,467.48	2.3	1,454,146.24	8,742,613.72	8,742,613.72	8,742,613.72	55,935,282.09	217,194.93
14	10/15/2021		7,456,102.23	2.3	1,286,511.49	8,742,613.72	8,742,613.72	8,742,613.72	48,479,179.86	222,190.42
15	10/15/2022		7,627,592.58	2.3	1,115,021.14	8,742,613.72	8,742,613.72	8,742,613.72	40,851,587.28	227,300.80
16	10/15/2023		7,803,027.21	2.3	939,586.51	8,742,613.72	8,742,613.72	8,742,613.72	33,048,560.07	232,528.71
17	10/15/2024		7,982,496.84	2.3	760,116.88	8,742,613.72	8,742,613.72	8,742,613.72	25,066,063.23	237,876.87
18	10/15/2025		8,166,094.27	2.3	576,519.45	8,742,613.72	8,742,613.72	8,742,613.72	16,899,968.96	243,348.04
19	10/15/2026		8,353,914.43	2.3	388,699.29	8,742,613.72	8,742,613.72	8,742,613.72	8,546,054.53	248,945.05
20	10/15/2027		8,546,054.53	2.3	196,559.25	8,742,613.78	8,742,613.78	8,742,613.78	0.00	254,670.79
			138,900,601.27		35,951,673.19	174,852,274.46	174,852,274.46	174,852,274.46		4,139,211.27

JUL 5 2005

EXHIBIT J — SCHEDULE OF SYSTEM OBLIGATIONS

Except for the following, the Agency has no outstanding System Obligations:

The following outstanding debt is senior to this Obligation:

Title	Interest Rate	Total Amount	Amount Remaining	End Date
N/A				

The following outstanding debt is parity to this Obligation:

Title	Interest Rate	Total Amount	Amount Remaining	End Date
Wastewater Assessment District No. 1	1.8% – 4.0%	$17,990,000	$17,990,000	9/2/2033

The following outstanding debt is subordinate to this Obligation:

Title	Interest Rate	Total Amount	Amount Remaining	End Date
N/A				

EXHIBIT K – TAX COVENANTS

SECTION 1. GOVERNMENTAL UNIT.

The Agency is a state or local governmental unit as defined in Section 1.103-1 of the Treasury Regulations or an instrumentality thereof (a "Governmental Unit") and is not the federal government or any agency or instrumentality thereof. The Agency exclusively owns and, except as provided in Section 7 hereof, operates the Project.

SECTION 2. TEMPORARY PERIOD.

The Agency reasonably expects that at least eighty-five percent (85%) of the Project Funds will be allocated to expenditures for the Project within three (3) years of the earlier of the effective date of this Agreement or the date the Bonds are issued ("Applicable Date"). The Agency has incurred, or reasonably expects that it will incur within six (6) months of the Applicable Date, a substantial binding obligation (i.e., not subject to contingencies within the control of the Agency or a related party) to a third party to expend at least five percent (5%) of the Project Funds on the costs of the Project. The completion of acquisition, construction, improvement and equipping of the Project and the allocation of Project Funds to expenditures for the Project will proceed with due diligence.

SECTION 3. WORKING CAPITAL.

No operational expenditures of the Agency or any related entity are being, have been or will be financed or refinanced with Project Funds.

SECTION 4. EXPENDITURE OF PROCEEDS.

Project Funds shall be used exclusively for the following purposes: (i) architectural, engineering, surveying, soil testing, and similar costs paid with respect to the Project incurred prior to the commencement of construction and in an aggregate amount not exceeding twenty percent (20%) of the Project Funds, (ii) capital expenditures relating to the Project originally paid by the Agency on or after the date hereof, (iii) interest on the Obligation through the later of three (3) years after the Applicable Date or one (1) year after the Project is placed in service, and (iv) initial operating expenses directly associated with the Project in the aggregate amount not more than five percent (5%) of the Project Funds.

SECTION 5. PRIVATE USE AND PRIVATE PAYMENTS.

None of the Project Funds and no portions of the Project financed by the Project Funds are, have been or will be used in the aggregate for any activities that constitute a Private Use (as defined below). "Private Use" means any activity that constitutes a trade or business that is carried on by persons or entities, other than a Governmental Unit. The leasing of the Project or the access by or the use of a person or entity other than a Governmental Unit on a basis other than as a member of the general public shall constitute a Private Use.

SECTION 6. NO DISPROPORTIONATE OR UNRELATED USE.

None of the Project Funds or the Project are, have been or will be used for a Private Use that is unrelated or disproportionate to the governmental use of the Project Funds.

EXHIBIT K – TAX COVENANTS

SECTION 7. MANAGEMENT AND SERVICE CONTRACTS.

With respect to management and service contracts, the determination of whether a particular use constitutes Private Use shall be determined on the basis of applying Section 1.141-3(b)(4) of the Treasury Regulations and Revenue Procedure 97-13 and other applicable rules and regulations. As of the date hereof, none of the Project Funds or the Project are being used to provide property subject to contracts or other arrangements with persons or entities engaged in a trade or business (other than Governmental Units) that involve the management of property or the provision of services that do not comply with the standards of the Treasury Regulations and Revenue Procedure 97-13.

Except to the extent the Agency has received an opinion of counsel expert in the issuance of state and local government bonds the interest on which is excluded from gross income under Section 103 of the Code ("Nationally-Recognized Bond Counsel") and satisfactory to the SWRCB and the Bank to the contrary, the Agency will not enter into any management or service contracts with any person or entity that is not a Governmental Unit for services to be provided with respect to the Project except with respect to contracts where the following requirements are complied with: (i) the compensation is reasonable for the services rendered; (ii) the compensation is not based, in whole or in part, on a share of net profits from the operation of the Project; (iii) not more than twenty percent (20%) of the voting power of the Agency in the aggregate may be vested in the service provider and its directors, officers, shareholders and employees and vice versa; (iv) any overlapping board members between the Agency and the service provider must not include the chief executive officer or executive director of either, or their respective governing bodies; and (v):

(A) At least ninety-five percent (95%) of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee which is a stated dollar amount for services rendered for a specified period of time. The stated dollar amount may automatically increase according to a specified objective external standard that is not linked to the output or efficiency of a facility, *e.g.*, the Consumer Price Index and similar external indices that track increases in prices in an area or increases in revenues or costs in an industry are objective external standards. A fee shall not fail to qualify as a periodic fixed fee as a result of a one (1) time incentive award during the term of the contract under which compensation automatically increases when a gross revenue or expense target (but not both) is reached if that award is a single stated dollar amount. The term of the contract, including all renewal options, must not exceed the lesser of eighty percent (80%) of the reasonably expected useful life of the financed property and fifteen (15) years (twenty (20) years for "public utility property" within the meaning of Section 168(i)(10) of the Code);

(B) At least eighty percent (80%) of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee. The term of the contract, including all renewal options, must not exceed the lesser of eighty percent (80%) of the reasonably expected useful life of the financed property and ten (10) years. A one (1) time incentive award during the term of the contract similar to the award described in subsection (A) above is permitted under this option as well;

(C) At least fifty percent (50%) of the compensation for services for each annual period during the term of the contract is based on a periodic fixed fee or all of the compensation for services is based on a capitation fee or combination of a periodic fixed fee and a capitation fee. A capitation fee is a fixed periodic amount for each person for whom the service provider or the Agency assumes the responsibility to provide all needed services for a specified period so long as the quantity and type of services actually provided to covered persons vary substantially; *e.g.*, a fixed dollar amount payable per month to a

EXHIBIT K – TAX COVENANTS

service provider for each member of a plan for whom the provider agrees to provide all needed services for a specified period. A capitation fee may include a variable component of up to twenty percent (20%) of the total capitation fee designed to protect the service provider against risks such as catastrophic loss. The term of the contract, including all renewal options, must not exceed five (5) years. The contract must be terminable by the Agency on reasonable notice without penalty or cause, at the end of the third year of the contract;

(D) All of the compensation for services is based on a per-unit fee or a combination of a per-unit fee and a periodic fee. A per-unit fee is defined to mean a fee based on a unit of service provided as specified in the contract or otherwise specifically determined by an independent third party, such as the administrator of the program or the Agency; *e.g.*, a stated dollar amount for each specified procedure performed, car parked or passenger mile is a per-unit fee. The term of the contract, including all renewal options, must not exceed three (3) years. The contract must be terminable by the Agency on reasonable notice, without penalty or cause, at the end of the second year of the contract term; or

(E) All of the compensation for services is based on a percentage of fees charged or a combination of a per-unit fee and a percentage of revenue or expense fee. During the start up period, however, compensation may be based on a percentage of either gross revenues, adjusted gross revenues or expenses of a facility. The term of the contract, including renewal options, must not exceed two (2) years. The contract must be terminable by the Agency on reasonable notice without penalty or cause, at the end of the first year. This type of contract is permissible only with respect to contracts under which the service provider primarily provides services to third parties, and management contracts involving a facility during an initial start-up period for which there have been insufficient operations to establish a reasonable estimate of the amount of the annual gross revenues and expenses (*e.g.*, a contract for general management services for the first year of the operations).

If the compensation terms of a management or service contract are materially revised, the requirements for compensation terms must be retested as of the date of the material revision and the management or service contract is treated as one that was newly entered into as of the date of the material revision.

A renewal option, for purposes of the foregoing, is defined to mean a provision under which the service provider has a legally enforceable right to renew the contract. Thus, for example, a provision under which a contract is automatically renewed for one (1) year periods absent cancellation by either party is not a renewal option, even if it is expected to be renewed.

A cancellation penalty is defined to include a limitation on the Agency's ability to compete with the service provider, a requirement that the Agency purchase equipment, goods or services from the service provider, and a requirement that the Agency pay liquidated damages for cancellation of the contract; in comparison, a requirement effective on cancellation that the Agency reimburse the service provider for ordinary and necessary expenses or a restriction against the Agency hiring key personnel of the service provider is generally not a contract termination penalty. Another contract between the service provider and the Agency, such as an Installment Sale Agreement or guarantee by the service provider, is treated as creating a contract termination penalty if that contract contains terms that are not customary or arm's length, that could operate to prevent the Agency from terminating the contract (*e.g.*, provisions under which the contract

EXHIBIT K – TAX COVENANTS

terminates if the management contract is terminated or that places substantial restrictions on the selection of a substitute service provider).

The service provider must not have any role or relationship with the Agency, that, in effect, substantially limits the Agency's ability to exercise its rights, including cancellation rights, under the contract, based on all the facts and circumstances.

SECTION 8. NO DISPOSITION OF FINANCED PROPERTY.

The Agency does not expect to sell or otherwise dispose of any portion of the Project, in whole or in part, prior to the final maturity date of the Obligation.

SECTION 9. USEFUL LIFE OF PROJECT.

The economic useful life of the Project is at least twenty (20) years from the Project Completion.

SECTION 10. INSTALLMENT PAYMENTS.

Installment Payments generally are expected to be derived from current revenues of the Agency in each year, and current revenues are expected to equal or exceed debt service on the Obligation during each payment period.

SECTION 11. NO OTHER REPLACEMENT PROCEEDS.

The Agency will not use any of the Project Funds to replace funds of the Agency which are or will be used to acquire investment property reasonably expected to produce a yield that is materially higher than the yield on the Bonds.

SECTION 12. REIMBURSEMENT RESOLUTION.

Not applicable.

SECTION 13. CHANGE IN USE.

The Agency reasonably expects to use all Project Funds and the Project for the entire stated term to maturity of the Obligation. Absent an opinion of Nationally-Recognized Bond Counsel to the effect that such use of Project Funds will not adversely affect the exclusion from federal gross income of interest on the Bonds pursuant to Section 103 of the Code, the Agency will use the property financed or refinanced with Project Funds solely as set forth in the Agreement.

SECTION 14. NO FEDERAL GUARANTEE.

The Agency will not directly or indirectly use any of the Project Funds that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

SECTION 15. NO NOTICES OR INQUIRIES FROM IRS.

The Agency has not received any notice or inquiry by the Internal Revenue Service within the last ten (10) years regarding any obligations issued by the Agency, the interest on which obligations is excludable from federal income taxation.

EXHIBIT K – TAX COVENANTS

SECTION 16. AMENDMENTS.

The provisions in this Exhibit K may be amended or supplemented at any time to reflect changes in the Code upon obtaining an opinion of Nationally-Recognized Bond Counsel that such amendment will not adversely affect the exclusion from federal gross income of interest on the Bonds pursuant to Section 103 of the Code.

SECTION 17. REASONABLE EXPECTATIONS.

To the best of my knowledge, information and belief, and based on the facts and estimates as set forth in the tax covenants in this Exhibit K, the expectations of the Agency as set forth in this Exhibit K are reasonable. The Agency is not aware of any facts or circumstances that would cause it to question the accuracy or reasonableness of any representation made in the provisions in this Exhibit K

EXHIBIT L
AGENCY REIMBURSEMENT RESOLUTION

Not applicable.

EXHIBIT M – SWRCB SPECIAL TERMS AND CONDITIONS

SECTION 1. COPYRIGHTS.

The Agency agrees that the U.S. Environmental Protection Agency shall have a royalty-free, nonexclusive and irrevocable license to reproduce, publish, otherwise use, and to authorize others to use, for federal government purposes: (a) The copyright in any work developed under this Agreement, and (b) any rights of copyright which the Agency may purchase where costs of such purchase are reimbursed with Project Funds.

SECTION 2. COVENANTS.

Section 2.1. Tax Covenant. Notwithstanding any other provision hereof, the Agency covenants and agrees that it will comply with the Tax Covenants set forth in Exhibit K attached hereto.

Section 2.2. Disclosure of Financial Information, Operating Data and Other Information. The Agency covenants to furnish certain financial and operating data pertaining to the Agency that may be required to either: (i) enable the SWRCB to secure an Indenture by this Agreement and issue any Bonds; or (ii) enable any underwriter to comply with Rule 15c2-12(b)(5) of the Securities and Exchange Commission. The Agency further covenants to provide the SWRCB with copies of all continuing disclosure reports concerning the Agency required by the terms of any financing other than this Agreement, including reports required to be filed in order to comply with Rule 10b-5, and to send such reports to the SWRCB at the same time such reports are sent to any dissemination agent, trustee, nationally recognized municipal securities information repository or other person.

SECTION 3. ASSIGNABILITY.

The Agency agrees and consents to any pledge, sale or assignment to the Bank or a trustee for the benefit of the owners of the Bonds at any time of any portion of the SWRCB's estate, right, title and interest and claim in, to and under this Agreement and the right to make all related waivers and agreements in the name and on behalf of the SWRCB, as agent and attorney-in-fact, and to perform all other related acts which are necessary and appropriate under this Agreement, if any, and the SWRCB's estate, right, title and interest and claim in, to and under this Agreement to Installment Payments (but excluding the SWRCB's rights to Additional Payments and to notices, opinions and indemnification under each Obligation).

SECTION 4. STATE REVIEWS AND INDEMNIFICATION.

The parties agree that review or approval of Project plans and specifications by the SWRCB is for administrative purposes only and does not relieve the Agency of its responsibility to properly plan, design, construct, operate, and maintain the Project. To the extent permitted by law, the Agency agrees to indemnify, defend and hold harmless the SWRCB, the Bank and any trustee and their officers, employees and agents for the Bonds (collectively, "Indemnified Persons") against any loss or liability arising out of any claim or action brought against any Indemnified Persons from and against any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from, or in any way connected with (1) the System or the Project or the conditions, occupancy, use, possession, conduct or management of, work done in or about, or the planning, design, acquisition, installation or construction, of the System or the Project or any part thereof; (2) the carrying out of any of the transactions contemplated by this Agreement or any related document; (3) any violation of any applicable law, rule or regulation, any environmental law (including, without limitation, the Federal Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the California Hazardous Substance Account Act, the Federal Water Pollution Control Act, the Clean Air Act, the California Hazardous Waste Control Law and California Water Code Section

EXHIBIT M – SWRCB SPECIAL TERMS AND CONDITIONS

13304, and any successors to said laws), rule or regulation or the release of any toxic substance on or near the System; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements required to be stated therein, in light of the circumstances under which they were made, not misleading with respect to any information provided by the Agency for use in any disclosure document utilized in connection with any of the transactions contemplated by this Agreement. To the fullest extent permitted by law, the Agency agrees to pay and discharge any judgment or award entered or made against Indemnified Persons with respect to any such claim or action, and any settlement, compromise or other voluntary resolution. The provisions of this section shall survive the discharge of the Agency's Obligation hereunder.

SECTION 5. LIABILITY OF AGENCY.

Notwithstanding anything contained herein, the Agency shall not be required to advance any moneys derived from any source of income other than Net Revenues and the other funds legally available for the payment of the Installment Payments, and other payments required to be made by it hereunder, or for the performance of any agreements or covenants required to be performed by it contained herein. The Agency may, however, but in no event shall be obligated to, 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 Agency for such purpose.

SECTION 6. FEDERAL MBE/WBE REPORTING.

The Agency agrees to report MBE/WBE utilization to the Division on the MBE/WBE Utilization Report, SWRCB Form MBE/WBE UR334. Reports must be submitted to the Division within ten (10) calendar days following the end of each fiscal year quarter until such time as the "Notice of Completion" is issued.

SECTION 7. TERMINATION; IMMEDIATE REPAYMENT; INTEREST.

(A) This Agreement may be terminated by written notice during construction of the Project, or thereafter at any time prior to complete repayment by the Agency, at the option of the SWRCB, upon violation by the Agency of any material provision of this Agreement after such violation has been called to the attention of the Agency and after failure of the Agency to bring itself into compliance with the provisions of this Agreement within a reasonable time as established by the Division.

(B) In the event of such termination, the Agency agrees, upon demand, to immediately repay to the SWRCB an amount equal to Installment Payments due hereunder, including accrued interest, and all penalty assessments due. In the event of termination, interest shall accrue on all amounts due at the highest legal rate of interest from the date that notice of termination is mailed to the Agency to the date of full repayment by the Agency.

SECTION 8. DAMAGES FOR BREACH AFFECTING TAX EXEMPT STATUS.

In the event that any breach of any of the provisions of this Agreement by the Agency shall result in the loss of tax exempt status for any state bonds, or if such breach shall result in an obligation on the part of the State to reimburse the federal government by reason of any arbitrage profits, the Agency shall immediately reimburse the state in an amount equal to any damages paid by or loss incurred by the state due to such breach.

EXHIBIT M – SWRCB SPECIAL TERMS AND CONDITIONS

SECTION 9. DISPUTES.

(A) Any dispute arising under this Agreement which is not otherwise disposed of by agreement shall be decided by the Division Chief, or his or her authorized representative. The decision shall be reduced to writing and a copy thereof furnished to the Agency and to the SWRCB's Executive Director. The decision of the Division shall be final and conclusive unless, within thirty (30) calendar days after mailing of the Division decision to the Agency, the Agency mails or otherwise furnishes a written appeal of the decision to the SWRCB's Executive Director. The decision of the SWRCB's Executive Director shall be final and conclusive unless determined by a court of competent jurisdiction to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as necessarily to imply bad faith, or not supported by substantial evidence. In connection with any appeal under this clause, the Agency shall be afforded an opportunity to be heard and to offer evidence in support of its appeal. Pending final decision of a dispute hereunder, the Agency shall continue to fulfill and comply with all the terms, provisions, commitments, and requirements of this Agreement.

(B) This clause does not preclude consideration of legal questions, provided that nothing herein shall be construed to make final the decision of the SWRCB, or any official or representative thereof, on any question of law.

SECTION 10. VENUE.

The SWRCB and the Agency hereby agree that any action arising out of this Agreement shall be filed and maintained in the Superior Court in and for the County of Sacramento, California, or in the United States District Court in and for the Eastern District of California.

SECTION 11. RIGHTS IN DATA.

The Agency agrees that all data, plans, drawings, specifications, reports, computer programs, operating manuals, notes, and other written or graphic work produced in the performance of this Agreement are subject to the rights of the State as set forth in this section. The State shall have the right to reproduce, publish, and use all such work, or any part thereof, in any manner and for any purposes whatsoever and to authorize others to do so. If any such work is copyrightable, the Agency may copyright the same, except that, as to any work which is copyrighted by the Agency, the State reserves a royalty-free, nonexclusive, and irrevocable license to reproduce, publish, and use such work, or any part thereof, and to authorize others to do so. (40 CFR 31.34, 31.36)

SECTION 12. INCOME RESTRICTIONS.

