

**TO:** James L. App, City Manager  
**FROM:** Doug Monn, Public Works Director  
**SUBJECT:** Consideration of a Preliminary Official Statement, Continuing Disclosure Agreement, and Second Amendment to the Nacimiento Project Water Delivery Entitlement Contract  
**DATE:** August 7, 2007

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**NEEDS:** For the City Council to consider amending the Nacimiento Project Water Delivery Entitlement Contract primarily to address membership on the Nacimiento Project Commission, to reflect planned peaking capacity of deliveries to the City, to change provisions pertaining to the financing coverage factor, and to adopt the accompanying resolution addressing continuing financial disclosures and other revenue bond financing matters.

**FACTS:**

1. On July 20, 2004, the City executed the Nacimiento Project Water Delivery Entitlement Contract with the County of San Luis Obispo Flood Control & Water Conservation District (District), securing 4,000 acre-feet per year of entitlement. This makes the City of el Paso de Robles the largest participant in the Nacimiento Water Project (Project).
2. Amendment No 1 to the Delivery Entitlement Contract was executed on May 3, 2005, to allow cash contributions to cover each Participant's share of the \$18.9 million design phase Project costs. Paso Robles took advantage of that approach and opted not to issue bond financing for the design phase costs.
3. In 2006, Paso Robles and other Project Participants held a series of discussions regarding makeup of the Nacimiento Project Commission. The purpose of the Commission is to review and approve all substantive matters pertaining to the construction and operation of the Project. Paso Robles and other Participants sought a means of aligning membership and voting rights on the Commission with the level of participation in the Project, among other factors.
4. District staff brought forth proposed Amendment No. 2 to the Delivery Entitlement Contract to address Commission membership and to update instantaneous flow rates (i.e. peaking factors) to each Participant. The flow rate language formalizes Paso Robles' right to receive Nacimiento supplies at a faster pace to meet higher summertime water needs.
5. During subsequent financial discussions, Participant financial staff pointed out that the contract language as originally adopted could be interpreted to require Paso Robles and other Participants to accrue rather large reserves in order to meet the promised coverage factor requirements. In response to that, amended language clarifying the intent of financial coverage factor, allowing for reserves to be considered to meet bonding terms was included in Amendment No. 2.
6. The underwriters seek the City's authorization to use the Preliminary Official Statement and Official Statement to market and sell revenue bonds as well as approval of the form of the Continuing Disclosure Agreement. The Council is

also to designate an authorized representative to act on the City's behalf in the issuance of municipal obligations.

7. A new exhibit to the Delivery Entitlement Contract is Table 1. This table contains the numeric information embedded within the original Contract that will change as New Participants execute Like-Contracts or Delivery Entitlement changes with the Participant(s). The addition of this table will allow for more streamline updates to the Contract if and when there is a parametric change.

**ANALYSIS & CONCLUSION:** The Nacimiento Water Project will be an important asset to the City. The continued growth and economic vitality of the City and its inhabitants is predicated upon there being adequate water resources.

Therefore, it appears to be in the best interest of the City of Paso Robles and its water users to sustain an active and influential role on the Nacimiento Project Commission and an accompanying voting right that is not unduly diluted by smaller, New Participants. Further, securing the right to receive Nacimiento deliveries at higher peaking rates to meet summertime demands increases the value and flexibility of this water source and clarifying the intent of the financial coverage provisions will avoid the perceived need to accrue large volumes of reserves in order to satisfy bonding terms. Last, authorizing the underwriters to market and sell revenue bonds to finance the Nacimiento Water Project and to take an active part in issuance of municipal obligations contributes to the orderly financing of the Project. All of these points are accomplished by execution of the attached Resolution No. 07-XX.

**FISCAL IMPACT:** The Delivery Entitlement Contracts address distribution of Nacimiento Water Project costs among Participants and in that sense, outlines the fiscal impacts of Project participation to Paso Robles and others. Securing additional peaking capacity as called for in Amendment No. 2 will be accompanied by a proportionate share in energy costs to make such deliveries. Peaking *capacity* is secured at no change in capacity share in upstream reaches of the pipeline delivery system and in that sense, is highly advisable at this time. In other words, there will never be a less expensive means of securing higher delivery rates from the Nacimiento Water Project.

The fiscal impact of the proposed contract language amendments pertaining to coverage factors is a positive one to Paso Robles who otherwise may have been expected to accumulate high reserves to satisfy debt security.

Execution of the Resolution No. 07-XX also sets the stage for the sale of revenue bonds on the City's behalf to finance the Nacimiento Water Project. The City's share of those Project costs is dependent upon the bid results and actual construction cost incurred. A series of cost reports, the first of which was dated July 24, 2007, will be submitted to the City by the District as construction bids are received. As of July 24 with 2 of the 5 bid openings completed, the City's anticipated share of Project costs to be financed is estimated at \$63.9 million.

- OPTIONS:**
- a) Authorize execution of Resolution No. 07-XX in connection with the Nacimiento Water Project, approving certain disclosure regarding the City and approving an amendment to the Water Delivery Entitlement Contract.
  - b) Amend, modify, or reject the above option.