The Agency agrees that any refunds, rebates, credits, or other amounts (including any interest thereon) accruing to or received by the Agency under this Agreement shall be paid by the Agency to the State, to the extent that they are properly allocable to costs for which the Agency has been reimbursed by the State under this Agreement.

SECTION 13. PERMITS, SUBCONTRACTING, WAIVER, REMEDIES AND DEBARMENT.

The Agency shall procure all permits and licenses necessary to accomplish the work contemplated in this Agreement, pay all charges and fees, and give all notices necessary and incidental to the due and lawful prosecution of the work.

Any subcontractors, outside associates, or consultants required by the Agency in connection with the services covered by this Agreement shall be limited to such individuals or firms as were specifically

EXHIBIT M – SWRCB SPECIAL TERMS AND CONDITIONS

identified and agreed to during negotiations for this Agreement, or as are specifically authorized by the SWRCBs Project Representative during the performance of this Agreement. Any substitutions in, or additions to, such subcontractors, associates, or consultants, shall be subject to the prior written approval of the SWRCBs Project Representative.

Any waiver of rights with respect to a default or other matter arising under the Agreement at any time by either party shall not be considered a waiver of rights with respect to any other default or matter.

Any rights and remedies of the State provided for in this Agreement are in addition to any other rights and remedies provided by law.

The Agency shall not subcontract with any party who is debarred or suspended or otherwise excluded from or ineligible for participation in federal assistance programs under Executive Order 12549, "Debarment and Suspension". The Agency shall not subcontract with any individual or organization on USEPA's List of Violating Facilities. (40 CFR, Part 31.35, Gov. Code 4477)

The Agency certifies to the best of its knowledge and belief, that it and its principals:

(A) Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded by any federal department or agency;

(B) Have not within a three (3) year period preceding this Agreement been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; violation of federal or state antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property;

(C) Are not presently indicted for or otherwise criminally or civilly charged by a governmental entity (federal, state or local) with commission of any of the offenses enumerated in paragraph (1)(b) of this certification; and

(D) Have not within a three (3) year period preceding this application/proposal had one or more public transactions (federal, state or local) terminated for cause or default.

SECTION 14. CONTRACT MODIFICATIONS.

The SWRCB may, at any time, without notice to any sureties, by written order designated or indicated to be a "contract modification", make any change in Exhibit A, for the work to be performed under this Agreement so long as the modified work is within the general scope of work called for by this Agreement, including but not limited to changes in the specifications or in the method, manner, or time of performance of work. If the Agency intends to dispute the change, the Agency must, within ten (10) days after receipt of a written "contract modification", submit to the SWRCB a written statement setting forth the disagreement with the change.

Notwithstanding the above, no modification may be made which in any way alters the provisions of Exhibit B without formal amendment of this Agreement.

EXHIBIT M – SWRCB SPECIAL TERMS AND CONDITIONS

SECTION 15. COMPUTER SOFTWARE.

The Agency certifies that it has appropriate systems and controls in place to ensure that state funds will not be used in the performance of this contract for the acquisition, operation or maintenance of computer software in violation of copyright laws.

SECTION 16. COMPLIANCE WITH LAW, REGULATIONS, ETC.

(A) The Agency agrees that it will, at all times, comply with and require its contractors and subcontractors to comply with all applicable federal and state laws, rules, guidelines, regulations, and requirements. Without limitation of the foregoing, the Agency agrees that, to the extent applicable, the Agency will:

(1) Comply with the provisions of the adopted environmental mitigation plan for the term of this Agreement;

(2) Comply with the SWRCB's "Policy for Implementing the State Revolving Fund for Construction of Wastewater Treatment Facilities", February 16, 1995, as amended.

(3) Comply with and require its contractors and subcontractors on the Project to comply with federal minority and women-owned business enterprise (MBE/WBE) requirements.

SECTION 17. SWRCB ACTION; COSTS AND ATTORNEY FEES.

The Agency agrees that any remedy provided in this Agreement is in addition to and not in derogation of any other legal or equitable remedy available to the SWRCB as a result of breach of this Agreement by the Agency, whether such breach occurs before or after completion of the Project, and exercise of any remedy provided by this Agreement by the SWRCB shall not preclude the SWRCB from pursuing any legal remedy or right which would otherwise be available. In the event of litigation between the parties hereto arising from this Agreement, it is agreed that the prevailing party shall be entitled to such reasonable costs and/or attorney fees as may be ordered by the court entertaining such litigation.

SECTION 18. PREVAILING WAGES.

The Agency agrees to be bound by all the provisions of State Labor Code Section 1771 regarding prevailing wages. The Agency shall monitor all agreements subject to reimbursement from this Installment Sale Agreement to assure that the prevailing wage provisions of State Labor Code Section 1771 are being met.

NEW ISSUE—FULL BOOK-ENTRY

RATING: S&P-"AAA"
(SEE "RATINGS" herein)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

STATE OF CALIFORNIA **COUNTY OF SAN LUIS OBISPO**

$17,990,000
LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
LIMITED OBLIGATION IMPROVEMENT BONDS

Dated: Date of Delivery **Due: September 2, as shown on inside cover**

The Bonds described herein (the "Bonds") are special, limited obligation bonds being issued by the Los Osos Community Services District (the "District") (i) to finance the acquisition and construction of certain public wastewater improvements specially benefiting properties located within the boundaries of the District's Wastewater Assessment District No. 1 (the "Assessment District"), (ii) to fund a Reserve Fund for the Bonds, (iii) to fund capitalized interest on the Bonds until September 2, 2003, and (iv) to pay the costs of issuing the Bonds. The Assessment District was formed, and the acquisition and construction of the improvements will be undertaken, as authorized under the provisions of the Municipal Improvement Act of 1913 (Division 12 of the California Streets and Highways Code) (the "1913 Act"). The Bonds are issued pursuant to the provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code) (the "1915 Act"), and Resolution No. 2002-33 adopted by the Board of Directors of the District on August 15, 2002, as supplemented by Resolution No. 2002-41, adopted on October 3, 2002 (the "Resolution of Issuance").

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to the Beneficial Owners in denominations of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. See "THE BONDS—Book-Entry System." Principal, interest at maturity or upon earlier redemption, as applicable, and redemption premiums, if any, with respect to the Bonds will be payable upon presentation and surrender thereof at the corporate trust office of BNY Western Trust Company, Los Angeles, California, as Paying Agent for the Bonds (the "Paying Agent"). Interest on the Bonds will be payable from their date of delivery semiannually on September 2 and March 2, commencing March 2, 2003 (each an "Interest Payment Date") of each year.

The Bonds are subject to optional and mandatory redemption as more fully described herein. Transfers of property ownership and other similar circumstances could result in prepayment of all or part of the assessments, which would result in redemption of a portion of the Bonds prior to their stated maturities.

To provide funds for payment of the Bonds and the interest thereon as a result of any delinquent assessment installments, the District will establish a Reserve Fund which is required to be maintained in the amount of the "Reserve Requirement" as described herein. The District has covenanted, under the circumstances described herein, to initiate judicial foreclosure in the event of a delinquency in the payment of assessments. See "SECURITY FOR THE BONDS."

Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the execution and delivery of the Bonds (see "BOND INSURANCE" herein) by:

MBIA

IF A DELINQUENCY OCCURS IN THE PAYMENT OF ANY ASSESSMENT INSTALLMENT, THE DISTRICT WILL HAVE A DUTY ONLY TO TRANSFER INTO THE REDEMPTION FUND THE AMOUNT OF THE DELINQUENCY OUT OF THE RESERVE FUND. THIS DUTY OF THE DISTRICT IS CONTINUING DURING THE PERIOD OF DELINQUENCY, ONLY TO THE EXTENT OF FUNDS AVAILABLE FROM THE RESERVE FUND, UNTIL REINSTATEMENT, REDEMPTION, OR SALE OF THE DELINQUENT PROPERTY. THERE IS NO ASSURANCE THAT SUFFICIENT FUNDS WILL BE AVAILABLE FROM THE RESERVE FUND FOR THIS PURPOSE. THUS, IF, DURING THE PERIOD OF DELINQUENCY, THERE ARE INSUFFICIENT AVAILABLE FUNDS, A DELAY MAY OCCUR IN PAYMENTS TO THE OWNERS OF THE BONDS. IN ACCORDANCE WITH THE 1915 ACT, THE DISTRICT HAS DETERMINED THAT IT WILL NOT OBLIGATE ITSELF TO ADVANCE FUNDS FROM ITS TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND.

This cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

THE BONDS ARE NOT SECURED BY THE GENERAL TAXING POWER OF THE DISTRICT, THE COUNTY OR THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE DISTRICT, THE COUNTY, THE STATE NOR ANY POLITICAL SUBDIVISION OF THE STATE HAS PLEDGED ITS FULL FAITH AND CREDIT FOR THE PAYMENT OF THE BONDS.

The Bonds are being offered when, as, and if issued by the District and received by the Underwriter, subject to prior sale and to the approval of validity by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and the approval of certain matters for the District by its general counsel, Shipsey & Seitz, Inc., San Luis Obispo, California. Certain legal matters will be passed upon for the Underwriter by its counsel, Nossaman, Guthner, Knox & Elliott, LLP, Irvine, California. It is expected that the Bonds in book-entry form will be available for delivery in New York, New York, on November 7, 2002.

PRAGER, MCCARTHY & SEALY, LLC

Dated: October 31, 2002

MATURITY SCHEDULE

$3,170,000 Serial Bonds

Maturity (September 2)	Principal Amount	Interest Rate	Yield	CUSIP
2004	$315,000	1.80%	1.85%	54559PAA4
2005	325,000	2.15	2.20	54559PAB2
2006	330,000	2.50	2.55	54559PAC0
2007	340,000	2.85	2.90	54559PAD8
2008	345,000	3.20	3.25	54559PAE6
2009	360,000	3.45	3.50	54559PAF3
2010	370,000	3.65	3.70	54559PAG1
2011	385,000	3.80	3.85	54559PAH9
2012	400,000	4.00	4.05	54559PAJ5

$2,290,000 5.00% Term Bonds Due September 2, 2017 (CUSIP: 54559PAK2); Yield: 4.55%
$3,605,000 5.00% Term Bonds Due September 2, 2023 (CUSIP: 54559PAL0); Yield: 5.02%
$8,925,000 5.00% Term Bonds Due September 2, 2033 (CUSIP: 54559PAM8); Yield: 5.05%

LOS OSOS COMMUNITY SERVICES DISTRICT

DISTRICT OFFICERS AND STAFF

Rosemary Bowker, *President*
Stan Gustafson, *Vice President*
Frank Freiler, *Secretary*
Gordon Hensley, *Director*
Sylvia Smith, *Director*
Bruce S. Buel, *General Manager/Treasurer/Secretary*
Shipsey & Seitz, Inc., *General Counsel*

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Paying Agent, Registrar, and Transfer Agent
BNY Western Trust Company
Los Angeles, California

Assessment Engineer
John L. Wallace & Associates, Inc.
San Luis Obispo, California

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations 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 an offer to buy, nor will there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the District or the Underwriter. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities under 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. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or the Assessment District since the date hereof.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

Page

INTRODUCTION 1
THE BONDS 3
Purpose of the Bonds 3
Authority For Issuance 3
General 3
Redemption 4
Refunding Bonds 6
Book-Entry System 6
ESTIMATED SOURCES AND USES OF FUNDS 7
DEBT SERVICE SCHEDULE 8
SECURITY FOR THE BONDS 8
Limited Obligation 8
Assessments 9
Limited Obligation Upon Delinquency 9
Establishment of Special Funds 10
Covenant to Commence Superior Court Foreclosure 11
No Obligation of the District to Advance Funds 12
Priority of Lien 13
Bond Insurance 13
THE IMPROVEMENT PROJECT 13
Background 13
The Improvements 14
Cost of the Improvements 14
Environmental Compliance 16
BOND INSURANCE 17
General 17
The Insurer 18
THE ASSESSMENT DISTRICT 19
The District and the Assessment District 19
Allocation of Assessments 20
Prior Litigation 21
Prepayments 22
Maps 22
Availability of Public Utilities 22
Overlapping Debt 22
Status of Development Within Assessment District 23
Assessed Value of Property Within the Assessment District 24
Allocation of Unpaid Assessments 27
SPECIAL RISK FACTORS 30
General 30
Limited Obligation of the District Upon Delinquency 31
Bankruptcy and Foreclosure 32
Failure to Develop Land 32
Future Land Use Regulations and Growth Control 33
Land Development Costs 33
Unavailability of District Funds 33
Factors Which May Affect Land Development and Property Value 34

Land Value 34
Endangered Species 35
Earthquakes and Natural Disasters 35
Hazardous Substances 36
Future Overlapping Indebtedness 37
No Acceleration Provision 37
Ballot Initiatives 37
Proposition 218 37
Enforceability of Remedies 38
CONTINUING DISCLOSURE 38
ABSENCE OF MATERIAL LITIGATION 38
TAX MATTERS 39
APPROVAL OF LEGALITY 40
RATINGS 40
UNDERWRITING 41
MISCELLANEOUS 41

APPENDIX A - ENGINEER'S REPORT A-1
APPENDIX B - THE LOS OSOS COMMUNITY SERVICES DISTRICT B-1
APPENDIX C - FORM OF BOND COUNSEL OPINION C-1
APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT D-1
APPENDIX E– BOOK-ENTRY SYSTEM E-1
APPENDIX F - SPECIMEN INSURANCE POLICY F-1

OFFICIAL STATEMENT

$17,990,000
LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
LIMITED OBLIGATION IMPROVEMENT BONDS

INTRODUCTION

This Official Statement sets forth certain information concerning the issuance and sale by the Los Osos Community Services District, California (the "District") of $17,990,000 in principal amount of its Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds (the "Bonds"). The Bonds are issued pursuant to the Improvement Bond Act of 1915, being Division 10 of the California Streets and Highways Code (the "1915 Act"), and Resolution No. 2002-33 approving the issuance of the Bonds adopted by the Board of Directors of the District on August 15, 2002, as supplemented by Resolution No. 2002-41, adopted on October 3, 2002 (the "Resolution of Issuance"). Pursuant to the Resolution of Issuance, BNY Western Trust Company (the "Paying Agent") has been designated paying agent for the Bonds.

The District was organized in 1998 pursuant to the Community Services District Act, and currently serves an area of approximately 5.2 square miles. The District supplies water, sewer and fire protection services to approximately 14,600 residents within its jurisdiction. The District is located in the unincorporated western portion of San Luis Obispo County (the "County"), approximately 12 miles from the City of San Luis Obispo. See "APPENDIX B – THE COMMUNITY OF LOS OSOS".

The Wastewater Assessment District No. 1 (the "Assessment District") was formed by the District in accordance with the Municipal Improvement Act of 1913, being Division 12 of the California Streets and Highways Code (the "1913 Act"). The Assessment District is comprised of 5,227 lots within the community of Los Osos, of which 4,224 lots are currently subject to the levy of unpaid assessments. Assessments were originally levied on 5,079 lots in the Assessment District, but during the cash payment period the owners of 855 lots fully prepaid, and the owners of 15 lots partially prepaid, the assessment levied on such property, in the aggregate amount of $2,907,902. Lots on which the assessment has been paid in full are not security for the Bonds. See "THE ASSESSMENT DISTRICT – Prior Litigation" herein for a description of completed State and Federal litigation related to the Assessment District.

The property in the Assessment District is primarily zoned for residential development, with some commercial and exempt uses (such as government and nonprofit organizations) (see "THE ASSESSMENT DISTRICT – Property Ownership herein).

Proceeds of the Bonds will be used in part to pay for acquisition and construction costs relating to the to the District's wastewater improvements (the "Improvements"), which improvements are necessary for development of property within the Assessment District, as described in the Engineer's Report (described herein). See "THE ASSESSMENT DISTRICT" and "THE IMPROVEMENT PROJECT."

The aggregate principal amount of Bonds to be issued is $17,990,000, and the aggregate Fiscal Year 2001/02 assessed value of the property within the District subject to the assessment, as determined by the Assessment Engineer is $668,974,392, resulting in an aggregate assessed value-to-lien ratio of 37.2:1. See "THE ASSESSMENT DISTRICT."

The Bonds are issued upon and secured by the unpaid assessments which, together with interest thereon, constitute a trust fund for the redemption and payment of the principal of the Bonds and the interest thereon. Under the provisions of the 1915 Act, assessment installments sufficient to meet annual debt service on the Bonds will be collected on the regular property tax bills sent to owners of property within the District against which there are unpaid assessments. These annual installments are to be paid into the Redemption Fund, which will be held by the District and used to pay Bond principal and interest as it becomes due. The unpaid assessments represent fixed liens on the parcels of land assessed under the proceedings and failure to pay the assessments could result in proceedings to foreclose title to the delinquent property. The assessments do not constitute the personal indebtedness of the owners of assessed parcels and no proceedings to collect directly from an owner is permitted.

The District will establish a Reserve Fund (the "Reserve Fund") from Bond proceeds, initially in the amount set forth herein under the heading "ESTIMATED SOURCES AND USES OF FUNDS" (the "Reserve Requirement"), which amount will be transferred to the Redemption Fund in the event of delinquencies in the payment of the assessment installments to the extent of such delinquencies. The Reserve Fund will be maintained at the Reserve Requirement less any amounts transferred to the Redemption Fund when assessments are paid off following the issuance of the Bonds. See "SECURITY FOR THE BONDS — Establishment of Special Funds — Reserve Fund."

As authorized by the 1915 Act, the District has elected not to obligate itself to advance available funds from its treasury to cure any deficiency which may occur in the Redemption Fund by reason of the failure of a property owner to pay an assessment installment when due. If there are additional delinquencies after depletion of funds in the Reserve Fund, the District is not obligated to transfer into the Redemption Fund the amount of such delinquencies out of any other available monies of the District.

Simultaneously with the delivery of the Bonds, a municipal bond insurance policy (the "Insurance Policy") will be issued by MBIA Insurance Corporation (the "Insurer") which provides for payment of the principal of and interest on the Bonds when due to the extent that the Paying Agent has not received payment therefor. See "BOND INSURANCE" herein.

The Bonds are not secured by the general taxing power of the District, the County or the State of California (the "State") or any political subdivision of the State, and neither the District, the County, nor the State nor any political subdivision of the State has pledged its full faith and credit for the payment of the Bonds.

There follow brief descriptions of the Bonds, the District, the Improvements, the Assessment District, the Resolution of Issuance, and certain other matters. Such descriptions and the discussions and information contained herein do not purport to be comprehensive or definitive. All references in this Official Statement to documents, the Bonds, and the assessment proceedings are qualified in their entirety by references to the actual documents and the District's resolutions setting forth the terms thereof. Copies of the Resolution of Issuance and other documents described in this Official Statement may be obtained from the District, 2122 9th Street, Los Osos, CA 93412.

THE BONDS

Purpose of the Bonds

Proceeds from the sale of the Bonds will be used to finance the acquisition and construction of certain public wastewater improvements, and the payment of incidental costs, including but not limited to costs of issuance, as described in the section herein entitled "THE IMPROVEMENT PROJECT — The Improvements."

Authority For Issuance

The District proceedings are being conducted pursuant to the 1913 Act and Resolution No. 2001-07 (the "Resolution of Intention") adopted by the Board of Directors of the District on April 19, 2001. The Bonds, which represent the unpaid assessments levied against privately owned property in the Assessment District, are issued pursuant to the provisions of the 1915 Act and the Resolution.

John L. Wallace & Associates, Inc. of San Luis Obispo, California (the "Assessment Engineer") prepared a written report (the "Engineer's Report") which contains, among other things, the proposed assessment for each parcel of land in the Assessment District securing the Bonds. The Engineer's Report was filed and preliminarily approved by the Board of Directors by Resolution No. 2001-14, adopted on April 19, 2001. On June 28, 2001, a public hearing was held at which property owners in the Assessment District had the right to protest the levy of the proposed assessments in writing prior to or at the commencement of the hearing and to be heard at the hearing. In addition, property owners were provided a ballot to express either support or opposition to the Assessment District--63% of the ballots were returned. The results of the mailed ballots were 85.7% "yes" votes and 14.3% "no" votes. On June 28, 2001, the Board of Directors adopted its resolution confirming and levying the assessments. The Board of Directors confirmed a total modified assessment of $23,859,292 and recorded such confirmed assessment. After confirmation and recordation, the assessments became liens against the various assessed parcels.

Upon issuance of the Bonds, there will remain authorization to issue an additional $2,445,025 of Bonds secured by the assessments. At this time the District does not have any plans to issue such additional obligations.

All property owners in the Assessment District were then given published and mailed notice of the opportunity to pay all or a portion of their Assessments in cash. The owners of certain lots prepaid the assessment, in whole or in part, in the aggregate amount of $2,907,902 during the cash payment period.

General

The Bonds will be issued in fully registered form, without coupons, in the denomination of $5,000 each or in any integral multiple thereof. The Bonds will be dated the date of delivery, and will bear interest at the rates per annum, will mature on the dates (each a "Principal Payment Date"), and will mature in the amounts set forth on the inside front cover of this Official Statement.

The Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC") and will be available to Beneficiary Owners under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal, interest and any prepayment premium with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds as described herein. See "Book-Entry System" below.

Interest on the Bonds is payable March 2, 2003, and thereafter semiannually on September 2 and March 2 of each year (each an "Interest Payment Date"). Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated after a Record Date and before the close of business on the next Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or from the date of original delivery of the Bonds, if no interest has previously been paid or made available for payment thereon.

Interest on the Bonds is payable by check of the Paying Agent mailed by first class mail, postage prepaid, on each Interest Payment Date, until the principal amount of a Bond has been paid or made available for payment, to the registered Owner thereof at such registered owner's address as it appears on the registration books maintained by the Paying Agent at the close of business on the Record Date preceding such Interest Payment Date. Principal of, redemption premium, if any, and interest payable to any Owner of Bonds in aggregate principal amount of $1,000,000 or more will be paid, upon the written request of any such owner in form and substance satisfactory to the Paying Agent, by wire transfer of immediately available funds to an account within the United States of America designated by such owner on or before a Record Date.

Redemption

Optional Redemption. Any Bond may be optionally redeemed in whole or in part in integral multiples of five thousand dollars ($5,000) on the second day of March or September in any year, at the option of the District, upon payment of the principal amount thereof and interest accrued thereon to the date of redemption, together with a redemption premium equal to the following percentages of such principal amount, namely:

Redemption Date	Redemption Premium
On or prior to September 2, 2010	3%
On March 2, 2011 or September 2, 2011	2
On March 2, 2012 September 2, 2012	1
On or after March 2, 2013	0

provided, that the District shall proceed pursuant to Part 11.1 of the 1915 Act in determining those Bonds or portions thereof to be redeemed and the manner of the redemption thereof; and provided further, that prior to September 2, 2010, the District may only redeem the Bonds required to be redeemed from landowner prepayments of assessments.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 2, 2017 shall be subject to mandatory sinking fund redemption, in part, on September 2, 2013, and on each September 2 thereafter prior to maturity, by lot, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium, from sinking fund payments as follows:

Sinking Fund Redemption Date (September 2)	**Principal Amount to be Redeemed**
2013	$415,000
2014	435,000
2015	455,000
2016	480,000
2017 (maturity)	505,000

The Bonds maturing on September 2, 2023 shall be subject to mandatory sinking fund redemption, in part, on September 2, 2018, and on each September 2 thereafter prior to maturity, by lot, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium, from sinking fund payments as follows:

Sinking Fund Redemption Date (September 2)	**Principal Amount to be Redeemed**
2018	$530,000
2019	555,000
2020	585,000
2021	615,000
2022	645,000
2023 (maturity)	675,000

The Bonds maturing on September 2, 2033 shall be subject to mandatory sinking fund redemption, in part, on September 2, 2024, and on each September 2 thereafter prior to maturity, by lot, at a redemption price equal to the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption, without premium, from sinking fund payments as follows:

Sinking Fund Redemption Date (September 2)	Principal Amount to be Redeemed
2024	$ 710,000
2025	745,000
2026	780,000
2027	820,000
2028	865,000
2029	905,000
2030	950,000
2031	1,000,000
2032	1,050,000
2033 (maturity)	1,100,000

Purchase of Bonds. In lieu of payment at maturity or redemption, moneys in the Redemption Fund may be used and withdrawn by the District for purchase of outstanding Bonds, at public or private sale as and when, and at such prices (including brokerage and other charges) as the District may determine, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase.

Notice of Redemption. The Paying Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Paying Agent at its Principal Office; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds.

Refunding Bonds

Pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (Division 11.5 of the Streets and Highways Code) (the "1984 Act"), the District may issue refunding bonds for the purpose of redeeming the Bonds. The District may issue and sell refunding bonds without giving notice to and conducting a hearing for the owners of property in the Assessment District or giving notice to the owners of the Bonds if the Board of Directors makes the findings required in the 1984 Act.

Book-Entry System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX E hereto for a description of DTC and the book-entry system.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the sale of the Bonds will be deposited pursuant to the terms of the Resolution of Issuance in the amounts set forth below. The moneys in the Improvement Fund established for the Bonds will be used to acquire, contract or otherwise finance the Improvements and to pay certain costs associated with the issuance and delivery of the Bonds. A portion of the proceeds of the Bonds will be deposited in the Reserve Fund.

A summary of the estimated sources and uses of funds associated with the sale of the Bonds is as follows:

Estimated Sources of Funds:	
Principal Amount of Bonds	$17,990,000.00
Net Original Issue Discount	(4,090.95)
TOTAL SOURCES:	$17,985,909.05
Estimated Uses of Funds:	
Deposit to Improvement Fund	$15,400,00.00
Deposit to Redemption Fund [1]	644,679.80
Deposit to Reserve Fund	1,158,522.50
Costs of Issuance[2]	782,706.75
TOTAL USES	$17,985,909.05

[1] Capitalized interest on the Bonds until September 2, 2003.

[2] Includes fees of Bond Counsel, initial fees, expenses and charges of the Paying Agent, Bond Insurance premium, costs of printing the Official Statement, administrative fees of the District, Underwriter's discount and other costs of issuance.

DEBT SERVICE SCHEDULE

The annual debt service on the Bonds based on the interest rates and maturity schedule set forth on the cover of this Official Statement is set forth below.

Year (September 2)	Principal	Interest	Total
2003	$ 0	$ 687,672	$ 687,672
2004	315,000	839,193	1,154,193
2005	325,000	833,522	1,158,522
2006	330,000	826,535	1,156,535
2007	340,000	818,285	1,158,285
2008	345,000	808,595	1,153,595
2009	360,000	797,555	1,157,555
2010	370,000	785,135	1,155,135
2011	385,000	771,630	1,156,630
2012	400,000	757,000	1,157,000
2013	415,000	741,000	1,156,000
2014	435,000	720,250	1,155,250
2015	455,000	698,500	1,153,500
2016	480,000	675,750	1,155,750
2017	505,000	651,750	1,156,750
2018	530,000	626,500	1,156,500
2019	555,000	600,000	1,155,000
2020	585,000	572,250	1,157,250
2021	615,000	543,000	1,158,000
2022	645,000	512,250	1,157,250
2023	675,000	480,000	1,155,000
2024	710,000	446,250	1,156,250
2025	745,000	410,750	1,155,750
2026	780,000	373,500	1,153,500
2027	820,000	334,500	1,154,500
2028	865,000	293,500	1,158,500
2029	905,000	250,250	1,155,250
2030	950,000	205,000	1,155,000
2031	1,000,000	157,500	1,157,500
2032	1,050,000	107,500	1,157,500
2033	1,100,000	55,000	1,155,000
TOTALS	$17,990,000	$17,380,122	$35,370,122

SECURITY FOR THE BONDS

Limited Obligation

The obligation of the District relating to the Bonds is not be a general obligation of the District, but is a limited obligation, payable solely from the assessments and from the funds pledged therefor under the Resolution of Issuance. Neither the faith and credit nor the taxing power of the District or the State of California, or any political subdivision thereof, is pledged to the payment of the Bonds. **The District is not obligated to advance available surplus funds**

from the District treasury to cure any deficiency in the Redemption Fund; provided, however, the District is not prevented, in its sole discretion, from so advancing funds.

Assessments

The Bonds are issued upon and secured by the unpaid assessments against the property in the Assessment District, together with interest thereon, and the unpaid assessments, together with interest thereon, constitute a trust fund for the redemption and payment of the principal of the Bonds and the interest thereon. The Bonds are further secured by the monies in the Redemption Fund and the Reserve Fund created pursuant to the assessment proceedings. Principal of and interest and redemption premiums, if any, on the Bonds are payable exclusively out of the Redemption Fund.

The assessments and each installment thereof and any interest and penalties thereon constitute a lien against the parcels of land on which the assessments are levied until the same are paid. Such lien is subordinate to all fixed special assessment liens previously imposed upon the same property, but has priority over all existing and future private liens and over all fixed special assessment liens which may thereafter be created against the property. Such lien is co-equal to and independent of the lien for general property taxes. See "THE ASSESSMENT DISTRICT – Direct and Overlapping Debt" herein.

The Bonds are not secured by the general taxing power of the District, the County, or the State or any political subdivision of the State, and neither the District, the County, the State nor any political subdivision of the State has pledged its full faith and credit for the payment thereof.

Although the unpaid assessments constitute fixed liens on the parcels assessed, they do not constitute the personal indebtedness of the owners of said parcels. Furthermore, there can be no assurance as to the ability or the willingness of such owners to pay the unpaid assessments. In addition, there can be no assurance that the present owners will continue to own said parcels, or that any future owner will be able or willing to pay the assessments.

The unpaid assessments will be collected in annual installments, together with interest on the declining balance, on the San Luis Obispo County tax roll on which general taxes on real property are collected, and are payable and become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do said general taxes, and the property upon which the assessments were levied is subject to foreclosure, sale and redemption if the assessment installments are not paid when due. These annual installments are to be paid into the Redemption Fund, which will be held by the District and used to pay the principal of and interest on the Bonds as they become due. The installments billed against all of the parcels of property in the Assessment District subject to the assessments will be equal to the total principal and interest coming due on all of the Bonds that year, plus, with respect to each parcel in the Assessment District, an amount to cover the administrative charges of the District related to the Bonds and the assessments.

Limited Obligation Upon Delinquency

THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT AND ARE PAYABLE SOLELY FROM THE ASSESSMENTS AND THE FUNDS PLEDGED THEREFOR UNDER THE RESOLUTION OF ISSUANCE. THE DISTRICT HAS NO LEGAL OR MORAL OBLIGATION TO ADVANCE AVAILABLE FUNDS FROM THE DISTRICT TREASURY TO PAY BOND DEBT

SERVICE IN THE EVENT OF DELINQUENT ASSESSMENT INSTALLMENTS. BONDOWNERS SHOULD NOT RELY UPON THE DISTRICT TO ADVANCE AVAILABLE FUNDS FROM THE DISTRICT TREASURY TO THE REDEMPTION FUND. NOTWITHSTANDING THE FOREGOING, THE DISTRICT MAY, AT ITS SOLE OPTION AND IN ITS SOLE DISCRETION, ELECT TO ADVANCE SUCH FUNDS.

Establishment of Special Funds

For administering the proceeds of the sale of Bonds and payment of interest and principal on the Bonds, the District will establish and direct to be maintained three funds or accounts under the Resolution of Issuance to be known as the Improvement Fund, the Redemption Fund and the Reserve Fund.

Improvement Fund. The moneys in the Improvement Fund will be held by the District and disbursed for the purpose of paying the costs of issuance of the Bonds and paying or reimbursing the cost of acquiring and constructing the Improvements, in accordance with the budget of estimated costs and expenses set forth in the Engineer's Report (defined herein) on file in the office of the District, as the same may be modified from time to time pursuant to the 1913 Act.

After completion of the Improvements, and the payment of all claims from the Improvement Fund, including claims, if any, by the District for amounts advanced by the District to the Improvement Fund toward the costs of the Improvements, the Board of Directors shall determine the amount of the surplus, if any, remaining in the Improvement Fund. Any such surplus shall be, in such amounts as the Board of Directors shall determine, transferred to the Redemption Fund to be used as a credit on the assessment.

Redemption Fund. All payments of principal and interest installments on the assessments, together with penalties, if any, will be deposited in the Redemption Fund, which will be maintained by the District as a trust fund for the benefit of the Bondowners. Payment of the Bonds at scheduled mandatory or optional redemption prior to maturity and at maturity, and all interest on the Bonds will be made from the Redemption Fund. On or before each Interest Payment Date, there shall be withdrawn from the Redemption Fund for payment to the Bondowners the principal of (including Sinking Fund Payments), and interest and any premium, then due and payable on the Bonds. Prior to each Interest Payment Date, the District shall determine if the amounts on deposit in the Redemption Fund are sufficient to pay the Debt Service due on the Bonds on the next such Interest Payment Date. In the event the amounts in the Redemption Fund are insufficient for such purpose, the District shall cause to be withdrawn from the Reserve Fund, to the extent of any funds therein, the amount of such insufficiency, and cause such amount to be transferred to the Redemption Fund. Amounts so withdrawn from the Reserve Fund and deposited to the Redemption Fund shall be applied to the payment of the Bonds. If, after the foregoing transfers, there are insufficient funds in the Redemption Fund to make the payments to the Bondowners, the available funds shall be applied as directed by the Treasurer of the District.

Reserve Fund. Out of the proceeds of the sale of the Bonds, the Reserve Fund will be funded in the amount set forth in "ESTIMATED SOURCES AND USES OF FUNDS" herein (as subsequently adjusted pursuant to the following paragraph, the "Reserve Requirement"). The Reserve Fund will be maintained by the District as a trust fund for the benefit of the holders of the Bonds.

In the event unpaid assessments are paid in cash prior to their final due date, the District shall transfer from the Reserve Fund for deposit in the Redemption Fund an amount equal to the ratio of the total amount initially provided for in the Reserve Fund to the total amount originally assessed in the proceedings for the Bonds multiplied by the reduction in said assessments, which shall be calculated by the District. After each such transfer, the Reserve Requirement shall be reduced by the amount of such transfer.

Whenever there are insufficient funds in the Redemption Fund to meet the next maturing installment of principal of or interest on the Bonds, the District shall transfer from the Reserve Fund for deposit in the Redemption Fund an amount necessary to satisfy such deficiency. The District agrees in the Resolution of Issuance that if such insufficiency was caused by delinquent payment of installments of assessments, then an amount equal to the amount so transferred shall be reimbursed and transferred by the District for deposit in the Reserve Fund from the proceeds of redemption or sale of the parcel in respect of which payment of installments of assessments was delinquent.

If at any time the amount of interest earned by the investment of any portion of the Reserve Fund, together with the principal amount in the Reserve Fund, shall exceed the Reserve Requirement, such excess shall be transferred to the Redemption Fund and shall be credited upon the unpaid assessments in the manner set forth in the 1913 Act.

Whenever the balance in the Reserve Fund is sufficient to retire all the remaining outstanding Bonds, the District shall transfer the balance in the Reserve Fund to the Redemption Fund and the District shall cease the collection of the principal and interest on the unpaid assessments. In such case, the District shall credit such balance against the assessments remaining unpaid in the manner set forth in the 1915 Act.

THE DISTRICT HAS NO OBLIGATION TO REPLENISH THE RESERVE FUND EXCEPT TO THE EXTENT THAT DELINQUENT ASSESSMENTS ARE PAID OR PROCEEDS FROM FORECLOSURE SALES ARE REALIZED.

Covenant to Commence Superior Court Foreclosure

The 1913 Act provides that in the event any assessment or installment thereof or any interest thereon is not paid when due, the District may order the institution of a court action to foreclose the lien of the unpaid assessment. In such an action, the real property subject to the unpaid assessment may be sold at judicial foreclosure sale. This foreclosure sale procedure is not mandatory. However, pursuant to the Resolution of Issuance, the District has covenanted for the benefit of the Owners that it will review the records of the County by November 1 of each calendar year and, if it determines on the basis of such review that any assessment, or installment thereof, including any interest thereon, was not paid when due in the prior Fiscal Year, it will order and cause to be commenced by December 1 of each calendar year, and thereafter diligently prosecute, judicial foreclosure proceedings upon such delinquent assessment or installment thereof and interest thereon against (i) any parcel in the Assessment District for which the delinquent assessment in the immediately preceding Fiscal Year exceeded $1,000; (ii) any parcel in the Assessment District for which the aggregate delinquent assessments in the immediately preceding three Fiscal Years exceeded $2,000; and (iii) all parcels in the Assessment District having delinquent assessments in the immediately preceding Fiscal Year (regardless of the amount of such delinquency) if the aggregate amount of delinquencies in the Assessment District in the immediately preceding Fiscal Year exceeded

five percent (5%) of the total amount actually levied on all parcels in the Assessment District in such Fiscal Year.

The 1913 Act provides that the court in a foreclosure proceeding has the power to order property securing delinquent Assessment installments to be sold for an amount not less than all assessment installments, interest, penalties, costs, fees and other charges that are delinquent at the time the foreclosure action is ordered and certain other fees and amounts as provided in the 1913 Act. The court may also include subsequent delinquent assessment installments and all other delinquent amounts.

If the property to be sold fails to sell for the minimum price described above, the District may petition the court to modify the judgment so that the property may be sold at a lesser price or without a minimum price. In certain circumstances, the court may modify the judgment after a hearing if the court makes certain determinations, including, but not limited to, a determination that the sale at less than the minimum price will not result in an ultimate loss to the owners of the Bonds or a determination that the owners of at least 75% of the principal amount of the Bonds outstanding have consented to the petition and the sale will not result in an ultimate loss to the nonconsenting Bond owners. Neither the property owner nor any holder of a security interest in the property nor any defendant in the foreclosure action nor any agent thereof may purchase the property at the foreclosure sale for less than the minimum price.

Prior to July 1, 1983, the statutory right of redemption from such a judicial foreclosure sale was limited to a period of one year from the date of sale. Legislation effective July 1, 1983 amended this statutory right of redemption to provide that before notice of sale of the foreclosed parcel can be given following court judgment of foreclosure, a redemption period of 120 days must elapse. Furthermore, if the purchaser at the sale is the judgment creditor (here, the District) an action may be commenced by the delinquent property owner within six months after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation which repeals the one-year redemption period has not been tested and there can be no assurance that, if tested, such legislation will be upheld. In the event such foreclosure or foreclosures are necessary, there may be a delay in payments to owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the District of the proceeds of the foreclosure sale; it is also possible that no bid for the purchase of the applicable property would be received at the foreclosure sale. See also "SPECIAL RISK FACTORS - Bankruptcy and Foreclosure" herein.

In the event court foreclosure proceedings are commenced by the District, there may be delays in payments to owners of the Bonds pending prosecution of the foreclosure proceedings to completion, including the receipt of the District of the proceeds of the foreclosure sale. It is also possible that no qualified bid will be received at the foreclosure sale. See "SPECIAL RISK FACTORS" herein.

No Obligation of the District to Advance Funds

Under the 1913 Act, the District can determine, prior to issuing the Bonds pursuant thereto, whether or not it will obligate itself to advance available funds from the District treasury to cure any deficiency which may occur in the Redemption Fund.

THE DISTRICT HAS DETERMINED IT WILL NOT OBLIGATE ITSELF TO ADVANCE, AND WILL NOT ADVANCE, AVAILABLE FUNDS FROM THE DISTRICT TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND.

If a delinquency occurs in the payment of any assessment installment, the District has a duty to transfer from the balance, if any, in the Reserve Fund to the Redemption Fund, the amount of the delinquency. This duty continues during the period of delinquency, until reinstatement, redemption or sale of the delinquent property. If, during the period of delinquency, there are insufficient funds in the Reserve Fund to meet all such delinquencies, a delay may occur in payment to the owner of the Bonds or there may be insufficient funds to make such payments.

Priority of Lien

Each assessment (and any reassessment) and each installment thereof, and any interest and penalties thereon, constitutes a lien against the parcel of land on which it was imposed until the same is paid. Such a lien is subordinate to all fixed special assessment liens previously imposed upon the same property, but has priority over all private liens and over all fixed special assessment liens which may thereafter be created against the property. Such a lien is co-equal to and independent of the lien for general property taxes and special taxes, including, without limitation, special taxes created pursuant to the "Mello-Roos Community Facilities Act of 1982" (being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California), whenever created against the property.