Attachments (4)

- 1) Second Amendment to Nacimiento Project Water Delivery Entitlement Contract
- 2) Resolution No. 07-XX of the City Council of the City of El Paso de Robles in Connection with the Nacimiento Water Project, Approving Certain Disclosure Regarding the City and Approving an Amendment to the Water Supply Contract with the San Luis Obispo County Flood Control and Water Conservation District
- 3) Continuing Disclosure Agreement form
- 4) Appendix A

**SECOND AMENDMENT TO  
NACIMIENTO PROJECT  
WATER DELIVERY ENTITLEMENT CONTRACT**

This Second Amendment to the Nacimiento Project Water Delivery Entitlement Contract ("Amendment No. 2") is entered into by and between the San Luis Obispo County Flood Control and Water Conservation District, a Flood Control and Water Conservation District duly established and existing under the San Luis Obispo County Flood Control and Water Conservation Act, Act 7205 of the Uncodified Acts of the California Water Code (the "District"), and the City of Paso Robles, a municipal corporation (the "Participant"), as of the 2007 Effective Date identified below, and is undertaken with regard to the following facts:

**RECITALS:**

WHEREAS, the Participant has contracted with the District pursuant to that certain Water Delivery Entitlement Contract, approved by the District with the Effective Date of August 17, 2004, as amended by the Memorandum of Understanding (First Amendment to Nacimiento Project Water Delivery Entitlement Contract) dated May 24, 2005, (collectively, the "Contract"); and

WHEREAS, the Contract requires the Participant, *inter alia*, to establish, fix and collect rates and charges from its Water Enterprise customers at certain levels; and

WHEREAS, the Participant has requested, and the District has agreed, that certain available moneys of the Participant be applied as a credit towards such rates and charges, in order to relieve the burden on its customers of servicing the Municipal Obligations (as defined in the Contract); and

WHEREAS, the Participant and the District now wish to use this Amendment No. 2 to effect an amendment to the Contract to reflect the foregoing credit; and

WHEREAS, in compliance with Article 33 of the Contract, the Nacimiento Project Commission has been established; and

WHEREAS, in compliance with Article 32 of the Contract, all Other Participants are also being provided with an Amendment No. 2 (each, an "Other Amendment No. 2"), all of which shall be executed by the respective Other Participants as a condition to the effectiveness hereof; and

WHEREAS, the parties agree that the following amendments are appropriate to elaborate upon existing language, remove redundant language, and otherwise amend the Contract;

NOW, THEREFORE, be it agreed and understood by the parties hereto, as follows:

**Section 1.** Recitals; Defined Terms. The foregoing recitals are true and correct. The parties hereby agree to amend the Contract as set forth herein. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Contract. (Any "Amendment Note" set forth in *italics* herein shall not constitute an actual amendment to the Contract, but is simply included to provide further description of an amendment.)

**Section 2.** Replaced Definitions. The definitions of the following terms shall replace the definitions of the same terms within Article 1 of the Contract.

"All Participants" or "Participants" shall mean all Initial Participants and all New Participants.

"Construction Phase" shall mean the period of time following the opening of the first group of Construction Bids resulting in the award of a construction contract for all, or a sub-phase of, the Nacimiento Project. During the Construction Phase, the District shall apply the proceeds of the Municipal Obligations to pay the Nacimiento Project Costs. The Construction Phase shall end no later than the first Fiscal Year during which Delivery Entitlement is made available to the Participant. The District shall provide written notice to the Participant upon the end of the Construction Phase.

"Costs" shall include the following terms, each of which is separately defined herein: Additional Capital Project Costs; Nacimiento Project Construction Costs; Master Water Contract Costs; Nacimiento Project Costs; Reserved Capacity Construction Cost; and Variable Energy Costs.

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

"Nacimiento Project Construction Costs" shall mean all of the costs relating to the construction of any portion of the Nacimiento Facilities, including, but not necessarily limited to, costs relating to design, engineering, planning, environmental permitting, rights-of-way acquisition, equipping new facilities and/or construction efforts, Project Administration Costs, installation, grading, razing and building the Nacimiento Facilities and all costs related thereto. It shall have three components: Environmental Mitigation Construction Cost, Reserved Capacity Construction Cost, and All Other Construction Costs.

"Nacimiento Project Costs" shall be as described in Article 16(B).

"Nacimiento Project Water" shall mean, in each Water Year, the Total Delivery Entitlement Obligation plus the Reserve Water, but not more than Fifteen Thousand Seven Hundred Fifty (15,750) Acre-Feet of Nacimiento Reservoir Water. Nacimiento Project Water is the source of the Delivery Entitlement, Surplus Water and Reserve Water.

"Other Participant" shall mean any other water-distributing public agency of the State of California, city, mutual water company or other entity established under the laws of the State of California, which, having the legal power to do so, executes a Water Delivery Entitlement Contract substantially identical to this Contract (as it may be amended from time to time) for the delivery of water from the Nacimientto Facilities (a "Like-Contract"), except for Participant information, dates, Unit Participations, Participant's Unit Percentage Share and Delivery Entitlement Share, other than for the purpose of purchasing Surplus Water.

"Participation" includes the following types of participation in the purchase of Nacimientto Project Water, each of which is separately defined herein: All Participants; Participants; Delinquent Participant; Initial Participants; New Participants; Non-Delinquent Participants; Other Participants and Participant.

"Prior Commitment Water" shall mean One Thousand Seven Hundred Fifty (1,750) Acre-Feet of Nacimientto Reservoir Water available to the District each Water Year from the Nacimientto Reservoir under the terms of the Master Water Contract that has been committed to persons and entities other than the Participant and the Other Participants.

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

**Section 3. Added Definitions.** The following definitions shall be added to the Article 1 of the Contract.

"All Other Construction Costs" shall mean all Nacimientto Project Construction Costs expended or incurred by the District that do not constitute an Environmental Mitigation Construction Cost or a Reserved Capacity Construction Cost.