The District reports that there are no assessments or special taxes outstanding with respect to property within the District. See "THE ASSESSMENT DISTRICT – DIRECT AND OVERLAPPING DEBT" herein.

Bond Insurance

Simultaneously with the delivery of the Bonds, a municipal bond insurance policy (the "Insurance Policy") will be issued by MBIA Insurance Corporation (the "Insurer") which provides for payment of the principal of and interest on the Bonds when due to the extent that the Paying Agent has not received payment therefor. See "BOND INSURANCE" herein.

THE IMPROVEMENT PROJECT

Background

Septic systems currently provide wastewater treatment for the property in the Assessment District. The population of this area has grown from less than 4,000 in the 1970's to over 14,000 today. In many areas of town groundwater levels are within 30 feet of the surface. As a result of high groundwater and increased population density, septic tanks can no longer adequately treat the increased volume of wastewater. The District has determined that nitrate levels in its shallow groundwater wells are at unhealthy levels. Samples from the District's wells reveal nitrate concentrations two to four times the maximum level allowed by State and Federal regulatory agencies. In addition, the Morro Bay National Estuary Program ("MBNEP") has determined that construction of a sewer is a high priority for protecting Morro Bay. In their EPA approved Comprehensive Conservation and Resource Management Plan ("CCMP") for protecting Morro Bay, the MBNEP states that an "Important source of nutrients to Morro Bay is generated from leaking and failing septic tanks in Los Osos."

Beginning in 1983, the Regional Water Quality Control Board ("RWQCB") ordered property in what is currently the Assessment District (the "Groundwater Prohibition Zone") to cease the discharge of water resulting from septic tanks. An additional order was issued in October, 2000 that a wastewater treatment facility be built to replace septic tanks by August 2004. This resolution also ordered the County to stop issuing building permits within the Groundwater Prohibition Zone that allowed for intensification of septic discharge, effective November 1, 1988. The County, in compliance, instituted a moratorium on the issuance of new building permits resulting in new septic discharge effective November 1, 1988, which remains in effect. In March 2002, the District held discussions with RWQCB staff regarding the repeal of the moratorium. RWQCB staff indicated that they are willing to recommend that the RWQCB adopt a resolution lifting the moratorium once the District has started construction of the Improvements.

The County of San Luis Obispo originally undertook creation of a wastewater treatment facility. A great deal of study and discussion followed, but with no generally accepted solution was reached. The residents felt it was important to exercise local control and voted with 87% of the votes cast to form the District. After extensive consultation with engineers, health experts, regulators and community members and numerous hearings the District chose a wastewater treatment facility believed to be the best option for the community.

The proposed project will connect each property to a central treatment plant by a piping/pumping system. The tertiary treated disinfected wastewater will be reintroduced into the shallow water basin via leach fields. Septic systems will be eliminated.

The Improvements

Proceeds of the Bonds will be used to pay, in part, the cost of a wastewater collection, treatment and disposal system (the "Improvements"). The Improvements will replace the septic tank system currently in place in the Assessment District. Improvements are designed to serve approximately 1,820 acres within the District. The collection system includes approximately 38 miles of gravity sewers and force mains, 450 manholes, 11 pump stations, service laterals, and related appurtenances. The collected wastewater will be treated to a tertiary level in an approximated 1.4 mgd (average dry weather flow) wastewater treatment facility, and the treated wastewater will be land disposed through percolation systems and recycled wastewater irrigation throughout the community. In addition, the Improvements include associated environmental mitigation costs and the implementation of a water conservation program to minimize the amount of wastewater that must be conveyed, treated, and disposed. The Improvements are expected to serve the property within the Assessment District until ultimate build-out estimated to occur by 2020.

The Improvements are required for further development to occur in the Assessment District, and are more fully described in the Engineer's Report pertaining to the Assessment District (the Engineer's Report), prepared by John L. Wallace & Associates, Inc., San Luis Obispo, California (the "Assessment Engineer"). The Engineer's Report is attached hereto as APPENDIX A. See "THE ASSESSMENT DISTRICT – Prior Litigation" herein for a discussion of State and Federal litigation matters related to the Assessment District and the Improvements.

Cost of the Improvements

The total cost of the Improvements to be financed by the assessments, as adjusted to reflect assessment prepayments, is estimated in the Engineer's Report to be $15,800,000,

which amount does not include incidental expenses relating to the issuance of the Bonds. The assessment prepayments and other funding sources (described below) reduced the cost of the Improvements to be funded from unpaid assessments from the original amount of $19,200,000 (as shown in the Engineer's Report).

The total cost of the Improvements is currently estimated to be approximately $84.6 million. The District is funding the majority of the cost of the Improvements through a loan from the State Water Resource Control Board ("SWRCB") State Revolving Fund (the "Loan"). The District has obtained a commitment from the SWRCB for the Loan, currently expected to be in the principal amount of approximately $65.4 million. The commitment for originating the Loan has been extended by SWRCB to December, 2003. The Loan will be repaid by sewer rates and charges levied by the District. In addition, the District has obtained a $2 million grant from the SWRCB to purchase land needed for mitigation relating to the Improvements.

The proceeds of the assessments will be used to pay costs of the Improvements not eligible for funding from the SWRCB (e.g. design costs, land acquisition and environmental mitigation) The cost of the Improvements, and allocated between the assessments and the Loan, is summarized in the Engineer's Report as follows:

Item	Estimated Construction & Design Cost ($ millions)	Amount to be Funded By Loan ($ millions)	Estimated Amount to be Funded By Bond ($ millions)
Conventional Collection	$40.27	$36.20	$ 4.07
Hybrid Treatment Facility at Tri W	13.48	12.10	1.38
Aesthetic Mitigation at Tri W	2.51	2.20	0.31
Leach Fields	10.08	9.20	0.88
Groundwater Mitigation	0.32	0.30	0.02
Construction Inflation at 1.071	4.73	4.26	0.47
Water Conservation	1.20	0.00	1.20
Planning, Pre-Design Studies	2.50	1.10	1.40
State Legislative Grant	(1.00)	0.00	(1.00)
Tri-W Site Purchase	3.30	0.00	3.30
Mitigation at Broderson	5.10	0.00	5.10
Ziebarth Purchase	0.24	0.00	0.24
Well Site at Broderson ROW	0.40	0.00	0.40
Cal Cities Highland Well	0.20	0.00	0.20
Generator Sites/Easements	0.05	0.00	0.05
Water Tender Fire Truck	0.32	0.00	0.32
Assessment Contingency	0.90	0.00	0.90
Total Project Cost (rounded)	$84.60	$65.40	$19.20
Total Bonded Cost			$23.86[1]

Source: John L. Wallace & Associates, Inc.

(1) The difference between the bonded cost of $23.86 million and the total project cost of $19.2 million is closing costs associated with the sale of the Bonds.

Of the total cost to be financed with the assessments, approximately $2,900,000 has been paid through assessment prepayments, and the remainder will be funded from the proceeds of the Bonds. Montgomery Watson Harza, Walnut Creek, California, has been

selected as the design engineer, and will prepare the contract documents which describe in detail the above elements of the Improvements. Bids for all portions of the Improvements are expected to be received by June, 2004. Construction is anticipated to commence in September, 2004, with completion by September, 2007.

Environmental Compliance

The Improvements are subject to the California Environmental Quality Act ("CEQA"). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency, must comply with a comprehensive environmental review process. Generally, the implementation of CEQA entails three separate phases. The first phase consists of a preliminary review of a project to determine whether it is subject to CEQA. The second phase involves preparation of an initial study to determine whether an environmental impact report ("EIR") or negative declaration is required. An EIR must be prepared when the public agency determines that it can be fairly argued, based on substantial evidence, in light of the whole record, that a project may have a significant effect on the environment. A negative declaration may be prepared when no substantial evidence exists in light of the whole record that the project may have a significant environmental impact. A mitigated negative declaration may be prepared if the initial study identifies a potentially significant effect for which the project's proponent, before public release of a proposed negative declaration, has made or agrees to make project revisions that clearly mitigate the effects. The third phase is preparation of an EIR, if the project may have a significant environmental effect or of a mitigated negative declaration if no significant effects will occur. The District, having concluded that the Improvements are a project pursuant to CEQA, initiated the second phase of CEQA implementation which involves the preparation of an initial study.

The Improvements have been evaluated under the District's environmental impact review procedures developed in compliance with State law and regulations, and environmental documents have been prepared in accordance with such laws and regulations. The District Board of Directors certified the Final Environmental Impact Report on March 15, 2001, and filed the Notice of Determination with the State and County on March 16, 2001. The District has incorporated the adopted design related mitigation measures into the scope of work for the final design of the Improvements and will incorporate the construction related mitigation measures into the bid documents for construction.

A number of permits from state, federal and local agencies are required for construction of the Improvements. While the District believes most of the approvals are ministerial, the Coastal Development Permit from the County and the California Coastal Commission ("CCC") is discretionary. The District will submit its Coastal Permit Application to the CCC in June 2003, with CCC consideration scheduled for October 2003.

On August 8, 2002, the CCC unanimously voted to amend the County's specific plan for the District's treatment plant site to allow select public facilities, including the Improvements, as permitted uses. Since the CCC's amendment modified the specific plan amendment proposed by the County, the CCC has requested that the County concur with its adopted amendment. The County is scheduled to consider concurrence in November 2002. If the County concurs, the Specific Plan Amendment would become final upon CCC approval in January 2003. On October 4, 2002, a lawsuit was filed to force the CCC to overturn its approval of the amendment to the County's specific plan. If the suit is successful, the District would be required to locate the treatment plant on a different parcel.

In the event the litigation against the CCC is successful, or if the Specific Plan Amendment is not otherwise ultimately approved, the District has identified other sites for location of the treatment plant which will not materially adversely affect the cost or timing of the Improvements, and which do not require CCC approval. The District cannot predict the outcome of the current litigation or approval process.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to APPENDIX F for a specimen of the Insurer's policy.

General

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any redemption premium which may at any time be payable with respect to any Bond. The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to State Street

Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

The Insurer

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three European branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurance Policy and the Insurer set forth under the heading "BOND INSURANCE". Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission are incorporated herein by reference:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

As of December 31, 2001, the Insurer had admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2002, the Insurer had admitted assets of $8.7 billion (unaudited), total liabilities of $5.7 billion (unaudited), and total capital and surplus of $3.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa".

Standard & Poor's, a division of The McGraw Hill Companies, Inc., rates the financial strength of the Insurer "AAA".

Fitch Ratings rates the financial strength of the Insurer "AAA".

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal on any of the above ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.4 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE ASSESSMENT DISTRICT

The District and the Assessment District

The District is located in the unincorporated western portion of San Luis Obispo County (the "County"), approximately, 12 miles from the City of San Luis Obispo. The District was organized in 1988 pursuant to the Community Services District Act. The area of the District is currently approximately 5.2 square miles. The District currently supplies water and sewer services to approximately 14,600 residents within its jurisdiction. Approximately 93% of the

Assessment District is zoned for residential use, and approximately 6% is zoned commercial, with the remainder being open space, recreational use of public facilities.

The Assessment District is comprised of 5,227 non-contiguous lots within the community of Los Osos, of which 4,224 lots are subject to the levy of unpaid assessments. As of the end of the cash payment period, the owners of 855 parcels had fully prepaid assessments, and the amounts of 15 lots had partially prepaid assessments, levied on such parcels, totaling $2,907,902.

See "OWNERSHIP AND VALUE OF PROPERTY WITHIN THE ASSESSMENT DISTRICT" herein for a description of certain development within the District.

Allocation of Assessments

In order to relate costs of the Improvements to the various properties benefiting therefrom, all properties that stand to benefit from the construction of the Improvements, vacant or occupied, subdivided or unsubdivided, have been assessed a portion of the costs by the Assessment Engineer.

The Assessment Engineer identified five components, and each property that benefited from a particular component of the Improvements was assigned a benefit unit, or share in the overall cost of that portion. The allocation of benefit units reflected the fact that some groups of properties benefited in a different manner than others. For example, several neighborhoods already had sewer laterals and collectors in place since they are on common septic systems, but nonetheless benefited from the construction of larger trunk sewers, the treatment plant and disposal facilities, and common costs such as pre-design studies and water conservation.

Furthermore, large unsubdivided properties require that an internal collection system and laterals be constructed at the time that the property is developed. Therefore, large unsubdivided properties do not share in the cost of the laterals and collectors at this time, but do share in the cost of the trunk system, treatment and disposal, and the common facilities. Future development of these properties would require on-site sewer laterals and collectors to be installed at the time of development at the developer's expense.

Within the Assessment District, there are various land uses such as single family residences, multiple family residences, commercial retail property, open space, etc. The Assessment Engineer assigned to each of these land uses, as illustrated in the Engineer's Report attached hereto as APPENDIX A. For vacant or large properties, a distinction was made as to the size of the property and its potential to be developed into smaller parcels in the future, and the assessments were spread accordingly. To determine the number of potential lots for each vacant property, reference was made to the Land Use Element and Land Use Ordinance provided by the San Luis Obispo Planning and Building Department.

To avoid conjecture regarding ultimate land use, most vacant commercial properties were assessed according to lot size. Buildable properties up to 10,000 square feet were assessed the same as an occupied single family residence. Larger lots were assessed at increasing increments of benefit units, with a 25,000 square foot lot assessed at a full 2.50 BU's. In circumstances where the County Land Use Ordinance would permit the addition of a residential unit to the commercial use, the lot size was still used as the basis for the assignment of benefit.

After distributing benefit units in this manner, the total component costs was divided by the total number of benefit units as set forth below.

Component Designation	Total Benefit Units Assigned
Lateral component	4,751.00
Collector component	5,716.47
Trunk component	6,705.22
Treatment and disposal component	6,705.22
Common facility component	6,705.22

Prior Litigation

The District's actions to form the Assessment District were immediately challenged in a state court action filed prior to the hearing on the assessment, *Coleman v. Los Osos Community Services Dist.* Petitioner Cinthea Coleman sought a writ of mandate and temporary restraining order ("TRO") prohibiting the District from counting the mailed ballots that had been returned regarding the wastewater assessment. The District argued that Petitioner was not entitled to a TRO because she had an adequate "post-counting" remedy and because if the ballots opposed the assessment, the question would be moot.

The Petitioner also argued that the assessment violated Proposition 218 (Cal. Const. art. XIIID, § 4), including claims that the assessment was not properly based on the project's costs because only a portion of the costs were being funded through the assessment, that the proposed assessment violated section 4 because maintenance and operation expenses were not included in the assessment amount, and that facilities other than the wastewater treatment facilities would benefit the general public as much as those subject to the assessment.

The District was able to demonstrate, and the Court found, total compliance with the requirements of Proposition 218. The petition for writ of mandate was denied, and no appeal followed (order attached for reference).

A second lawsuit was filed in the United States District Court for the Central District of California (*Keller et al. v. LOCSD*). The seventeen named plaintiffs alleged that they were disabled persons, senior citizens, or others living on a limited income for some reason who would purportedly have to move if the assessment was imposed. They alleged four causes of action for violations of procedural and substantive due process and imposition of an excessive fine in violation of the Eighth Amendment of the United States Constitution. The remedies sought included monetary damages, a preliminary and permanent injunction staying the project and halting imposition of the assessment, an order permitting the plaintiffs to "opt out" of the project, an order re-drawing the boundaries (thereby altering the area subject to assessment), a declaratory judgment that the District lacked legal authority to enter the agreements and assume the obligations relating to the project, and an order stating that the District failed to comply with state law.

The District responded to the *Keller* Complaint with a motion to dismiss. Following a full briefing, the District Court granted the District's motion to dismiss the *Keller* Complaint in its entirety. The Court also denied as moot Plaintiffs' motion for preliminary injunction.

Plaintiffs then sought relief in the Ninth Circuit Court of Appeal. The District first challenged the appeal as having been filed late, but the Ninth Circuit agreed to hear the case on

the merits. The District sought an expedited review, and the Court set a shortened briefing schedule.

On April 30, 2002, the Court issued an unpublished memorandum of opinion affirming the District Court's ruling. The Court found that the Plaintiffs had not shown any lack of available state remedies and therefore they could not state a claim for procedural due process violations. The Court further found that they had failed to allege substantive due process violations because they had not shown that the government had infringed on any fundamental liberty or property rights, or that the District had engaged in any egregious conduct that would "shock the conscience" and form the basis of an actionable due process violation. Finally, the Court rejected the Eighth Amendment claim because the sewer assessment at issue is not within the purview of the Eighth Amendment's prohibition against excessive punitive damages.

Plaintiffs then filed a petition for rehearing, which the Court denied on June 6. As no further appeals were made to the United States Supreme Court, the decision of the original Court has become final.

See "THE IMPROVEMENT PROJECT – Environmental Compliance" herein for a discussion of current litigation related to potential site for the treatment plant component of the Improvements.

Prepayments

The owners of 855 parcels have fully prepaid the outstanding principal of their assessment since formation of the Assessment District, and the owners of 15 lots have partially prepaid the assessment. The properties which have fully prepaid the assessment are not security for the Bonds. Any additional prepayments will be used to redeem Bonds prior to maturity. See "THE BONDS – Redemption" herein.

Map

A map showing the boundaries of the Assessment District and the parcels therein is included in the Engineer's Report attached hereto as shown in APPENDIX A.

Availability of Public Utilities

The Assessment District is served by the following public utilities:

Electricity:	Pacific Gas and Electric
Natural Gas:	The Gas Company
Telephone Service:	Pacific Bell
Water, Sewer, Fire;	Los Osos Community Services District
Police:	San Luis Obispo County Sheriff's Department

Overlapping Debt

Contained within the Assessment District's boundaries are overlapping local agencies providing public services, some of which have outstanding bonds or other indebtedness. See also "SECURITY FOR THE BONDS – Priority of Lien herein. The direct and overlapping debt of the property within the Assessment District subject to the assessment is shown in the table below. Tax and revenue anticipation notes and revenue bonds are excluded from the debt

statement. See "SPECIAL RISK FACTORS-Future Overlapping Indebtedness" herein for a discussion of the ability of other public agencies to levy assessments and special taxes on property within the Assessment District. The reference in the following table to the outstanding Assessment District indebtedness reflects the current estimated principal amount of the Bonds, which have been reduced by prepayment in the cash collection period.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
STATEMENT OF DIRECT AND OVERLAPPING DEBT
(as of September 30, 2002)

2001-02 Local Secured Assessed Valuation: $832,922,140

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 11/1/02	
San Luis Coastal Unified School District Lease Tax Obligations	11.787%	$350,074	
Los Osos Community Services District Assessment District No. 1	**100.**	-	(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$350,074	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Luis Obispo County Certificates of Participation	4.031%	$713,689	
San Luis Obispo Community College District Certificates of Participation	4.020	134,871	
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT		$848,560	
COMBINED TOTAL DEBT		$1,198,634	(2)

(1) Excludes 1915 Act bonds to be sold.
(2) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2001-02 Assessed Valuation:

Direct Debt	**- %**
Total Direct and Overlapping Tax and Assessment Debt	0.04%
Combined Total Debt	0.14%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: $0

Source: California Municipal Statistics, Inc.

Status of Development Within Assessment District

The following table shows a summary of property subject to the assessment within the Assessment District, and the amount of the assessment attributable to each category of development.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
ASSESSMENT BY DEVELOPMENT TYPE
(Fiscal Year 2001/02)

Development Type	Parcels	Assessment	Percent of Assessment
Single-Family Residential	3,497	$13,404,551.71	65.60%
Multi-Family Residential 2 or 3 units	101	615,406.70	3.01
Multi-Family Residential 4 or more	60	1,030,262.15	5.04
Residential, Exceptional	35	152,282.46	0.75
Commercial	114	727,138.91	3.56
Mobile Homes	7	592,428.32	2.90
Government	5	163,873.70	0.80
Utility	3	11,667.89	0.06
Vacant, Residential	359	3,248,577.92	15.90
Vacant, Commercial	42	408,484.15	2.00
Vacant, Government	1	80,350.77	0.39
Totals	4,224	$20,435,024.67	100.00%

Source: San Luis Obispo County Assessor and by John L. Wallace & Associates.

Assessed Value of Property Within the Assessment District

The Assessment Engineer has reported that the assessed value of land within the Assessment District with unpaid assessments is $668,974,392. The assessments allocated to these properties total approximately $20,435,025, although only $17,990,000 principal amount of Bonds has been issued. Consequently, the aggregate assessed value of these properties is 33 times the assessments levied on such properties.