"Available Capital Reserves" shall mean amounts maintained by the Participant for its Water Enterprise for capital reserves, including unreserved, unrestricted working capital balances in the funds established for the Water Enterprise, including allowances for contingencies, as of each Calculation Date.

"Calculation Date" shall mean the date that is five (5) Business Days prior to each Due Date hereunder.

"Commissioner" shall mean a member of the Commission.

"Eligible Participant" shall be as described in Article 33(E).

"Environmental Mitigation Construction Cost" shall mean those costs expended or incurred by the District relating to the District's efforts to comply with any applicable permits or regulations relating to any mitigation of impacts on the environment resulting from the

Nacimientto Project. These costs may occur prior to, during, or after construction of the Nacimientto Facilities.

“Like-Contract” shall be as described within the definition for “Other Participant.”

“Nacimientto Project Commission” – see definition for “Commission.”

“Operation and Maintenance Phase” shall mean the period of time beginning at the conclusion of the Construction Phase and continuing through the term of this Contract.

“Participants” – see definition for “All Participants.”

“Project Administration Costs” shall mean those costs expended or incurred by the District relating to the administration or management of the Nacimientto Project or the Nacimientto Facilities, including, but not limited to, costs relating to accounting services, legal services, risk management, insurance, and claims. Project Administration Costs occur during the Design Phase, Construction Phase, and Operation and Maintenance Phase.

“Reserved Capacity Construction Cost” shall mean costs expended or incurred by the District on the Nacimientto Facilities in order to be capable of conveying and delivering the Reserve Water.

“Technical Support Group” shall mean that group of representatives from the District and the Participants who have been assigned by their respective organizations to consult as a group on technical and policy matters in support of the Nacimientto Project and the Nacimientto Project Commission.

**Section 4.** Amendment to Article 4. In the last sentence of the first paragraph of Article 4(B), insert the words “and interest accrued thereon” after the words “...all revenues received.”

**Section 5.** Amendment to Article 6. In Article 6(A), delete the first sentence and replace with the following sentence: “Subject to the provisions of Article 14(D), and so long as water is made available to the District under the Master Water Contract, the District shall make available to the Participant, in each Water Year, the Delivery Entitlement specified in Table 1.”

In Article 6(B), change all references of “6.1 cubic feet per second” (occurs three times) to “that specified in Table 1” and change all references of “367 acre-feet” (occurs two times) to “that specified in Table 1.”

In Article 6(C), change all to read “The District is under no obligation to the Participant to deliver the Delivery Entitlement at any particular head or pressure.”

**Section 6.** Amendment to Article 16. Under Article 16(B), delete items “(8) Reserved Capacity Costs;” and “(9) Environmental mitigation costs;”, and re-identify item (10) as item (8). (*Amendment Note: Since these deleted items are components of the “Nacimientto Project*

*Construction Costs,” their inclusion as separate items under Article 16(B) is unnecessary and redundant.)*

Under Article 16(C)(1), the last sentence of the first paragraph and the entire table shall be deleted and replaced as follows: “The Participant’s Unit Percentage Share of Capital Reserve Costs and Operation and Maintenance Costs is specified in Table 1.”

Under Article 16(C)(3)(a), all occurrences of the word “Component” shall be replaced with the word “component”. Delete the last sentence and replace with the following sentence: “The Delivery Entitlement Share apportioned to the Participant for the Environmental Mitigation Construction Cost component is specified in Table 1.”

Under Article 16(C)(3)(b), all occurrences of the word “Component” shall be replaced with the word “component”. Delete the last sentence and replace with the following sentence: “The Delivery Entitlement Share apportioned to the Participant for the Reserved Capacity Construction Cost component is specified in Table 1.”

Under Article 16(C)(3)(c), all occurrences of the word “Component” shall be replaced with the word “component”. The last sentence of the first paragraph and the entire table shall be deleted and replaced as follows: “The Participant’s Unit Percentage Share of All Other Construction Costs is specified in Table 1.”

In the first sentence of Article 16(C)(4), insert the phrase “per Article 16(C)(3)” after the words “...proportion of Nacimiento Project Construction Costs.”

**Section 7. Amendment to Article 17.** Under Article 17(A)(4), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”

Under Article 17(A)(5), change the reference of “Article 16(C)(4)” to “Article 16(C)(5).”

Under Article 17(B)(1), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”

Under Article 17(B)(2), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”

Under Article 17(B)(3), change the capitalized word “Component” to the uncapitalized word “component” (two occurrences). Change the reference of “Article 16(C)(3)(a)” to “Article 16(C)(3)(b).”

Under Article 17(B)(5), change the capitalized word “Component” to the uncapitalized word “component” (two occurrences). Change the phrase “Unit Percentage Share” to read “Delivery Entitlement Share.”

**Section 8. Amendment to Article 20.** Under Article 20(B), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”



Delete Article 20(C) and replace with the following: “(C) The Coverage Factor for the amounts allocated to the Participant as the Participant’s share of Capital Projects Installment Debt Service under Article 16(C)(4) hereof, **provided, however, that there shall be credited towards compliance with the Coverage Factor requirement all Available Capital Reserves of the Participant; and**”

At the end of Article 20, add the following new sentence: “Notwithstanding the provisions of paragraph (C) above, the Participant shall be permitted to withdraw and apply Available Capital Reserves for its operational and capital needs from time to time during any Water Year.”

**Section 9. Amendment to Article 21.** Under Article 21(H), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”

**Section 10. Amendment to Article 24.** Under Article 24(A), change the reference of “Article 16(C)(3)” to “Article 16(C)(4).”

**Section 11. Amendment to Article 25.** Under Article 25(B), change the two references to “Article 16(C)(3)” to “Article 16(C)(4).”

Under Article 25(C), change “... and payable to the District by the responsible **Delinquent Participant or Participants...**” to “... and payable to the District by the responsible **Delinquent Participant(s)...**” (*Amendment Note: The bold emphasis is only added for clarity of the change*). Also under Article 25(C), change the reference to “Article 16(C)(3)” to “Article 16(C)(4).”

**Section 12. Amendment to Article 26.** Under Article 26(B)(5), change the reference to “Article 16(C)(3)” to “Article 16(C)(4).”

**Section 13. Amendment to Article 33.** Delete all paragraphs of Article 33 and replace with the following:

The Initial Participants and the District hereby establish the Nacimiento Project Commission.

(A) **Commission Membership.** The Commission shall have a maximum number of seven Commission seats. Each seat shall be held by a Commissioner as described herein:

(1) Commission membership shall be determined as follows: four seats shall be held by the four Initial Participants as of the Effective Date; one seat shall be held by the District representative; and a maximum of two seats shall be held by New Participants who have each executed a Like-Contract for a minimum Delivery Entitlement equal to or greater than five-hundred (500) acre-feet per year.

(2) A New Participant shall have a Commissioner on the Commission only if there is a vacant seat on the Commission and the conditions described herein are satisfied.

(3) Once the seventh seat on the Commission has been filled, the Commission membership is full and no New Participant shall appoint a Commissioner to, or have a voting right on, the Commission. Voting rights will be fixed once the seventh seat on the Commission has been filled, until such time as membership changes pursuant to Paragraph 33(E) below or the Delivery Entitlement changes for any of the Participants who are seated on the Commission.

(4) The governing body or board of each Participant eligible for a seat on the Commission shall provide the District with written notice of the identity of the primary person (and one alternate if so desired) who will represent that Participant as a Commissioner on the Commission, and the effective date of the appointment. All Commissioners and their alternates shall annually file a Statement of Economic Interests (*Amendment Note: commonly referred to as a Conflict of Interest Statement*) with the Office of the County Clerk-Recorder. All Participants are encouraged to appoint a representative to the Technical Support Group regardless of whether they have a seat on the Commission.

(B) Commission Meetings. The District covenants and agrees to call a first organizational meeting of the Commission within thirty (30) days of the Effective Date, in accordance with law and, particularly, the provisions of the Ralph M. Brown Act. The Commission shall meet at such intervals and at such places as it shall determine.

(C) Purpose. The purpose of the Commission shall be to review and approve all substantive matters pertaining to the construction and operations of the Nacimiento Facilities, including the annual budget per Article 4(C); provided, however, that the Commission shall have no authority to contract, employ persons, or make expenditures. The Board of Supervisors may approve, alter, or return any said approval of the Commission. Furthermore, in every case that the Board of Supervisors alters or returns to the Commission any item or proposition approved by the Commission, the Board of Supervisors shall set forth in writing its findings that caused the Board of Supervisors to alter or return said item or proposition and shall do so only after holding a public hearing, at which time the Commissioners shall have the right to appear and address the Board of Supervisors.

(D) Voting. The total number of votes that may be cast on any issue or proposition considered by the Commission shall be the sum of the voting shares of the Commissioners. Each Commissioner has a voting share as described herein, and the sum of all Commissioners' voting shares shall equal one hundred (100). A simple majority of the voting shares is needed to pass an issue or proposition, unless specified otherwise in the Rules of Procedure or Commission By-Laws.

(1) The District's Voting Share. The voting share of the District's Commissioner shall be equal to the reciprocal of the total number of filled seats on the

Commission, multiplied by one hundred (100). (*Amendment Note: As an example, if there are four (4) seated Participants, then the District's Voting Share is one-fifth (0.20) multiplied by one hundred (100) for a result of twenty (20).*)

(2) The Participant's Voting Share. The aggregate remaining number of votes for the Participants having seats on the Commission is equal to one hundred (100) less the District's Voting Share. The individual voting share of the Participant's Commissioner shall be the pro rata of the remaining votes in proportion to the Participant's Delivery Entitlement to the aggregate sums of all Commissioners' Delivery Entitlements. (*Amendment Note: Expanding on the example given in Article 33(D)(1), assume the four(4) Participants are known as Participant A, B, C and D, and that respectively they have 4000-, 3000-, 2000-, and 1000-acre-feet of Delivery Entitlement. The Voting Share of Participant A would be (4000 acre-feet divided by 10,000 acre-feet) multiplied by (80 remaining votes) for a total of 32 votes. Similar computations for Participants B, C, and D would result in their Voting Shares equaling 24, 16, and 8, respectively.*)

(E) Vacating a Commission Membership Seat. Any of the Participants eligible to have a Commissioner (hereafter, an "Eligible Participant") may choose to vacate its existing seat on the Commission or may choose not to appoint a Commissioner to the Commission if that Eligible Participant submits their request in writing to the Commission and the Commission accepts and approves the Eligible Participant's request. The written request shall be a letter or a resolution of the governing board of the Eligible Participant, confirming the request to vacate its seat on the Commission. Voting rights for all remaining Commissioners would automatically change in accordance with the requirements specified herein once the Commission has accepted and approved the vacating request.

Any Commission seat which becomes vacant shall be available to the earliest qualifying New Participant in accordance with the requirements described herein, and in the chronological order of the earliest execution of a Like-Contract.