The County Assessor (the "County Assessor") assesses all real property within the County as of January 1 of each year at 100% of "full cash value." Article XIIIA of the California Constitution defines such "full cash value" as the appraised value as of March 1, 1975, plus adjustments not to exceed 2% per year to reflect inflation, and requires assessment of "full cash value" upon change of ownership or new construction. Accordingly, the assessed valuation presented in this Official Statement may not necessarily be representative of the actual market value of the property in the Assessment District. Assessed values determined by the County Assessor are often more or less than actual market values, and often do not reflect the amount that would be bid for a property at a foreclosure sale. See "CONSTITUTIONAL LIMITATIONS ON TAXATION AND APPROPRIATIONS - Property Tax Rate Limitations - Article XIIIA." See also "RISK FACTORS - Land Value."

Section 4701 *et seq.* of the California Revenue and Taxation Code authorizes counties, at their option, to adopt an Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds specified therein (the "Teeter Plan") to simplify the tax-levying and apportioning process and increase flexibility in the use of available cash resources. For so long as a Teeter Plan is in effect in a particular county, each entity levying property taxes of a class covered by such county's Teeter Plan may draw on the uncollected taxes and assessments credited by the county to such entity's fund following completion of the tax roll whether or not the

amount credited has actually been collected. Penalties and collection costs, when received, will be credited to various county-maintained funds rather than to the participating levying entity.

The County has a Teeter Plan in effect with respect to the collection of the 1% base *ad valorem* property tax and with respect to general obligation bonds, but not with respect to special taxes or special assessments. The result is that the amount of the assessment available to pay debt service on the Bonds will be limited to actual collections credited to the Redemption Fund (as defined herein) rather than amounts allocated to such fund in anticipation of collections as provided for with respect to Teeter Plan levies.

The following table illustrates the historical assessed value of property within the entire District.

LOS OSOS COMMUNITY SERVICES DISTRICT
HISTORICAL ASSESSED VALUE
(Fiscal Years 1997/98 – 2001/02)

Year	Secured Assessed Value	Unsecured Assessed Value	Total Assessed Value
1997/98	$1,401,282,815	$ 7,131,609	$1,408,414,424
1998/99	1,449,702,064	6,951,289	1,456,653,353
1999/00	1,513,277,678	7,382,053	1,520,659,731
2000/01	1,610,956,300	10,379,896	1,621,336,196
2001/02	1,729,495,388	12,120,051	1,741,615,439

Source: California Municipal Statistics, Inc.

The following table illustrates the Fiscal Year 2001/02 assessed value assigned by the County Assessor to the property in the Assessment District subject to the levy of unpaid assessment and the assessed value to lien ratio of such property.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
SUMMARY OF ASSESSED VALUE
(Fiscal Year 2001/02)

Type	Parcels	Assessed Value-Land	Assessed Value-Improvements	Total Assessed Value[1]	Assessment	Value to Lien
Single Family Residential	3,497	$254,519,952	$299,994,769	$554,514,721	$13,404,551.71	41:1
Multi-Family Residential 2 or 3 Units	101	7,768,258	12,499,457	20,267,715	615,406.70	33:1
Multi-Family Residential 4 or more	60	7,815,543	13,493,475	21,309,018	1,030,262.15	21:1
Residential, Exceptional	35	2,271,264	1,516,675	3,787,939	152,282.46	25:1
Commercial	114	14,671,354	21,977,490	36,648,844	727,138.91	50:1
Mobile Home	7	5,640,790	4,058,086	9,698,876	592,428.32	16:1
Government	5	0	0	0	163,873.70	0:1
Utility	3	0	0	0	11,667.89	0:1
Vacant, Residential	359	16,191,962	348,160	16,540,122	3,248,577.92	5:1
Vacant, Commercial	42	5,480,468	726,689	6,207,157	408,484.15	15:1
Vacant, Government	1	0	0	0	80,350.77	0:1
Total	4,224	$314,359,591	$354,614,801	$668,974,392	$20,435,024.67	33:1

Source: San Luis Obispo County and John L. Wallace & Associates.
(1) Based on 2001/02 San Luis Obispo County Secured Roll.

Allocation of Unpaid Assessments

The following table illustrates the property owners with the largest unpaid assessments, and the allocation of assessments by land use, along with value-to-lien ratios. This information should not be construed to suggest that the Bonds are personal obligations of the owners of the property. The ownership of the parcels as set forth herein is subject to change. Moreover, there is no requirement that the assessment be prepaid upon transfer of ownership. The Bonds are secured solely by the assessments and other assets pledged therefor under the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS" and "RISK FACTORS" herein.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
TEN LARGEST PROPERTY OWNERS
(Fiscal Year 2001/02)

Property Owner	Property Type	Assessment[1]	Percent of Total	Parcels	Assessed Valuation[2]	Value-To-Lien
Coastal Construction Co	RMF	$ 89,696.06	0.44%	1	$ 57,417.00	1:1
Williams Merrell M Living Trust	CS/CR	97,527.37	0.48	2	30,904.00	0:1
Mhc Operating Ltd Ptp An II Ltd PTP	RSF	133,253.55	0.65	1	3,959,900.00	30:1
Antanstasi Construction Company Inc A Ca Corp	RSF	140,197.24	0.69	1	617,375.00	4:1
Daisy Hill Estates Inc A Ca Corp	RSF	143,829.54	0.70	1	3,306,753.00	23:1
Fluitt Clayton E & Claire M Rev Living Trust	RSF/RS	202,463.00	0.99	4	94,625.00	0:1
San Luis Coastal Unified School District	PF	230,653.54	1.13	3	0.00	0:1
South Bay Improvement Assoc.	RMF	328,690.66	1.61	5	5,029,302.00	15:1
Antanstasi Development Corp	RSF	355,892.12	1.74	6	1,004,687.00	3:1
Morro Shores Mobilehome Park LLC	RSF/RMF	790,162.58	3.87	2	1,677,200.00	2:1
TOTAL		$2,512,365.66	12.29%	26	$15,778,163.00	6:1

Source: San Luis Obispo County, and John L. Wallace & Associates.
(1) Unpaid Assessment amount as of June 30, 2002.
(2) Based on 2001/02 San Luis Obispo County Secured Roll.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
LAND USE AND DEVELOPMENT
(Fiscal Year 2001/02)

	Parcels	Assessment[1]	% of Total	Aggregate Assessed Value-Land	Aggregate Assessed Value-Improvement	Total Assessed Value	Value to Lien
Commercial							
Undeveloped	43	$ 488,834.92	2.39%	$ 5,480,468	$ 726,689	$ 6,207,157	12.7:1
Developed	122	902,680.50	4.42	14,671,354	21,977,490	36,648,844	40.6:1
	165	$1,391,515.42	6.81%	$ 20,151,822	$ 22,704,179	$ 42,856,001	30.8:1
Residential							
Undeveloped	359	$ 3,248,577.92	15.90%	$ 16,191,962	$ 348,160	$ 16,540,122	5.1:1
Developed	3,700	15,794,391.34	77.29	278,015,807	331,562,462	609,578,269	38.6:1
	4,059	$19,043,509.26	93.19%	$294,207,769	$331,910,622	$626,118,391	32.9:1
Grand Total	4,224	$20,435,024.67	100.00%	$314,359,591	$354,614,801	$668,974,392	32.7:1

Source: San Luis Obispo County and John L. Wallace & Associates

The County Assessor established the Fiscal Year 2001/02 assessed valuation of property within the Assessment District subject to the unpaid assessment to be $668,974,392, and the assessments allocated to these properties totaled approximately $20,435,025. Consequently, the aggregate assessed value of the properties within the Assessment District for Fiscal Year 2001/02 was approximately 32 times the Assessments levied on such properties.

There is no assurance that, in the event of a foreclosure sale for a delinquent Assessment installment, any bid would be received for such property or that any bid received would be sufficient to pay such delinquent installment. See the section herein entitled "RISK FACTORS." In comparing the aggregate assessed value of real property within the Assessment District and the principal amount of the Bonds, it should be noted that only real property upon which there is a delinquent Assessment can be foreclosed, and the real property within the Assessment District cannot be foreclosed upon as a whole to pay delinquent Assessments. In any event, individual parcels may be foreclosed upon to pay delinquent installments of the Assessments levied only against such parcels.

The following table sets forth the parcels in the Assessment District subject to a debt service Assessment among ranges of value to lien.

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1
SUMMARY OF ASSESSED VALUE BY CATEGORY
(Fiscal Year 2001/02)

Category	Parcel Count	2001/02 Assessed Value	Assessment	% of Assessment
100:1 and above	115	$ 51,280,542.00	$ 349,579.62	1.71%
50:1 to 99.99:1	922	217,214,034.00	3,477,924.12	17.02
20:1 to 49.99:1	2,316	349,990,126.00	9,748,558.47	47.71
10:1 to 19.99:1	439	35,708,764.00	2,397,805.21	11.73
5:1 to 9.99:1	200	9,474,569.00	1,335,873.88	6.54
3:1 to 4.99:1	60	2,473,396.00	597,254.71	2.92
3:00 or less	172	2,832,961.00	2,528,028.66	12.37
TOTAL	4,224	$668,974,392.00	$20,435,024.67	100.00%

Source: San Luis Obispo County and by John L. Wallace & Associates.

SPECIAL RISK FACTORS

General

Under the provisions of the 1915 Act, assessment installments, from which funds for the payment of annual installments of principal of and interest on the Bonds are derived, will be billed to properties against which there are unpaid assessments on the regular property tax bills sent to owners of such properties. Such assessment installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as

evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and assessment installment payments in the future.

In order to pay debt service on the Bonds, it is necessary that unpaid installments of assessments on land within the Assessment District are paid in a timely manner. Should the installments not be paid on time, the District has established a Reserve Fund which is required to be maintained in the amount of the Reserve Requirement, to cover delinquencies in the payment of assessments. The assessments are secured by a lien on the parcels of land and the District can institute foreclosure proceedings to sell land in the Assessment District with delinquent installments for the amount of such delinquent installments in order to obtain funds to pay debt service on the Bonds.

Failure by owners of the parcels to pay installments of assessments when due, depletion of the Reserve Fund, or the inability of the District to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of assessments levied against such parcels may result in the inability of the District to make full or punctual payments of debt service on the Bonds, and Bondowners would therefore be adversely affected.

The Bonds are not secured by the general taxing power of the District, the County, or the State or any political subdivision of the State, and neither the District, the County, nor the State nor any political subdivision of the State has pledged its full faith and credit for the payment thereof.

Unpaid assessments do not constitute a personal indebtedness of the owners of the lots and parcels within the Assessment District. There is no assurance the owners will be able to pay the assessment installments or that they will pay such installments even though financially able to do so.

Limited Obligation of the District Upon Delinquency

If a delinquency occurs in the payment of any assessment installment, the District has a duty only to transfer into the Redemption Fund the amount of the delinquency out of the Reserve Fund and to undertake judicial foreclosure proceedings to recover such delinquencies. This duty of the District is continuing during the period of delinquency, until reinstatement, redemption, or sale of the delinquent property. There is no assurance that funds will be available for this purpose and if, during the period of delinquency, there are insufficient funds in the Reserve Fund, a delay may occur in payments to the owners of the Bonds. If there are additional delinquencies after exhaustion of funds in the Reserve Fund, the District is not obligated to transfer into the applicable Redemption Fund the amount of such delinquency out of any other available moneys of the District. THE DISTRICT'S LEGAL RESPONSIBILITIES WITH RESPECT TO SUCH DELINQUENT INSTALLMENTS ARE LIMITED TO ADVANCING THE AMOUNT THEREOF SOLELY FROM ANY AVAILABLE MONEYS IN THE RESERVE FUND AND TO UNDERTAKING JUDICIAL FORECLOSURE PROCEEDINGS TO RECOVER SUCH DELINQUENCIES. THIS DUTY OF THE DISTRICT TO ADVANCE FUNDS IS CONTINUING DURING THE PERIOD OF DELINQUENCY ONLY TO THE EXTENT OF FUNDS AVAILABLE FROM THE RESERVE FUND UNTIL REINSTATEMENT, REDEMPTION, OR SALE OF THE DELINQUENT PROPERTY. IN ACCORDANCE WITH SECTION 8769(b) OF THE 1915 ACT, THE DISTRICT HAS DETERMINED THAT IT WILL NOT ADVANCE FUNDS FROM ITS TREASURY TO CURE ANY DEFICIENCY IN THE REDEMPTION FUND.

Bankruptcy and Foreclosure

The payment of property owners' assessments and the ability of the District to foreclose the lien of a delinquent unpaid assessment pursuant to the foreclosure covenant, may be limited by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY FOR THE BONDS."

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal remedies, by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Although bankruptcy proceedings would not cause the assessments to become extinguished, bankruptcy of a property owner could result in a delay in procuring Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent tax installments not being paid in full.

Failure to Develop Land

The property within the Assessment District subject to the assessment lien includes vacant land. The incentive for certain property owners in the Assessment District to pay their assessment installments when due could be reduced if the development potential of their property is diminished. No assurance can be given that such development potential of the vacant land in the Assessment District will not be diminished.

The development potential of the vacant land in the Assessment District is based, in part, on the assumption that discretionary approvals to build a home, or in some cases, to further subdivide land and build several homes can be obtained from the appropriate governmental agencies. The future development of the land within the Assessment District may be adversely affected by existing or future governmental policies, or both, restricting or controlling the development of land in the Assessment District. See also "Future Land Use Regulations and Growth Control Initiatives" below. There can be no assurance that the owners of the vacant land in the Assessment District will be able to secure all of the necessary discretionary approvals necessary to develop their properties. A failure to be able to secure those discretionary approvals could reduce the desire of the property owners to pay their annual assessment installments when due.

In addition to reducing the ability and/or willingness of the owners of the vacant land in the Assessment District to make assessment installment payments when due, a reduction of the development potential of the land could adversely affect land values and reduce the proceeds which could be collected at a foreclosure sale in the event that assessment installments are not paid when due. See "Land Value" below.

Except as described herein, no property owner has provided the District with any information about its development plan, its financial resources for such plan, its experience or its abilities, nor has any such property owner participated in any other way in the issuance of the Bonds. Furthermore, the District has not made, and will not make, any investigation of any property owner. Therefore, no representation is made herein as to the experience, abilities or financial resources of any such property owner or as to the likelihood that any such property owner will be successful in developing its property. Purchasers of the Bonds should not

assume that any property owner will have the experience, abilities or financial resources necessary to successfully develop such property. A failure to complete final development of such property would likely make the resale thereof more difficult, thereby limiting diversification of ownership. Such lack of diversification could be perceived as adversely affecting the security for the Bonds, which could reduce the value and marketability thereof.

Future Land Use Regulations and Growth Control

It is possible that future growth control initiatives could be enacted by the voters or future local, State or Federal land use regulations could be adopted by governmental agencies and be made applicable to the development of the vacant land within the Assessment District with the effect of negatively impacting the ability of the Owners of such land to complete the development of such land if they should desire to develop it. This possibility presents a risk to prospective purchasers of the Bonds in that an inability to complete desired development increases the risk that the Bonds will not be repaid when due. The owners of the Bonds should assume that any reduction in the permitted density or significant increase in the cost of development of the vacant land due to more restrictive land use regulations would cause the values of the vacant land within the Assessment District to decrease due to diminished development potential. A reduction in land values increases the likelihood that in the event of a default in payment of assessment installments a foreclosure action will result in inadequate funds to repay the Bonds when due. See "Land Value" below.

Under current State law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on the permits. The property securing approximately 18.2% of the assessments is currently undeveloped. Because future development of this property in the Assessment District will occur over time, if at all, the application of future land use regulations to the development of the vacant land could cause significant delays and cost increases not currently anticipated, thereby reducing the development potential of the property and the ability or willingness of owners of such land to pay the assessment installments when due or causing land values of such land within the Assessment District to decrease substantially.

Land Development Costs

Approximately 18.2% of the unpaid assessments in the District which secure the Bonds will initially be payable by parcels of property that are unimproved. In order to develop saleable or leaseable space on such property, the owners of such property may need to construct public and private improvements in addition to those being financed with the proceeds of the Bonds. The cost of any remaining public and private in-tract, on-site and off-site improvements would likely increase the public and private debt for which the land within the District is security. This increased debt could reduce the ability or desire of the property owners to pay the annual assessments levied against the property. In that event there could be a default in the payment of principal of, and interest on, the Bonds.

Unavailability of District Funds

As discussed in the section "SECURITY FOR THE BONDS," if a delinquency occurs in the payment of any assessment, the District has the duty to transfer the amount of such delinquent assessment from the Reserve Fund into the Redemption Fund. If there are additional delinquencies after exhaustion of the Reserve Fund, the District has no direct or

contingent liability for payment of the Bonds in the event of default in the payment of an assessment installment but does have the duty to undertake judicial foreclosure as covenanted in the Resolution of Issuance.

The District will establish a Reserve Fund and initially deposit therein a portion of Bond proceeds. As discussed in "SECURITY FOR THE BONDS - Establishment of Special Funds and Accounts" herein, if a delinquency occurs in the Redemption Fund, the District will transfer to the Redemption Fund an amount from the Reserve Fund equal to such delinquency. There is no assurance that the balance in the Reserve Fund will always be adequate to make such transfer to the Redemption Fund in the event of delinquent assessment installments. If, during the period of delinquency, there are insufficient funds in the Reserve Fund to make up any deficiency in the Redemption Fund, a delay may occur in payments to the owners of the Bonds.

Factors Which May Affect Land Development and Property Value

Development in the Assessment District as well as the property value may be affected by changes in the general economic conditions, fluctuations in the real estate market, and other factors. In addition, the development of unimproved parcels may be subject to future federal, state and local regulations. Approval may be required from various agencies from time to time in connection with the layout and design of proposed development in the Assessment District, the nature and extent of public improvements, land use, zoning and other matters. Failure to meet any such future regulations or obtain approvals in a timely manner could delay or adversely affect development in the Assessment District.

Land Value

The value of land within the Assessment District is an important factor in determining the investment quality of the Bonds. If a property owner defaults in the payment of assessment installments, the District's only remedy is to commence foreclosure proceedings in an attempt to obtain funds to pay the delinquent assessment.

Prospective purchasers of the Bonds should not assume that the property within the Assessment District could be sold for the assessed amount at a foreclosure sale for delinquent assessments. The actual value of the property within the Assessment District is subject to future events. Many factors could prevent or delay the development or sale of the property within the Assessment District.

Development of unimproved parcels in the Assessment District may be negatively affected by changes in general conditions, fluctuations in the real estate market and other factors. Consequently, no assurance can be given that such property will be developed as planned, and in assessing the investment quality of the Bonds, prospective purchasers should evaluate the risks of noncompletion discussed below.

First, undeveloped land and land subject to development constraints is less valuable than such land in a developed condition and provides less valuable security to the bond owners should it be necessary for the District to foreclose due to the nonpayments of assessments.

Second, if unimproved property within the Assessment District remains undeveloped, the number of likely purchasers at a foreclosure sale, in the event the District forecloses the lien of a delinquent unpaid assessment on such property, is likely to be reduced.

Third, in addition to potentially reducing the ability and willingness of the landowner to pay assessment installments, a slowdown on the development process could adversely affect land values and reduce the proceeds received at the foreclosure sale in the event assessment installments are not paid when due.

Endangered Species

At present, the property within the Assessment District is known to be inhabited by certain animal species which either the California Fish and Game Commission or the United States Fish and Wildlife Service has proposed for addition to the endangered species list. Furthermore, new species are proposed to be added to the State and federal protected lists on a regular basis. The District will need to obtain all necessary permits relating to the protection of wetlands and other biological resources necessary for full development of the Improvements (see "THE IMPROVEMENTS – Environmental Compliance" herein). Any action by the State or federal governments to protect species located on or adjacent to the unimproved property within the Assessment District could negatively impact the ability of the owners of vacant land to develop such land. This, in turn, could reduce the likelihood of timely payment of the assessment installments levied against such vacant land and would likely reduce the value of such land and the potential revenues available at the foreclosure sale for delinquent assessment installments. While existing development within the Assessment District has conformed to current standards and permit requirements, there can be no guaranty that these standards and requirements will not change, and make future development more difficult or expensive. See "Failure to Develop Land" and "Land Value" herein.