Any Initial Participant which vacates its seat on the Commission has the right to subsequently regain a vacant seat on the Commission in accordance with the conditions described herein for a New Participant.

#### **Section 14. Amendment to Exhibits.**

Table 1. Table 1 is a new exhibit titled "Parametric Information for the Water Delivery Entitlement Contract of the Nacimiento Project" and contains numeric information embedded within the original Agreement that will change as New Participants execute Like-Contracts or Delivery Entitlement changes with the Participant or Other Participant. The District will provide a simple change notification letter with an updated Table 1 when there is a parametric change.

EXHIBIT A. The Exhibit A entitled "Unit Descriptions" included with this Amendment No. 2 shall replace the similar Exhibit A of the Contract in its entirety.

The reference to "Exhibit A" of that amendment agreement entitled "Memorandum of Understanding (First Amendment to Nacimiento Project Water Delivery Entitlement Contract)" and referring to the exhibit entitled "Estimated Design Phase Costs and Cash Contributions" shall be re-identified as "Exhibit A-MOU."

**EXHIBIT B.** In Exhibit B, delete the word "Morrow" in the sixth entry and replace with the word "Morro."

**Section 15. Governing Law.** This Amendment No. 2 shall be governed by the provisions of the laws of the State of California applicable to contracts made and performed in such State.

**Section 16. Counterparts; Entire Contract.** This Amendment No. 2 may be executed in counterparts, each of which shall, together, constitute an entire document. Furthermore, following the 2007 Effective Date defined below, the Contract, as amended by this Amendment No. 2, shall constitute the full and complete Water Delivery Entitlement Contract of the Participant.

**Section 17. 2007 Effective Date.** This Amendment No. 2 shall become effective as of the last date upon which the District, the Participant, and the Other Participants shall execute this Amendment No. 2 or one of the Other Amendment No. 2's, in accordance with Article 32 of the Contract (the "2007 Effective Date").

**Section 18. Ratification.** In all other respects, the provisions of the Contract are confirmed and ratified.

**TABLE 1 Parametric Information for the Water Delivery Entitlement Contract of the Nacimiento Project**

Date Table 1 is effective:	October 24, 2006
Reason for Table 1 Change:	Initial Issue. CSA10A added as New Participant October 24, 2006. Moved Unit B to Santa Ysabel.
Name of Participant (from Contract front page):	City of El Paso de Robles
Initial or New Participant (Article 1 definition):	Initial Participant
Delivery Entitlement acre-feet each Water Year (Article 6(A)):	4,000 AFY
Delivery Entitlement Share (Article 1 definition)	41.429%
Nacimiento Project Water acre-feet each Water Year (Article 1 definition)	15,750
Total Delivery Entitlement Obligation acre-feet each Water Year (Article 1 definition):	9,655
Reserve Water acre-feet each Water Year (Article 1 definition):	6,095
Maximum instantaneous rate of flow cubic feet per second (Article 6(B)):	9.03
Maximum monthly delivery volume of water acre-feet (Article 6(B)):	537

Project Segment	Participant's Unit Percentage Share of Capital Reserve Costs and Operation and Maintenance Costs (Article 16(C)(1))	Participant's Unit Percentage Share of All Other Construction Costs (Article 16(C)(3)(c))
Systemwide Operating Cost	For Units A, B and F2: 41.429%	N/A
Unit No. A	41.429	41.429
Unit No. A1	41.429	41.429
Unit No. B	N/A	20.715
Unit No. C	41.429	41.429
Unit No. C1	41.429	41.429
Unit No. D	N/A	20.715
Unit No. E	N/A	20.715
Unit No. F	N/A	20.715
Unit No. F1	N/A	20.715
Unit No. F2	N/A	20.715
Unit No. G	N/A	20.715
Unit No. G1	N/A	20.715
Unit No. G2	N/A	20.715
Unit No. H	N/A	20.715
Unit No. H1	N/A	20.715
Unit No. T2	100.000	100.000
Unit No. T4	N/A	N/A
Unit No. T6	N/A	N/A
Unit No. T11	N/A	N/A

N/A means Not Applicable.

EXHIBIT A

UNIT DESCRIPTIONS

Unit A - Lake Nacimiento Intake and Pump Station to Camp Roberts West Property Line: Shall consist of the raw water intake structure including rights-of-way, intake shaft, tunnel(s), multi-port underwater intake piping and valves with appurtenances, underwater piping and appurtenance anchor and support blocks, intake fish screens, a building, pumps, piping, surge control facilities, access road, screens, gates, valves, controls and communication, electrical service, instrumentation, grounds, fencing, corrosion control, and appurtenances; and pipeline from the intake to the Camp Roberts west property line including rights-of-way, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit A1 - Camp Roberts West Property Line to and Including the Camp Roberts Tank: Shall consist of the pipeline from the Camp Roberts west property line to the Camp Roberts Tank outlet piping connection to the main pipeline including rights-of-way, road crossings, the Nacimiento River crossing, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, appurtenances, and the Camp Roberts Tank including rights-of-way, piping and valves, connections to the main pipeline, controls and communication, instrumentation, electrical service, corrosion control and coatings, overflow facilities, access roads, grounds, fencing, and appurtenances.