Earthquakes and Natural Disasters

The market value of the land and improvements within the Assessment District can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements of the parcels and the continued habitability and enjoyment of such public and private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as earth movements and floods) and climatic conditions (such as droughts and fire hazard). The Assessment District is not in an area impacted by a 500-year flood.

The seismic risks to a structure are dependent upon several factors, including: the distance of the structure from the fault, the character of the earthquake, the nature of construction, and the geologic conditions underlying a structure. Ground surface rupture tends to occur along lines of previous faulting, where fault displacement intersects the ground surface. Displacement may either occur suddenly during an earthquake or it may occur slowly as the fault "creeps" over a long period of time. The Assessment District is not in an earthquake fault zone as designated by the California State Division of Mines and Geology.

These factors are taken into account in the design of public improvements and other infrastructure. Further, building codes require that these factors be taken account in the design of private improvements of the parcels, and the County has adopted the 1997 Uniform Building Code standards, with some modifications, with regards to seismic standards. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance between the present costs of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the

condition should it occur. Consequently, neither the absence of nor the establishment of design criteria with respect to any particular condition means that the builder has evaluated the condition and has established design criteria in the situations in which such criteria are needed to preserve value, or has established such criteria at levels that will preserve value. To the contrary, it is expected that one or more of such conditions may occur and may result in damage to improvements of varying seriousness, that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of the parcels in the Assessment District and the possessory interests therein may well depreciate or disappear notwithstanding the establishment of design criteria for any such condition.

Earthquake insurance is available, but many property owners elect not to purchase it. Damage or destruction to property within the Assessment District caused by earthquake or other natural disasters could result in the failure of the owner of property within the Assessment District to pay the assessments and could result in a significant reduction in the value of property within the Assessment District, with no source of funds for reconstruction.

Hazardous Substances

While governmental taxes, assessments and charges are a common claim against the value of a taxed parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to pay the assessment is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the Assessment District may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect therefore, should any of the parcels within the Assessment District be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the owner is obligated to remedy the condition. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a property that is realizable upon a delinquency and foreclosure. Except as described in the following paragraph, the District is not aware of any hazardous substances located on property within the Assessment District.

The State has determined that a service station that previously operated out of a garage in the District had at least two separate gasoline leaks from their underground storage tanks. These leaks have resulted in a subsurface plume of MTBE that encompasses approximately twenty acres of land down gradient from the service station. The property owner has removed all of the underground storage tanks and has initiated a $3 million remediation project under the supervision of the RWQCB, with funding from the SWRCB MTBE remediation fund. The RWQCB expects that the remediation will reduce the concentration of MTBE to the acceptable levels within five years.

Future Overlapping Indebtedness

The ability of an owner of land within the Assessment District to pay the assessments could be affected by the existence of other taxes and assessments imposed upon the property subsequent to the date of issuance of the Bonds. In addition, other public agencies whose boundaries overlap those of the Assessment District could, without the consent of the District, and in certain cases without the consent of all of the owners of the land within the Assessment District, impose additional taxes or assessment liens on the property within the Assessment District to finance public improvements to be located inside of or outside of the Assessment District.

The assessment and each installment thereof and any interest and penalties thereon constitute a lien against the parcels on which they were imposed until the same are paid. Pursuant to the 1913 Act, the lien of the assessment is subordinate to all fixed special assessment liens imposed prior to the original assessment upon the same property, but has priority over all private liens and over all fixed special assessment liens created against the property after imposition of the lien of the original assessment. Such lien is co-equal to and independent of the lien for general taxes and any lien imposed under the Mello-Roos Community Facilities Act of 1982, as amended. See "THE ASSESSMENT DISTRICT - Overlapping Debt" for a discussion of existing overlapping debt in the Assessment District.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds.

Ballot Initiatives

From time to time, initiative measures qualify for the State ballot pursuant to the State's constitutional initiative process and those measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the District, the County or other local districts to increase revenues or to increase appropriations or on the ability of the landowners to complete the development of the vacant land within the District. See "Factors Which May Affect Land Development and Property Value" above. See also "Proposition 218" below.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability to the District to levy and collect both existing and future taxes, assessments and property related fees and charges.

Article XIIID requires that, beginning July 1, 1997, the proceedings for the levy of any assessment by the District (including, if applicable, any increase in such assessment or any supplemental assessment) must be conducted in conformity with the provisions of Section 4 of Article XIIID. The District has conducted its proceedings with respect to the levy of the assessment within the District in a manner which it reasonably believes complies with the new requirements. See "THE ASSESSMENT DISTRICT-Prior Litigation" herein for a discussion of litigation challenges made against the District pursuant to Proposition 218, in which the District prevailed.

Article XIIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. Article XIIIC does not define the term "assessment," and it is unclear whether this term is intended to include assessments levied under the Act. In the case of the unpaid assessments which are pledged as security for payment of the Bonds, the laws of the State provide a mandatory, statutory duty of the District and the County Auditor to post installments on account of the unpaid assessments to the property tax roll of the County each year while any of the Bonds are outstanding, in amounts equal to the principal of and interest on the Bonds coming due in the succeeding calendar year.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainly the outcome of such determination.

Enforceability of Remedies

The remedies available to the Paying Agent, the District, or the Owners of the Bonds upon any nonpayment of assessment installments are in many respects dependent upon judicial actions, which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code) and relevant banking and insurance law, the remedies provided in the 1915 Act and the 1913 Act may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds, including Bond Counsel's approving legal opinion, will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies in the State of California.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the District by not later than 210 days after the end of the District's fiscal year (which fiscal year presently ends June 30) in each year commencing with its report for the 2001/02 Fiscal Year (the "Annual Report") and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Paying Agent on behalf of the District with each Nationally Recognized Municipal Securities Information Repository. The notices of material events will be filed by the Paying Agent on behalf of the District with the Municipal Securities Rulemaking Board. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events by the District is summarized in "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATES."

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation now pending against the District, or, to the knowledge of its officers, threatened, restraining, or enjoining the formation of the Assessment District, the levy of the assessment or the issuance, sale, execution, or delivery of the Bonds or

in any way contesting or affecting the validity of the Bonds. See "THE ASSESSMENT DISTRICT – Prior Litigation" herein.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based on existing statutes, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. A copy of the form of opinion of Bond Counsel is set forth in APPENDIX C hereto.

The Internal Revenue Code of 1986 (the "Code") imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in federal gross income, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

The difference, if any, between the issue price of any maturity of the Bonds, and the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on such Bonds, which is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. For these purposes, the issue price of a particular maturity of such Bonds is the first price at which a substantial amount of such maturity of such Bonds is sold to the public (excluding bond houses, brokers, or similar persons, or organizations acting in the capacity of underwriters, placement agents, or wholesales). The original issue discount with respect to any maturity of such Bonds accrues daily over the term of maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bond purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (of, in some cases, at their earliest call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a purchaser's basis in a Premium Bond, will be

reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel is further of the opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, Bond Counsel observes that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Certain requirements and procedures contained or referred to in the Resolution of Issuance and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally-recognized bond counsel. Bond Counsel expresses no opinions as to any Bonds or the interest thereon if any such damage occurs or action is taken upon the advise or approval of Bond Counsel other than itself.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from federal gross income, the accrual or receipt of interest on the Bonds may otherwise affect a Bondholder's federal income tax liability. The nature and extent of these other consequences will depend upon the holder's particular tax status and the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

APPROVAL OF LEGALITY

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX C hereto and is attached to the Bonds. Bond Counsel has undertaken no responsibility for the accuracy, completeness, or fairness of this Official Statement. Certain matters will be passed upon for the District by its General Counsel

RATINGS

Standard & Poor's Credit Market Services, a division of The McGraw-Hill Companies, Inc. will assign its municipal bond rating of "AAA" to the Bonds, with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be issued by the Insurer. In addition, S&P has assigned its municipal bond rating of "BBB" to the Bonds without regard to delivery of the Insurance Policy. The ratings reflect only the views of such organization, and an explanation of the significance of such ratings may be obtained from Standard & Poor's Credit Market Services, 25 Broadway, 21st Floor, New York, New York 10004.

There is no assurance that such ratings will continue for any given period of time for the Bonds or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. The Insurer undertakes no responsibility to bring to the attention of the Owners the downward revision or withdrawal of any rating obtained, and the District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Prager, McCarthy & Sealy, LLC (the "Underwriter") has agreed to purchase the Bonds if and when issued pursuant to a contract of purchase by and between the District and the Underwriter for $17,716,059.05 (representing the aggregate principal amount of the Bonds, less an Underwriter's discount of $269,850.00, and less net original discount of $4,090.95). The purchase contract pursuant to which the Underwriter is purchasing the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in such contract of purchase.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices different from the prices stated on the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

MISCELLANEOUS

The foregoing summaries or descriptions of provisions of the 1915 Act, the 1913 Act, the Bonds, the Resolution of Issuance, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices hereto are a part of this Official Statement.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

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

LOS OSOS COMMUNITY SERVICES DISTRICT

By: /s/ Rosemary Bowker
President of the Board of Directors

By: /s/ Bruce S. Buel
General Manager

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APPENDIX A
EXCERPTS FROM ENGINEER'S REPORT

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AMENDED ENGINEER'S REPORT

FOR THE

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1

June 28, 2001

Prepared for
Los Osos Community Services District

Prepared by
JOHN L. WALLACE & ASSOCIATES

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COUNTY OF SAN LUIS OBISPO, CALIFORNIA

AMENDED ENGINEER'S REPORT

PURSUANT TO THE PROVISIONS OF SECTIONS 10204 AND 2825 OF THE STREETS AND HIGHWAYS CODE FOR THE LOS OSOS COMMUNITY SERVICES DISTRICT WASTEWATER ASSESSMENT DISTRICT NO. 1

Pursuant to the provisions of the Municipal Improvement Act of 1913, being Division 12 of the Streets and Highways Code of the State of California, and in accordance with the Majority Protest Act of 1931, being Division 4 of the same Streets and Highways Code, and in accordance with the Resolution of Intention, being Resolution No. 2001-02 passed and adopted on February 15, 2001, by the Board of Directors of the Los Osos Community Services District, John L. Wallace, Engineer of Work, submits herewith, the amended report for the Los Osos Community Services District - Wastewater Assessment District No. 1, consisting of six parts as follows:

PART I

The proposed assessment of the total amount of the costs and expenses of the proposed improvements upon the several subdivisions of land within the Assessment District, in proportion to the estimated benefits to be received by such subdivisions, respectively, from said improvements, is set forth upon the amended assessment roll. The assessment roll is presented as a separately bound document and is made a part hereof.

The assessed value and the true value of each parcel as listed in Assessor's Roll (March 2001 equalized tax roll), determined in accordance with Division 4 of the Streets and Highways Code, are indicated in this assessment roll. Also, the total assessed value of the improvements on all parcels of land within the Assessment District is shown in this roll, which is $764 million. To supplement this information, a separate listing of the estimated amount of the total principal sum of all unpaid assessments, other than that contemplated under the instant proceedings, is also included.

The Assessment Roll also includes the "Assessor APN" for each parcel which is the Assessor's Parcel Number corresponding to each property within the Assessment District as recorded in the San Luis Obispo County Assessor's Office as of January, 2001.

PART II

A Wastewater Facilities Project Report has been prepared for the proposed wastewater collection, treatment, and disposal system which is filed herewith and is made a part hereof. This document is on file with the office of the Los Osos Community Services District, entitled "Los Osos Community Services District Wastewater Facilities Final Project Report" prepared by Montgomery Watson Americas, Inc., dated March 7, 2001.

PART III

A general description of the proposed improvements is attached hereto and made a part hereof.

PART IV

An estimate of the cost of the proposed improvements and of the cost of lands, rights-of-way, easements, bond registration, and incidental expenses in connection therewith, is attached hereto and is made a part hereof. The financing plan, which was prepared with the professional assistance of Prager, McCarthy, and Sealy, LLC, has been designed to provide capital at the lowest annual cost to property owners. The wastewater facilities project is proposed to be financed with a combination of 1915 Act assessment bonds and a State Revolving Fund loan. The proposed bonds to be issued are to mature in 30 years; the State Revolving Fund loan is limited to a 20 year maximum repayment period. The monthly costs associated with repayment of the State Revolving Fund Loan are addressed in the Draft Revenue Program dated March, 2001.

PART V

The Assessment Diagram showing the exterior boundaries of the Assessment District, and the lines and dimensions of each parcel of land within the district is presented as a separately bound document and is made a part hereof. The location of the properties corresponding to the Assessment Numbers shown on the attached assessment roll can also be found on the Assessment Diagram.

PART VI

A description of the method of assessing costs to the parcels of the District along with a list of parcels in the District and the assessments made against those parcels (see Part I) is attached hereto and made a part hereof.

Dated this 28 day of June, 2001.

Robert S. Miller, R.C.E. 57474
Professional Engineer

REGISTERED PROFESSIONAL ENGINEER
ROBERT S. MILLER
No. 57474
Exp. 12-31-01
CIVIL
STATE OF CALIFORNIA

John L. Wallace, R.C.E. 33965
Engineer of Work

REGISTERED PROFESSIONAL ENGINEER
JOHN L. WALLACE
exp.
12-31-02
No. 33965
CIVIL
STATE OF CALIFORNIA

Part I

Assessment Roll (Separately Bound Document)

List of Other Unpaid Assessments

PART I (Cont'd)

LIST OF OTHER UNPAID ASSESSMENTS

As of March 2001, the County of San Luis Obispo's tax recorder has notified John L. Wallace and Associates that there are no unpaid assessments of record upon parcels within the proposed assessment district.

Part II

Schematic of Improvements

As Shown in the Final Wastewater Facilities Project Report

Figures Prepared by Montgomery Watson Americas, Inc.

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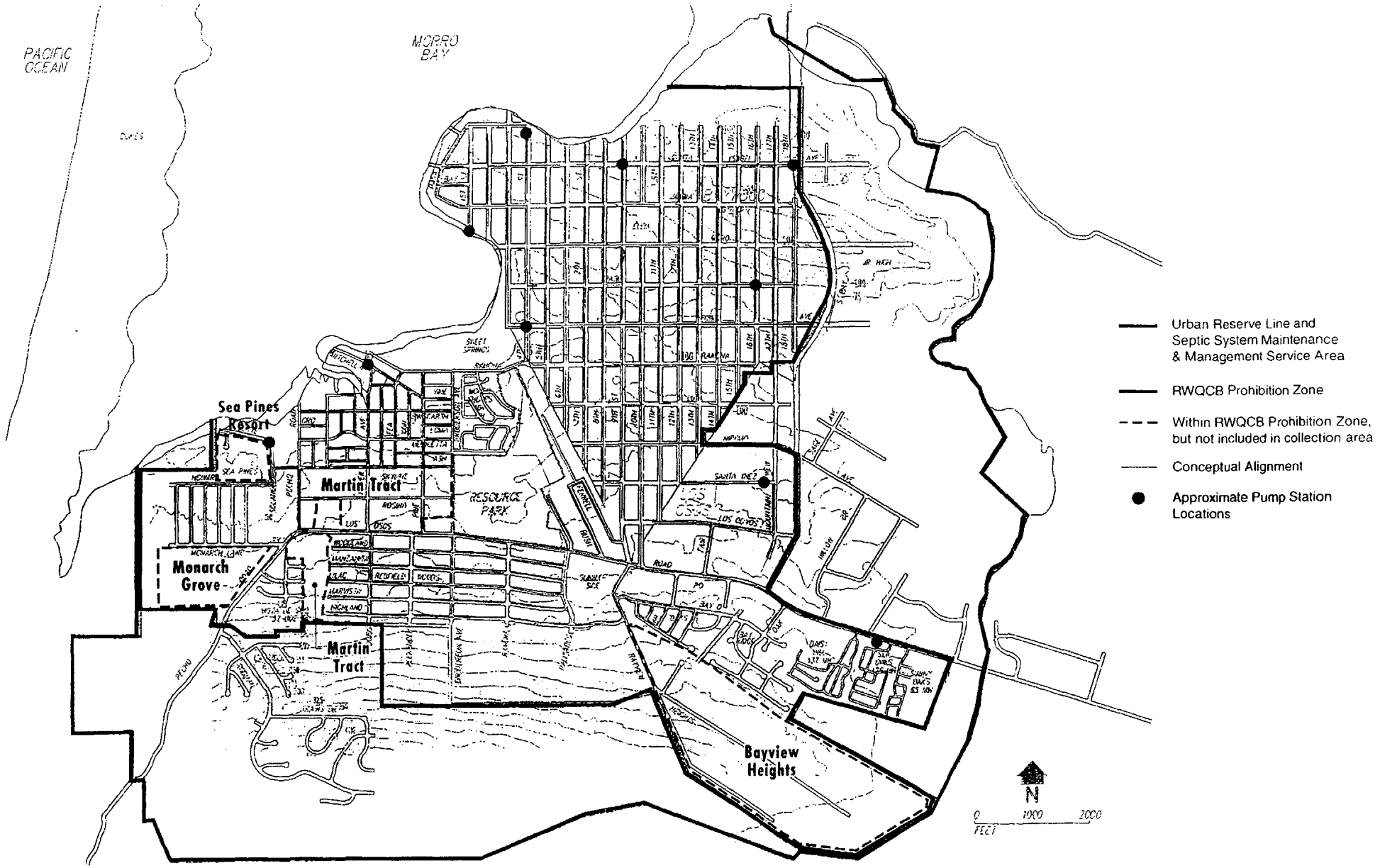