Unit C - Camp Roberts Tank Outlet to Monterey Rd / Wellsona: Shall consist of the pipeline from the Camp Roberts Tank outlet piping connection to the main pipeline to the intersection of Old Highway 101 and Monterey Road, including rights-of-way, the highway crossing, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit C1 - Monterey Rd / Wellsona to Paso Robles Turnout: Shall consist of the pipeline from the intersection of Old Highway 101 and Monterey Road to and including the mainline connection "tee" for the Paso Robles Turnout, including rights-of-way, the Salinas River crossing, railroad crossing, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit D - Paso Robles Turnout to Templeton CSD Turnout, excluding the Santa Ysabel Pump Station (Unit B): Shall consist of the pipeline from the mainline connection "tee" for the Paso Robles Turnout to the main pipeline connection with the inlet side of the Santa Ysabel Pump Station, and from the main pipeline connection on the outlet side of the Santa Ysabel Pump Station to and including the mainline connection "tee" for the Templeton CSD turnout, including rights-of-way, surge control, tunneling twice across the Salinas River, access road, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit B - Santa Ysabel Pump Station: Shall consist of the Santa Ysabel Pump Station from the inlet connection off of the main pipeline to the discharge connection on the main pipeline, including rights-of-way, a building, pumps, piping, connections to the main pipeline,

surge control facilities, access road, valves, controls and communication, electrical service, instrumentation, grounds, fencing, corrosion control, and appurtenances.

Unit E – Templeton CSD Turnout to Atascadero MWC Turnout: Shall consist of the pipeline from the mainline connection “tee” for the Templeton CSD turnout to and including the mainline connection “tee” for the Atascadero MWC turnout, including rights-of-way, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit F – Atascadero MWC Turnout to Rocky Canyon Tank Inlet: Shall consist of the pipeline from the mainline connection “tee” for the Atascadero MWC turnout to the Rocky Canyon Tank inlet piping connection off of the main pipeline, including rights-of-way, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit F1 – Rocky Canyon Tank: Shall consist of the Rocky Canyon Tank from the tank’s inlet piping connection off of the main pipeline through the tank and to within 25-feet, more or less, of the inlet manifold connection to the Rocky Canyon Pump Station, including rights-of-way, piping and valves, connections to the main pipeline, controls and communication, instrumentation, electrical service, corrosion control and coatings, access roads, grounds, fencing, overflow facilities, and appurtenances.

Unit F2 – Rocky Canyon Pump Station: Shall consist of the Rocky Canyon Pump Station from the Rocky Canyon Tank outlet connection to the pump station inlet pipe-through the pump station and to the discharge connection on the main pipeline, including rights-of-way, a building, pumps, piping, connections to the main pipeline, surge control facilities, access road, valves, controls and communication, instrumentation, electrical service, grounds, fencing, corrosion control, and appurtenances.

Unit G – Rocky Canyon Pump Station Discharge to Route 58/Maria Avenue: Shall consist of the pipeline from the discharge connection of the Rocky Canyon Pump Station to the intersection of Maria Avenue and Route 58 in Santa Margarita, including rights-of-way, a Salinas River Crossing, railroad crossings, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit G1 – Route 58/Maria Avenue to Cuesta Tunnel Tank Inlet: Shall consist of the pipeline from the intersection of Maria Avenue and Route 58 in Santa Margarita to the inlet piping connection off of the main pipeline of the Cuesta Tunnel Tank, rights-of-way, including railroad and road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit G2 – Cuesta Tunnel Tank: Shall consist of the Cuesta Tunnel Tank from the inlet piping connection off of the main pipeline through the tank and to the outlet piping connection off of the main pipeline, including rights-of-way, piping and valves, connections to the main pipeline, controls and communication, instrumentation, electrical service, corrosion control and coatings, access roads, grounds, fencing, overflow facilities, and appurtenances.

Unit H – Cuesta Tunnel: Shall consist of the existing Nacimiento Pipeline in the Cuesta Tunnel from the existing north portal inlet connection to the main pipeline-through to the south portal outlet connection to the main pipeline, including rights-of-way, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit H1 – Cuesta Tunnel to San Luis Obispo Turnout: Shall consist of the pipeline from the south portal outlet connection to the main pipeline of the Nacimiento Pipeline in Cuesta Tunnel to and including the mainline connection “tee” for the City of San Luis Obispo turnout, including rights-of-way, railroad crossings, road crossings, controls and communication, instrumentation, air release structures, blowoffs, valves, vaults, corrosion control, and appurtenances.

Unit T2 – City of Paso Robles Turnout. Shall consist of a pipeline from the outlet side of the “tee” connection on the main pipeline near Station 1176+50 to and including the turnout flow control facilities connecting the Nacimiento Facilities to the City of Paso Robles water system facilities near the Thunderbird Well Field west of the Salinas River. The turnout shall include rights-of-way, an isolation valve adjacent to the main pipeline, piping, Salinas River crossing, road crossings, controls and communication, instrumentation, electrical service, air release structures, blowoffs, flow meter, isolation valves, flow control valve, vaults and slabs, corrosion control, access roads, grounds, fencing, and appurtenances. The District and City of Paso Robles demarcation point is the buried flange connection located about five feet outside the fence as indicated on construction drawing number T2-C101.

Unit T4 – Templeton Community Services District Turnout: Shall consist of a pipeline from the outlet side of the “tee” connection on the main pipeline near Station 1403+00 to and including the turnout flow control facilities connecting the Nacimiento Facilities to the Templeton Community Services District water system facilities near the intersection of El Pomar Drive, Templeton Road and Vineyard Street west of the Salinas River. The turnout shall include rights-of-way, an isolation valve adjacent to the main pipeline, piping, Salinas River crossing, road crossings, controls and communication, instrumentation, electrical service, air release structures, blowoffs, flow meter, isolation valves, flow control valve, vaults and slabs, corrosion control, access roads, grounds, fencing, and appurtenances. The District and Templeton Community Services District demarcation point is the buried flange connection located about five feet outside the fence as indicated on construction drawing number T4-C101.

Unit T6 – Atascadero Mutual Water Company Turnout. Shall consist of a pipeline from the outlet side of the “tee” connection on the main pipeline near Station 1496+00 to and including the turnout flow control facilities connecting the Nacimiento Facilities to the Atascadero Mutual Water Company well field and water system facilities west-southwest of the Salinas River. The turnout shall include rights-of-way, an isolation valve adjacent to the main pipeline, piping, Salinas River crossing, road crossings, controls and communication, instrumentation, electrical service, air release structures, blowoffs, flow meter, isolation valves, flow control valve, vaults and slabs, corrosion control, access roads, grounds, fencing, and appurtenances. The District and Atascadero Mutual Water Company demarcation point is the



buried flange connection located about five feet outside the fence as indicated on construction drawing number T6-C101.

Unit T11 –City of San Luis Obispo combined with the San Luis Obispo County Service Area No. 10A Turnout: Shall consist of a pipeline from the outlet side of the “tee” connection on the main pipeline near Station 2510+00 to and including the turnout flow control facilities connecting the Nacimiento Facilities to the San Luis Obispo Water Treatment Plant. The turnout shall include rights-of-way, an isolation valve adjacent to the main pipeline, piping, Stenner Creek crossing, road crossings, controls and communication, instrumentation, electrical service, air release structures, blowoffs, flow meter, isolation valves, flow control valve, vaults and slabs, corrosion control, access roads, grounds, fencing, and appurtenances. The District and City of San Luis Obispo demarcation point is located downstream and two feet outside of the fence surrounding the turnout facilities shown on construction drawing T11-C101.

IN WITNESS WHEREOF, the parties have each executed this Amendment No. 2 by  
their duly authorized representatives :

**CITY OF PASO ROBLES**

By \_\_\_\_\_  
Authorized Representative

Date \_\_\_\_\_

**APPROVED AS TO FORM:  
CITY ATTORNEY**

By \_\_\_\_\_

Date \_\_\_\_\_

**ATTEST:  
CITY CLERK**

By \_\_\_\_\_

Date \_\_\_\_\_

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

By \_\_\_\_\_  
Chairperson, Board of Supervisors

Date \_\_\_\_\_

**APPROVED AS TO FORM AND  
LEGAL EFFECT:  
JAMES B. LINDHOLM, JR.  
District Counsel**

By *James Lindholm*  
Deputy District Counsel

Date 7/9/07

**ATTEST:  
JULIE L. RODEWALD  
District Clerk**

By \_\_\_\_\_  
Deputy District Clerk

Date \_\_\_\_\_

RESOLUTION NO. 07-XX

A RESOLUTION OF CITY COUNCIL OF THE CITY OF PASO ROBLES IN CONNECTION WITH THE NACIMIENTO WATER PROJECT APPROVING CERTAIN DISCLOSURE REGARDING THE CITY AND APPROVING AN AMENDMENT TO THE WATER DELIVERY ENTITLEMENT CONTRACT WITH THE SAN LUIS OBISPO COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

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WHEREAS, the City of El Paso de Robles (the “City”) has heretofore entered into a Nacimiento Project Water Delivery Entitlement Contract (the “Delivery Contract”) with the San Luis Obispo County Flood Control and Water Conservation District (the “District”), in connection with the Nacimiento Water Project (the “Project”) for the supply of additional water for the use and benefit of the lands and inhabitants served by the City; and

WHEREAS, the District and the SLO County Financing Authority (the “Authority”) are ready to proceed with the financing of the Project in the municipal bond markets (the “Bond Issue”) through the issuance and sale of Municipal Obligations (as defined in the Delivery Contract); and

WHEREAS, in connection with the financing of the Project, the City has been presented with a form of Preliminary Official Statement, together with an appendix containing statistical and other descriptive information regarding the City (the “Appendix”) and a form of Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”); and

WHEREAS, the District has proposed that the City would benefit from certain amendments to the Delivery Contract, having the effect of reducing the annual rate levels for water sales by the City and, to that end, the City has been presented with an Second Amendment to the Delivery Contract (the “Delivery Contract Amendment”), and wishes to approve such amended terms.

THEREFORE, BE IT RESOLVED AS FOLLOWS:

SECTION 1. The foregoing recitals are true and correct.

SECTION 2. UBS Securities LLC, as underwriter for the Authority (the “Underwriter”) is authorized to use a Preliminary Official Statement and Official Statement, each containing an Appendix A (or a revised form thereof) describing certain statistical and other information of the City in the marketing and sale of the Authority’s Revenue Bonds (the “Bonds”), based upon information provided and to be provided by the City, with such changes from the form of Preliminary Official Statement submitted to this City Council as the City Manager or a designee thereof (each, an “Authorized Representative”) may determine to be in the best interests of the City. The City shall be responsible for notifying the Authority and the Underwriter should any information regarding the City in said Appendix materially change from the time of submission to the closing date of the Bond Issue.

SECTION 3. The form of Continuing Disclosure Agreement presented to and reviewed by this meeting of the City Council is hereby approved, and the Authorized Representative is hereby authorized and directed to execute and deliver a Continuing Disclosure Agreement, substantially in the form presented to and approved at this meeting of the City Council, with such changes therein as the Authorized Representative, the City Attorney and the District may approve, such approval to be evidenced by the signature of said Authorized Representative.