Figure ES-3. Conceptual Wastewater Collection System

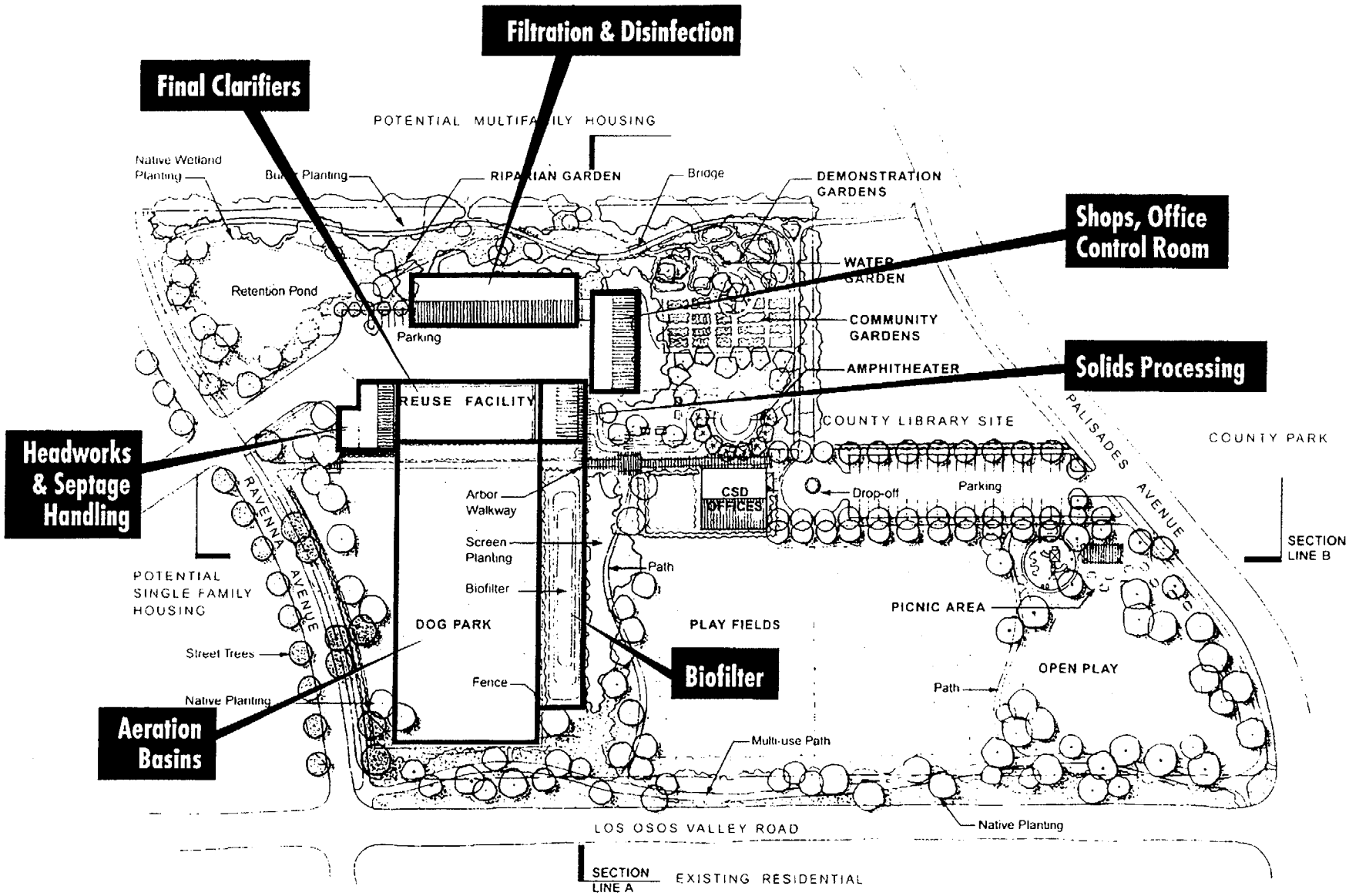

Figure ES-4. Conceptual Site Plan for Treatment Facility Site

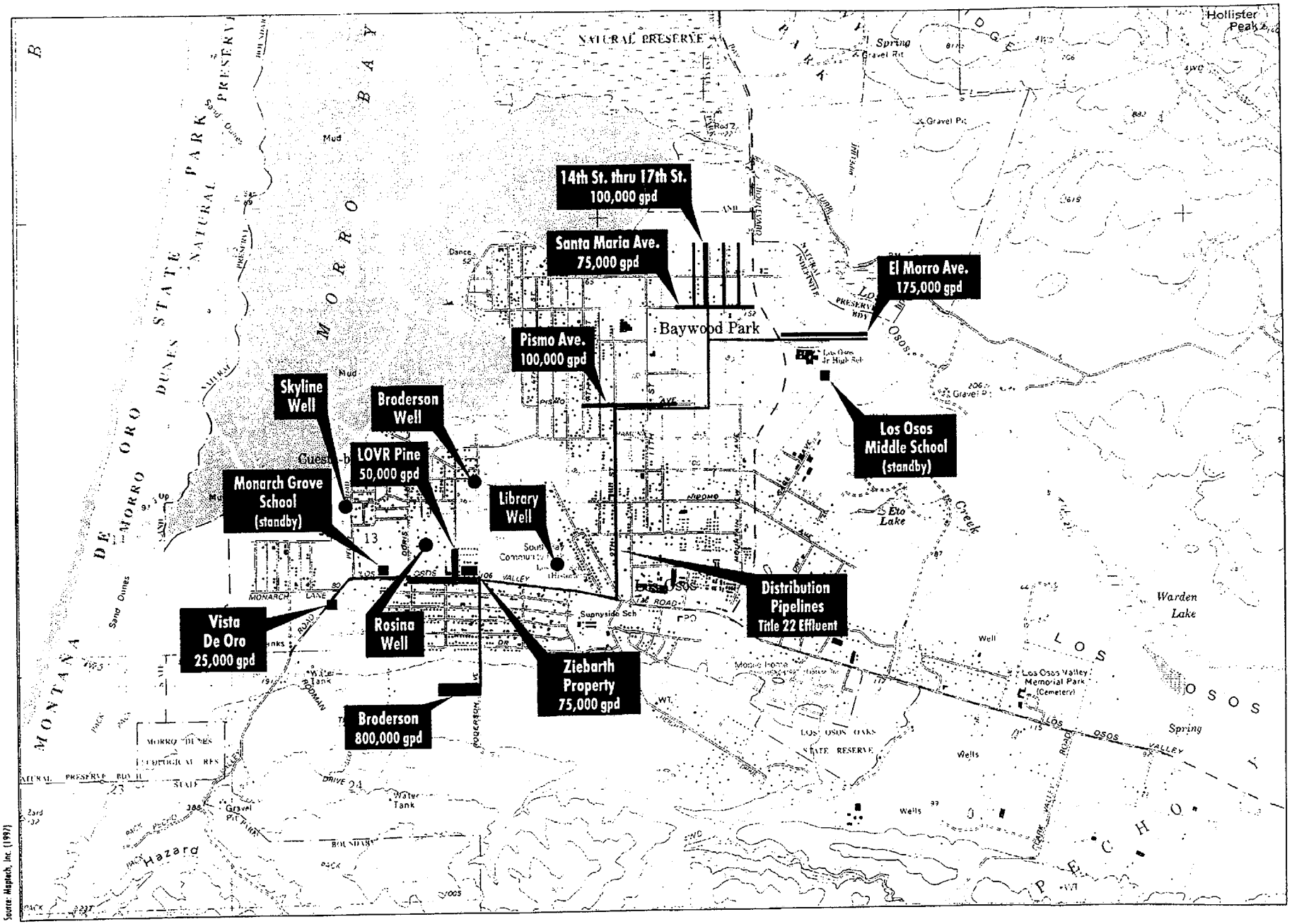

Figure ES-7. Effluent Disposal Sites

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Part III

Project Description

PART III

PROJECT DESCRIPTION FOR LOS OSOS COMMUNITY SERVICES DISTRICT

WASTEWATER ASSESSMENT DISTRICT NO. 1

The proposed project consists of a wastewater collection, treatment, and disposal system to serve approximately 1,820 acres within the Los Osos Community Services District. The project will be essentially in accordance with the "Final Project Report for the Los Osos Community Services District Wastewater Facilities Project" dated March, 2001 by Montgomery Watson Americas, Inc. In addition, the project will incorporate the mitigation measures recommended in the Final Environmental Impact Report for the Los Osos Community Services District Wastewater Facilities Project, certified in March, 2001, and prepared by Crawford, Multari & Clark Associates.

The collection system includes approximately 38 miles of gravity sewers and force mains, 450 manholes, 11 pump stations, service laterals, and related appurtenances. The collected wastewater will be treated to a tertiary level in an approximately 1.4 mgd (average dry weather flow) wastewater treatment facility, and the treated wastewater will be land disposed through percolation systems and recycled wastewater irrigation throughout the community. In addition, the project includes the implementation of a water conservation program to minimize the amount of wastewater that must be conveyed, treated, and disposed.

Part IV

Project Cost Estimate

PART IV

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1

PROJECT COST ESTIMATE

An estimate of the cost of the proposed improvements and of the cost of lands, rights-of-way, easements, bond registration, and incidental expenses is shown in the following table. As previously indicated, only a portion of the project will be funded through bonds secured by the proposed assessment district. This amount is indicated in the table as the "Amount to be Bond Funded." The balance of the project will be funded through a State Revolving Fund Loan. The costs associated with repayment of this loan are addressed in the Draft Revenue Program dated March, 2001. The Draft Revenue Program also addresses the estimated total monthly cost, including operations and maintenance, for various types of properties.

PROJECT COST ESTIMATE[1]

Item	Estimated Construction & Design Cost ($ millions)	Amount to be State Revolving Fund Loan Funded ($ millions)	Amount to be Bond Funded[2] ($ millions)
Conventional Collection	40.27	36.20	4.07
Hybrid Treatment Facility at Tri W	13.48	12.10	1.38
Aesthetic Mitigation at Tri W	2.51	2.20	0.31
Leach Fields	10.08	9.20	0.88
Groundwater Mitigation	0.32	0.30	0.02
Construction Inflation at 1.071	4.73	4.26	0.47
Water Conservation	1.20	0	1.20
Planning, Pre-Design Studies	2.50	1.10	1.40
State Legislative Grant	-1.00	0	-1.00
Tri-W Site Purchase	3.30	0	3.30
Mitigation at Broderson	5.10	0	5.10
Ziebarth Purchase	0.24	0	0.24
Well Site at Broderson ROW	0.40	0	0.40
Cal Cities Highland Well	0.20	0	0.20
Generator Sites/Easements	0.05	0	0.05
Water Tender Fire Truck	0.32	0	0.32
Assessment Contingency	0.90	0	0.90
Total Project Cost (rounded to nearest 0.1 million)	**84.6**	**65.4**	**19.2**
Total Bonded Cost			**23.86[3]**
Total Cash Payment Cost			**20.24**

1. Cost information is taken from the Final Wastewater Facilities Project Report by Montgomery Watson Americas, Inc. dated March, 2001.

2. Bond funds will be secured by the assessment district proposed herein.

3. The difference between the bonded cost of $23.86 million and the total project cost of $19.2 million is closing costs associated with the sale of bonds.

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Part V

Assessment Diagram

(Separately Bound Document)

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Part VI

Method of Assessing Costs

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PART VI

LOS OSOS COMMUNITY SERVICES DISTRICT
WASTEWATER ASSESSMENT DISTRICT NO. 1

METHOD OF ASSESSING COSTS

GENERAL DESCRIPTION OF METHOD:

In order to relate costs to the various properties benefitting from the project, all properties that stand to benefit from the construction of the community sewer system, vacant or occupied, subdivided or unsubdivided, have been assessed a portion of the project costs. Approximately 93% of the assessment district is comprised of residentially zoned lots, 6% is commercially zoned, and the remainder is open space, recreational use, and public facilities.

The manner in which costs were distributed to these properties is as follows:

Each property that stands to benefit from a particular portion of the project has been assigned a "benefit unit", or share in the overall cost of that portion. For example, one portion of the project involves the construction of sewer laterals. Each property to which a lateral turnout is planned to be extended has been assigned one (1) benefit unit (BU), or one share in the lateral cost component of the project.

This logic in assigning BUs was used to distribute the costs of other project components as well. However, some groups of properties stand to benefit in a different manner than others. For example, several neighborhoods already have sewer laterals and collectors in place since they are on common septic systems. These properties do not stand to benefit from the construction of laterals or collectors, but they will benefit from the construction of larger trunk sewers, the treatment plant and disposal facilities, and common costs such as pre-design studies and water conservation.

Furthermore, large unsubdivided properties will require that an internal collection system and laterals be constructed at the time that the property is developed. In keeping then with the concept of benefit to the property, large unsubdivided properties do not share in the cost of the laterals and collectors at this time. Such properties do, however, share in the cost of the trunk system, treatment and disposal, and the common facilities. Future development of these properties would require on-site sewer laterals and collectors to be installed at the time of development at the developer's expense.

Regarding plant capacity, the treatment plant is planned for 1.4 million gallons per day (average dry weather flow) of capacity which represents the estimated wastewater flow rate from existing and future development.

BENEFIT UNIT COMPONENTS:

In order to assess the properties within the Assessment District, the total cost of the project has been divided into five major components as follows:

- Lateral component
- Collector component
- Trunk component
- Treatment and disposal component
- Common facility component

"Laterals" are defined as individual service lines extending from the mains in the street to the property line.

"Collectors" are defined as all other collection system components that are not categorized as "Trunks" as defined below.

"Trunks" are defined as large gravity sewers (approx. 39,000 linear feet), regional lift stations, force mains, and other facilities that transmit large quantities of wastewater to the treatment plant as identified by Montgomery Watson Americas, Inc.

The "treatment and disposal" system is defined as those facilities constructed to treat and dispose of wastewater effluent.

The "common facility" component includes various uncategorized costs including mitigation and water conservation.

Thus, the breakdown of the total cost of the project into these five benefit unit components is:

Component Designation	**Bonded Amount***	**Cash Payment**
Lateral component	$2,332,779	$1,978,756
Collector component	$7,283,280	$6,177,970
Trunk component	$2,584,691	$2,192,438
Treatment and disposal component	$9,540,435	$8,092,578
Common facility component	$2,118,107	$1,796,663
Total Project Cost	**$23,859,292**	**$20,238,405**

*Includes finance costs, bond fees, and reserve fund.

BENEFIT UNIT TABLE:

Within the Assessment District, there are various land uses such as single family residences, multiple family residences, commercial retail property, open space, etc. The method of assigning BUs to each of these land uses is shown in the following table. The table lists each type of land use in the District and the BUs assigned thereto.

For example, to determine how an existing home on a single lot has been assessed, go to the Residential Single Family (RSF) listing. A property with an existing home is assessed one (1) BU, or one share in each of the five project components.

For vacant or large properties, a distinction is made as to the size of the property and its potential to break down into smaller parcels in the future. Any parcel that is five acres or larger is considered to have potential for further breakdown for the purposes of this assessment and is assessed accordingly. Developed parcels less than five acres are considered to be feasible as a stand alone parcel and if further developed in the future, will be subject to "in-lieu" assessment fees.

The benefit unit table also reflects a distinction between a single property and additional potential lots. Since the construction of a community sewer system will in some ways enhance the value of vacant property with respect to the ability to split into larger lots, properties that are eligible to be split into two or more lots share in the costs of the project based on their total potential number of lots.

Developed residentially-zoned properties that are less than five acres have been assessed according to their existing use. For example, a single family residence that occupies a property which has the potential to be divided into two or more lots has been assessed for the existing residence only. Similarly, residential multiple family properties less than five acres have been assessed according to the existing number of units only, not on their full potential. This method of assessment was selected in order to include some sensitivity to current use, rather than to assume full build-out in the occupied properties.

Vacant properties, on the other hand, have been assessed according to their potential. This is described further in the ensuing sections.

LAND USE CATEGORY	BENEFIT UNITS (BU)				
	Lateral Component (BU)	Collector Component (BU)	Trunk Component (BU)	Treatment and Disposal Component (BU)	Common Facility Component (BU)
Residential Single Family and Residential Suburban (RSF & RS)					
Existing improved property	1	1	1	1	1
If < 5 acres Each additional potential lot	0	0	0	0	0
If ≥ 5 acres Each additional potential lot	0	0	1	1	1
Vacant (≥ 5 acres)	0	0	1	1	1
Each additional potential lot	0	0	1	1	1
Vacant (< 5 acres)	1	1	1	1	1
Each additional potential lot	0	1	1	1	1
Currently collected property	0	0	1	1	1
Mobile Home Parks					
Existing park common area	1	0	0	0	0
Existing space (currently collected)	0	0	0.5/space	0.5/space	0.5/space
Each additional potential space	0	0	0	0	0
Residential Multi Family (RMF)					
RMF property with 1 existing residence	1	1	1	1	1
If < 5 acres Each additional potential unit	0	0	0	0	0
If ≥ 5 acres Each additional potential unit	0	0	0.75/unit	0.75/unit	0.75/unit
Improved property with 2 or more units	1	0.75/unit	0.75/unit	0.75/unit	0.75/unit

LAND USE CATEGORY	BENEFIT UNITS (BU)				
	Lateral Component (BU)	Collector Component (BU)	Trunk Component (BU)	Treatment and Disposal Component (BU)	Common Facility Component (BU)
Residential Multi Family (Continued)					
Vacant (≥ 5 acres)	0	0	0.75/unit	0.75/unit	0.75/unit
Each additional potential unit	0	0	0.75/unit	0.75/unit	0.75/unit
Vacant (< 5 acres)	1	0.75/unit	0.75/unit	0.75/unit	0.75/unit
Each additional potential unit	0	0.75/unit	0.75/unit	0.75/unit	0.75/unit
Condominiums					
Common area	1	0	0	0	0
Each existing unit	0	0.75/unit	0.75/unit	0.75/unit	0.75/unit
Each additional potential unit	0	0	0	0	0
Commercial (CS, CR, OP)					
Existing occupied business	1	1/10,000 sf	1/10,000 sf	1/10,000 sf	1/10,000 sf
Vacant property	1	1/10,000 sf	1/10,000 sf	1/10,000 sf	1/10,000 sf
Existing residential single family use	1	1	1	1	1
Existing residential multi-family use	1	0.75/unit	0.75/unit	0.75/unit	0.75/unit
Open Space (OS)					
Not developable by definition	0	0	0	0	0
Special Cases (See Report Text)	---	---	---	---	---

Note: The assignment of benefit units is not to be construed as a land use entitlement. The Los Osos Community Services District does not have land use authority.

ADDITIONAL POTENTIAL LOTS:

To determine the number of potential lots for each vacant property, reference was made to the Land Use Element and Land Use Ordinance provided by the San Luis Obispo Planning & Building Department. The Estero Bay Area Plan is that part of the County's Land Use Plan covering the Los Osos area. Various "Planning Areas" as designated in the Land Use Element are associated with particular minimum lot sizes as follows:

Town of El Moro and the Los Osos Village Area

The Town of El Moro and the Los Osos Village Area are located in the Northeast section and are comprised of 25' X 125' lots. The following is the list of zoning requirements in this area:

Residential Single Family (RSF)

- 40 foot minimum frontage for unsubdivided lots
- Unsubdivided lots - 6,000 square foot minimum lot size
- Recognition of current single ownership, subdivided lots less than 40 foot minimum frontage

Most lots in these Planning Areas are 25' X 125'. Three (3) 25' lots under one ownership are no longer eligible to be split into two lots since they cannot meet the 40' minimum frontage requirement. Four (4) 25' lots, however, are eligible for subdivision into two (2) potential lots.

Residential Suburban (RS)

- 1unit per acre

Residential Multi-Family (RMF)

- 15 units per acre for properties less than 1 acre
- 26 units per acre for properties greater than or equal to 1 acre
- RMF lots must be at least 6,000 sf in order to qualify for more than one unit

Cuesta-by-the-Sea

Cuesta-by-the-Sea is located in North section of Los Osos, West of the Town of El Moro. This area is comprised of a combination of 20', 25', 40', and 50' frontage lots. The following is a list of zoning requirements in this area:

Residential Single Family

- 40 foot minimum frontage for unsubdivided lots
- Unsubdivided lots - 6,000 square foot minimum lot size
- Recognition of current single ownership, subdivided lots less than 40 foot minimum frontage

Martin Tract

The Martin Tract is comprised of large, RSF lots. The development lies northeast of Los Osos Valley Road and Pecho Road. Only two properties within the Martin Tract were included in the Assessment District (see assessment diagram). The following is a list of zoning requirements in this area:

Residential Single Family (RSF)

- Minimum 10,000 square foot lots for properties within the proposed Assessment District
- Minimum 1 acre lots for properties outside of the proposed Assessment District

The Redfield Woods (Upland) Area and the Monarch Grove (Sunset) Area

The Redfield Woods (Upland) and Monarch Grove (Sunset) Areas are located in the southwest end of Los Osos. The following is a list of zoning requirements for these areas:

Residential Single Family (RSF)

- 40 foot minimum frontage for unsubdivided lots
- Unsubdivided lots - 6,000 square foot minimum lot size
- Recognition of current single ownership, subdivided lots less than 40 foot minimum frontage

Residential Suburban (RS)

- 1 unit per acre

Residential Multi-Family (RMF)

- Development potential evaluated in coordination with the San Luis Obispo County Planning Department and the LOCSD Working Group.
- RMF lots must be at least 6,000 sf in order to qualify for more than one unit

Morro Shores

Morro Shores is located North of Los Osos Valley Road and West of Ferrell Road. This area is comprised of large vacant lots. Several of these properties have been assessed as special cases and are described in the later section. The following is a list of zoning requirements in this area:

- RMF zones in this area which lie northwest of the South Bay Community Park qualify for densities of up to 26 BU per acre. Development potential was evaluated in coordination with the San Luis Obispo County Planning Department and the LOCSD Working Group.
- RMF properties north of the proposed extension of Palisades Avenue qualify for densities of 10 BU per acre.

The County recognizes small existing lots as legal, buildable lots. The minimum cut-off for a lot to be considered buildable is 1,750 square feet. Tentative tract maps have been considered for unsubdivided lots.

There is no minimum area associated with recreational, public facilities, and open space.

To determine the potential number of lots associated with a particular property, consider a vacant property in Cuesta-by-the-Sea that is 80' X 100'. This lot has a potential for a total of (2) 40' frontage, 4,000 square feet lots.

COMMERCIAL ASSESSMENTS:

Non-residential zoning is also listed in the Benefit Unit Table, such as Commercial Retail (CR), Commercial Service (CS), and Office Professional (OP). The County Land Use Ordinance permits a wide range of uses within these zones in particular, rendering an assessment based on land use impractical. For example, a commercial property may house a relative low wastewater generating activity such as warehousing or a more intense user such as a restaurant or car wash.

To avoid conjecture regarding ultimate land use, most commercial properties were assessed according to lot size (refer to the following section for special cases). Buildable properties up to 10,000 square feet were assessed the same as an occupied single family residence. Larger lots were assessed at increasing increments of benefit units, with a 25,000 square foot lot assessed at a full 2.50 BUs. In circumstances where the County Land Use Ordinance would permit the addition of a residential unit to the commercial use, the lot size was still used as the basis for the assignment of benefit. Differences in commercial uses will be accounted for in varying monthly service charges.

SPECIAL CASES:

Schools have been assessed as special cases. There are three existing schools in the Assessment District:

School Name	Assessment Number	March, 2001 Student Population	Future Student Population	Equivalent Benefit Units
Baywood Elementary	826	330	600	29.64
Sunnyside Elementary	4923	290	--	14.30
Monarch Grove Elementary	3887	475	--	23.50

To determine the portion of the project costs that each school is to bear, the anticipated wastewater flow from each school was considered. Based on wastewater load and flow factors, a total of 20.25 students per equivalent benefit unit (BU) was assigned. Thus, each school has been assessed for one lateral component plus the number of equivalent BUs for each of the collector, trunk, treatment and disposal, and common facilities components based on the school's student population.

Properties zoned Residential Multiple Family (RMF) have been assessed 1 lateral component per property, plus 3/4 of one BU per apartment/condo for collector, trunk, treatment and disposal, and common facilities. Again, less wastewater flow is expected from RMF properties, thus the reduction in BU's from RSF housing. Additional potential units were estimated based on a density of 15 or 26 units per acre, depending on the location of a particular property. Each additional potential lot has been assessed 3/4 of one benefit unit for collector, trunk, treatment and disposal, and common facilities. The exception to this RMF assessment method are RMF-zoned properties upon which a single residence has been built. These properties have been assessed the same as RSF properties.

Other special cases are discussed in the following table:

Special Case	Asmt. No.	Means of Assessing
Library	2520	Since the library is a special public facility that is not an intensive wastewater generator, it has been assessed on the same basis as a single family residence.
Fire Station	4924	This public facility has been assessed at 1.5 BUs to account for a more intense use than a single family residence.
South Bay Community Center	2524	This meeting hall was confirmed to be active 7 days per week and was assessed based on EPA flow factors at 2.33 equivalent benefit units.
Churches and other known meeting halls	Misc.	Churches and other known meeting halls were Assessed as meeting halls in a similar manner to the Community Center, with an adjustment made for a reduced number of meeting days: 2.33 BU X (2 mtg days)/7 days per week = 0.67 equivalent benefit units

Special Case	Asmt. No.	Means of Assessing
Mobile Home Parks Morro Shores Daisy Hill Sea Oaks Sunny Oaks	Misc	Since mobile home spaces generate less wastewater than single family residences, they have been assessed at ½ the rate of RSF housing. Each park has been assessed one lateral unit plus 0.5 BUs per space for each trunk, treatment and disposal, and common facility components.
Condominiums	Misc	Condominiums, although many times under separate ownership, represent special cases. Each unit has been assessed 3/4 BU per unit in the same manner as apartments with the exception of the lateral component. In the case of condominiums, the common area has been assessed for a single lateral BU.
Morro Shores	2518	One unsubdivided (> 5 acre) parcel that represents a special case is the 58 acre Morro Shores property. This property has the distinction of being partially zoned RSF and RMF. This property was assessed for 91 RSF units (Tentative Tract Map) plus an additional 243 potential RMF units. The equivalent BU, then, is 91 + (243 X 0.75) = 273.25
Monarch Grove	Misc	Although Monarch Grove is within the Assessment District, the existing properties will not be assessed. The Monarch Grove Tract will use their existing collection, treatment and disposal facility.
Golf Course	2792	The golf course currently houses a pro shop, a restaurant, and a 34 unit hotel with plans for 11 more units. According to the Regional Water Quality Control Board, the property is connected to the Monarch Grove treatment facility and will therefore receive no assessment.
Morro Palisades	5224	The Morro Palisades property will be used for disposal and will therefore receive no assessment.
Commercial Zones with Residential uses		In January 1990, site reviews were conducted of the CR, CS, OP zones to determine which properties were used for Residential purposes. Such commercial properties with existing residential uses have been assessed as previously discussed.

Special Case	Asmt. No.	Means of Assessing
Properties Outside the USL		Sewer service to properties outside of the Urban Services Line (USL) is not planned to be extended at this time, therefore, such properties have not been assessed. These properties may have the opportunity to connect to the future collection system after being annexed into the USL.

COMPONENT COSTS:

After distributing BUs in this manner, the total component costs was divided by the total number of BUs to determine the following:

Component Designation	**Total Benefit Units Assigned**	**Bonded Amount**	**Cash Payment**
Lateral component	4,751.00	$491.01	$416.49
Collector component	5,716.47	$1,274.09	$1,080.73
Trunk component	6,705.22	$385.47	$326.97
Treatment and disposal component	6,705.22	$1,422.84	$1,206.92
Common facility component	6,705.22	$315.89	$267.95
Total Unit Cost		**$3,889.30**	**$3,299.06**

This assessment method was used to distribute the total project costs, the results of which may be examined in the accompanying Assessment Roll.

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APPENDIX B

THE COMMUNITY OF LOS OSOS

The following information regarding the surrounding areas of San Luis Obispo County are included only for the purpose of supplying general and background data. The Bonds are payable solely from the sources described herein (see "SECURITY FOR THE BONDS"). The taxing power of the District, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds. See the information under the caption "THE BONDS."

General Information

San Luis Obispo County is the fifteenth largest county in the State of California, with 3,300 square miles of area. It is located on the California coast midway between the metropolitan areas of San Francisco and Los Angeles.

The County is bordered by Monterey County to the north, Kern County on the east, Santa Barbara County to the south and the Pacific Ocean on the west. The Santa Lucia Range dominates the western half of the County; the eastern boundary lies along the Temblor Range. The Los Padres National Forest is located in the south central part of the County.

Education

The County of San Luis Obispo has one state university, one community college district and several K-12 school districts. California Polytechnic State University is adjacent to the City of San Luis Obispo. It includes one of the largest architectural schools in the United States and is well known for its engineering and agricultural schools. Cuesta Community College is located seven miles west of the City of San Luis Obispo.

Transportation

The County is completely accessible by land, air and water. Major airlines such as American Eagle and United Express have regular connecting service to major cities in Northern and Southern California. Both Southern Pacific and Amtrak have daily schedules for the County's rail service. The County has its own public transportation, including the City of San Luis Obispo Transit and Central Coast Area Transit, and is also serviced by Greyhound Bus Lines. US Highway 101 and numerous State Highways such as 1, 41, 46, 53, 68, 166, 227 and 229 provide convenient access to the County and its municipalities. In addition, the County provides waterway access through Port San Luis.

Population

The following chart provides population estimates of the County and incorporated cities.

POPULATION OF SAN LUIS OBISPO COUNTY AND INCORPORATED CITIES
(as of January 1)

Area	1990[1]	1995	1998	1999	2000	2001	2002
San Luis Obispo County	217,162	229,200	239,100	242,100	245,800	249,700	253,600
Incorporated Cities							
Arroyo Grande	14,432	14,650	15,200	15,400	15,750	16,000	16,300
Atascadero	23,138	24,700	25,700	25,950	26,350	26,650	27,000
El Paso de Robles	18,583	21,650	23,000	23,600	24,150	24,950	25,800
Grover Beach	11,602	12,100	12,700	12,900	13,050	13,100	13,150
Morro Bay	9,664	9,750	10,100	10,200	10,350	10,400	10,500
Pismo Beach	7,669	7,975	8,275	8,400	8,550	8,575	8,675
San Luis Obispo	41,958	42,100	43,400	43,750	44,050	44,200	44,450
Total Incorporated[2]	127,046	133,000	138,400	140,200	142,200	143,900	145,900
Unincorporated	90,116	96,200	100,800	101,900	103,600	105,800	107,700

Source: State of California, Department of Finance.
(1) Report as of April 1, 1990.
(2) Totals may not foot due to independent rounding.

Employment

The following chart compares estimates of the labor force, civilian employment and unemployment for County residents, State of California residents and United States residents between 1997 and August of 2002.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
Annual Average for Years 1997 through August of 2002

Year and Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate (%)
1997				
San Luis Obispo County	106,200	101,200	5,000	4.7
California	15,947,200	14,942,500	1,004,700	6.3
United States	136,297,000	129,558,000	6,739,000	4.9
1998				
San Luis Obispo County	108,900	104,300	4,500	4.2
California	16,336,500	15,367,500	969,100	5.9
United States	137,673,000	131,463,000	6,210,000	4.5
1999				
San Luis Obispo County	112,100	108,400	3,600	3.2
California	16,596,500	15,731,700	864,800	5.2
United States	139,368,000	133,488,000	5,880,000	4.2
2000				
San Luis Obispo County	116,000	112,600	3,400	3.0
California	17,090,800	16,245,600	845,200	4.9
United States	140,863,000	135,208,000	5,655,000	4.0
2001				
San Luis Obispo County	118,600	115,300	3,300	2.8
California	17,362,300	16,435,200	927,100	5.3
United States	141,815,000	135,073,000	6,742,000	4.8
2002*				
San Luis Obispo County	120,200	116,300	3,900	3.2
California	17,621,800	16,357,200	1,084,600	6.2
United States	142,616,000	134,474,000	8,142	5.7

* As of August 2002.

Source: State Employment Development Department, Labor Market Information Division; 1995-1997 United States data is from the Bureau of Labor Statistics.

Note: The unemployment rate is calculated using unrounded data.

The following table estimates the number of individuals employed by businesses (sorted by industry group) located within the County from January 1997 to December 2001.

EMPLOYMENT BY INDUSTRY GROUP
COUNTY OF SAN LUIS OBISPO
ANNUAL AVERAGE[1]

Industry Group[2]	1997	1998	1999	2000	2001
TOTAL, ALL INDUSTRIES	87,000	90,800	94,800	99,000	102,400
Total Farm	4,800	4,600	4,300	4,800	5,300
Total Nonfarm	82,100	86,100	90,500	94,200	97,100
Goods Producing	11,100	12,000	12,900	13,500	14,400
Mining	100	100	100	200	200
Construction	4,100	4,500	5,300	5,900	6,500
Manufacturing	6,800	7,300	7,400	7,500	7,600
Service Producing	71,000	74,200	77,600	80,700	82,700
Transportation & Public Utilities	4,500	4,500	4,800	4,800	4,700
Trade	21,000	21,900	23,200	24,400	25,000
Finance, Insurance & Real Estate	4,400	4,700	4,900	4,900	4,900
Services	20,900	21,900	23,200	24,200	25,200
Government[3]	20,300	21,200	21,600	22,400	22,900

Source: State of California, Employment Development Department.
(1) Historical cells may not add to industry division totals because of independent rounding.
(2) Employment is by place of work and does not include persons involved in labor/management trade disputes, self-employed persons, and unpaid family workers.
(3) Includes all civilian government employees regardless of activity in which engaged.

Commercial Activity

Commercial activity is an important contributor to San Luis Obispo County's economy. The following table estimates the County's commercial activity between 1996 and third quarter of 2001.

TRADE OUTLETS AND TAXABLE SALES
COUNTY OF SAN LUIS OBISPO
For Years 1996 through Third Quarter of 2001
(in thousands of dollars

	1996	1997	1998	1999	2000	2001*
Retail Stores:						
Apparel Stores	$71,032	$76,594	$75,045	$79,854	$85,412	$61,412
General Merchandise	197,487	207,761	230,575	261,462	274,058	200,692
Specialty Stores	167,400	183,605	201,714	233,660	246,510	176,343
Food Stores	148,217	142,523	139,920	147,904	164,406	126,441
Eating and Drinking	230,267	243,378	258,515	278,658	305,217	245,248
Household	58,926	59,963	64,974	74,340	89,251	71,705
Building Material	118,946	133,599	152,784	179,469	209,903	187,583
Automotive	398,986	402,439	416,667	474,073	572,707	469,241
Other Retail	42,539	93,435	103,366	122,136	133,254	106,699
Retail Stores Total	1,433,800	$1,543,297	$1,643,560	$1,851,556	$2,080,718	$1,645,634
Bus. and Pers. Services	78,420	86,548	96,719	114,810	119,345	94,404
All Other Outlets	485,685	547,333	546,591	631,814	724,508	544,154
TOTAL ALL OUTLETS	1,997,905	$2,177,178	$2,286,870	$2,598,180	$2,924,571	$2,281,354

* Through Third Quarter of 2001 only.
Source: Taxable Sales In California, California State Board of Equalization.

Construction Activity

The following table provides an estimated building permit valuation summary for 1997 through August of 2002.

BUILDING PERMIT VALUATION
COUNTY OF SAN LUIS OBISPO
FOR YEARS 1997-2002*
(in thousands)

Type of Permit	1997	1998	1999	2000	2001	2002*
Residential:						
New Single Family	$175,671	$247,861	$242,939	$263,101	$302,736	216,082
New Multi-Family	3,317	4,337	5,010	8,202	23,650	15,882
Alterations/Additions	15,318	17,619	22,131	22,110	29,857	23,061
Total Residential[(1)]	$194,306	$269,367	$270,080	$293,413	$356,243	$255,025
Non-Residential:						
New Commercial	$27,615	$32,758	$29,799	$53,792	$31,412	44,103
New Industrial	5,237	10,824	12,337	17,588	6,307	3,268
New Other	12,552	19,564	22,973	20,346	22,106	18,852
Alterations/Additions	13,192	11,544	29,940	24,881	24,011	25,351
Total Non-Residential[(1)]	$58,596	$74,690	$93,049	$116,607	$83,836	91,574
TOTAL VALUATION[(1)]	$252,902	$344,057	$363,129	$410,020	$440,079	346,599

* Through August of 2002.
Source: Construction Industry Research Board.
(1) Sum may not equal total due to rounding.

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APPENDIX C
FORM OF BOND COUNSEL OPINION

[Date of Issuance]

Board of Directors
Los Osos Community Services District
Los Osos, California

Los Osos Community Services District
Wastewater Assessment District No. 1
Limited Obligation Improvement Bonds
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Los Osos Community Services District (the "District") of $_____ aggregate principal amount of its Los Osos Community Services District Wastewater Assessment District No. 1 Limited Obligation Improvement Bonds the "Bonds") pursuant to the Municipal Improvement Act of 1913, the Improvement Bond Act of 1915 and Resolution No. 2002-33 adopted by the Board of Directors of the District on August 15, 2002, as supplemented by Resolution No. 2002-41 adopted by the Board of Directors of the District on October 3, 2002 (the "Resolution"), and capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

In such connection, we have reviewed the Resolution, the Tax Certificate of the District dated the date hereof (the "Tax Certificate"), the opinion of counsel to the District, certificates of the District and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Resolution, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents, and no opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or such action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or such events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual

matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinion, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all agreements and covenants contained in the Resolution and the Tax Certificate, including (without limitation) agreements and covenants compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against community services districts in the State of California. We express no opinion with respect to the plans, specifications, maps, financial report or other engineering or financial details of the proceedings, or upon the validity of the individual separate assessments securing the Bonds, which validity depends, in addition to the legal steps required, upon the accuracy of certain of the engineering details. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement for the Bonds dated November __, 2002, or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding special assessment obligations of the District, payable solely from and secured by the unpaid assessments and certain funds held under the Resolution.

2. The Resolution has been duly adopted by, and constitutes a valid and binding obligation of, the District.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of November 1, 2002, is executed and delivered by the Los Osos Community Services District ("District") and BNY Western Trust Company (the "Paying Agent"), as Paying Agent and Dissemination Agent in connection with the issuance of $_____ Los Osos Community Services District Wastewater Assessment District No. 1, Limited Obligation Improvement Bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 2002-33 adopted by the Board of Directors of the District on August 15, 2002, as supplemented by Resolution No. 2002-41, adopted on October 3, 2002 (the "Resolution of Issuance"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Paying Agent for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

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

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"*National Repository*" means any Nationally Recognized Municipal Securities Information Repository recognized by the Securities and Exchange Commission. The National Repositories currently recognized by the Securities and Exchange Commission are set forth in the SEC website located at http://www.sec.gov/consumer/nrmsir.htm.

"*Official Statement*" shall mean the official statement relating to the Bonds.

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

"*Repository*" shall mean each National Repository and each State Repository.

"*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.

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and

recognized by the Securities and Exchange Commission. As of the date of this Continuing Disclosure Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, annually not later than seven (7) months after the end of the District's fiscal year, commencing with the report for the 2001/02 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the District shall, by telecommunications or other reasonable means, provide the Annual Report to the Dissemination Agent (if other than the District). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for the providing of the Annual Report to Repositories, the District shall provide the Annual Report to the Dissemination Agent. If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the first sentence of this subsection (b). If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to the National Repository or the Municipal Securities Rulemaking Board and the State Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the most recent audited financial statements of the District prepared in accordance with generally accepted accounting principles promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and the following information regarding Wastewater Assessment District No. 1 (the "Assessment District"):

(a) Principal amount of the Bonds outstanding as of June 30 and the succeeding September 3;
(b) Balances in the Redemption Fund and the Reserve Fund as of June 30 and the succeeding September 3;
(c) Amount of assessment prepayments in the prior fiscal year;
(d) The identity of any delinquent owner and the amount of such delinquencies in the prior fiscal year; and
(e) Any action by the District to foreclose on property with delinquent assessments.

(f) The aggregate assessed value of property in the Assessment District with unpaid assessments.

(g) Owners of property in the Assessment District with aggregate unpaid assessments in excess of 5% of the total unpaid assessments.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) Principal and interest payment delinquencies.
(2) Non-payment related defaults.
(3) Unscheduled draws on debt service reserves reflecting financial difficulties.
(4) Unscheduled draws on credit enhancements reflecting financial difficulties.
(5) Substitution of credit or liquidity providers, or their failure to perform.
(6) Adverse tax opinions or events affecting the tax-exempt status of the security.
(7) Modifications to rights of security holders.
(8) Bond calls.
(9) Defeasances.
(10) Release, substitution, or sale of property securing repayment of the securities.
(11) Rating changes.

(b) Whenever the District obtains knowledge of the occurrences of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable Federal Securities law.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal Securities law, the District shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution of Issuance.

(d) If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the District. Notwithstanding the foregoing notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the holders of affected Bonds pursuant to the Resolution of Issuance.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated dissemination Agent, the Paying Agent shall be the Dissemination Agent. The initial Dissemination Agent shall be the Paying Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Paying Agent may amend this Disclosure Agreement (and the Paying Agent shall agree to any amendment so requested by the District to the extent that such amendment does not adversely effect the Paying Agent) , and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is 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 the District, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by holders of the Bonds in the manner provided in the Resolution of Issuance for amendments to the Resolution of Issuance with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of holders.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or Dissemination Agent to comply with any provision of this Disclosure Agreement any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution of Issuance, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure

Agreement, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent (if such Dissemination Agent is not the District), the Participating Underwriters and holders and beneficial owners, from time to time, of the Bonds, and shall create no rights in any other person or entity.

Section 13. 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.

LOS OSOS COMMUNITY SERVICES DISTRICT

By: _____
General Manager

BNY WESTERN TRUST COMPANY, as
Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

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

Name of Issuer: Los Osos Community Services District

Name of Bond Issue: Los Osos Community Services District Wastewater Assessment District No. 1, Limited Obligation Improvement Bonds

Date of Issuance: _____, 2002

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Resolution of Issuance. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

BNY WESTERN TRUST COMPANY, as Dissemination Agent

By: _____
Authorized Officer

cc: Issuer

APPENDIX E
BOOK-ENTRY SYSTEM

The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.

Unless a successor securities depository is designated pursuant to the Indenture, DTC will act as Securities Depository for the Bonds. The 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 will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. 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 District" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 transfer 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation. (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks and trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating of "AAA." The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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 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 Bonds, except in the event that use of the book-entry system for the 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. 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. THE AGENCY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

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

Voting Rights. Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption Proceeds. Payments of principal and interest with respect to the 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 on interest payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the interest payment date. 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 nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Paying Agent, 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.

THE TRUSTEE AND THE AGENCY SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE BONDS UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF BONDS, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST

WITH RESPECT TO THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC 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 the DTC Participants, as the case may be.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered as described in the Indenture and payment of interest to each Owner who owns of record $1,000,000 or more in aggregate principal amount of Bonds may be made to such Owner by wire transfer to such wire address within the United States that such Owner may request in writing for all Interest Payment Dates following the 15th day after the Paying Agent's receipt of such request.

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APPENDIX F

SPECIMEN INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-CA-6
4/95

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