SECTION 4. The terms and provisions of the Second Amendment to the Delivery Contract, as presented to and reviewed by this meeting of the City Council are hereby approved, and the City

Manager is hereby authorized and directed to execute the amendment to the Delivery Contract in the name and on behalf of the City, in substantially the form presented to and approved at this meeting of the City Council, with such changes therein as the Authorized Representative, the City Attorney and the SLO County Financing Authority may approve, such approval to be evidenced by the signature said Authorized Representative.

SECTION 5. The Authorized Representative of the City is hereby authorized and directed, for and in the name and on behalf of the City, to do or cause to be done any and all things and take any and all other actions in support of the issuance of the Municipal Obligations, including, without limitation, the execution of certificates and ancillary documents and the delivery of opinions on behalf of the City as may be reasonably required by the District, which they, or any of them, deem necessary or advisable in order to consummate the purposes described herein.

SECTION 6. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED by the City Council of the City of El Paso de Robles this 7<sup>th</sup> day of August 2007 by the following votes:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

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Frank R. Mecham, Mayor

ATTEST:

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Deborah Robinson, Deputy City Clerk

**CONTINUING DISCLOSURE AGREEMENT**

**by and between the**

**CITY OF PASO ROBLES**

**and**

**U.S. BANK NATIONAL ASSOCIATION,  
AS TRUSTEE AND DISSEMINATION AGENT**

**Dated as of \_\_\_\_\_ 1, 2007**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the City of Paso Robles (“Paso Robles”) and U.S. Bank National Association, as trustee (the “Trustee”) in connection with the execution and delivery of \$\_\_\_\_\_ aggregate principal amount of the SLO County Financing Authority Nacimiento Water Project Revenue Bonds, 2007 Series A (the “Bonds”), and as Dissemination Agent hereunder. The Bonds are being issued by the SLO County Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of September 1, 2007 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”) as authorized under the Resolution (the “Authority Resolution”) adopted on \_\_\_\_\_, 2007, by the Commission of the Authority. Pursuant to the Indenture and the Water Delivery Entitlement Contract, with an Effective Date of August 17, 2004 as amended (the “Delivery Contract”), by and between Paso Robles and the San Luis Obispo Flood Control and Water Conservation District (the “District”), Paso Robles, the Dissemination Agent and the Trustee covenant and agree as follows:

**Section 1.** Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by Paso Robles and the Trustee for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (defined below).

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

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

“**Beneficial Owner**” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“**Disclosure Representative**” shall mean the \_\_\_\_\_ of Paso Robles or his or her designee, or such other person as Paso Robles shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“**Dissemination Agent**” shall mean initially, U.S. Bank National Association, and thereafter the party designated in writing by the District to serve as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by Paso Robles and which has filed with the Trustee 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**” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved

by the Securities and Exchange Commission can be found on the internet at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“**Official Statement**” shall mean the Official Statement relating to the Bonds dated \_\_\_\_\_, 2007.

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

“**Repository**” shall mean each National Repository and the 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**” shall mean the State of California.

“**State Repository**” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

**Section 3.** Provision of Annual Reports.

(a) Paso Robles shall, or upon written direction shall cause the Dissemination Agent to, not later than nine months after the end of Paso Robles’s fiscal year (presently June 30), commencing with the report for the 2006-07 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, 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 comprehensive annual financial report of Paso Robles 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 they are not available by that date. If Paso Robles’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, Paso Robles shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date the Trustee has not received a copy of the Annual Report, the Trustee shall contact Paso Robles and the Dissemination Agent to inquire if Paso Robles is in compliance with the first sentence of this subsection (b). Paso Robles shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of Paso Robles and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to confirm 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 each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

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

(2) file a report with Paso Robles, the Authority and (if the Dissemination Agent is not the Trustee) the Trustee 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. Paso Robles's Annual Report shall contain or incorporate by reference the following:

(a) The comprehensive annual financial report of Paso Robles for the prior fiscal year.

(b) The Annual Report shall also contain the following information, substantially in the form appearing in that portion of Appendix A to the Official Statement under the heading "THE CITY OF PASO ROBLES", updated to the then-current fiscal year:

(i) Information appearing in Appendix A under the heading "Outstanding Obligations of the Water Fund."

(ii) Table A-\_\_ - Historic Water Connections.

(iii) Table A-\_\_ - Historic Water Deliveries.

(iv) Table A-\_\_ - Historic Water Sales Revenues.

(v) Table A-\_\_ - Secured Assessed Valuation.

(vi) Table A-\_\_ - Statement of Revenues and Expenses and Changes in Net Assets, Water Fund.

(vii) Information concerning any revision in the adopted rates and charges which are generally imposed by Paso Robles upon users within the service area of the Water System.

(viii) For any customer whose total billings in the preceding fiscal year represent 10% or more the Gross Revenues of the Water Enterprise, (1) the total amount of Gross Revenues derived from such customer and (2) the percent of total Gross Revenues represented by such customer for such fiscal year (in each case, excluding California Polytechnic State University, San Luis Obispo).



(c) In addition to any of the information expressly required to be provided under subsections (a) and (b) of this Section, Paso Robles shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items above may be included by specific reference to other documents, including official statements of debt issues of Paso Robles 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. Paso Robles 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, Paso Robles 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) modifications to rights of holders of the Bonds;
- (4) optional, contingent or unscheduled Bond calls;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (8) unscheduled draws on debt service reserves reflecting financial difficulties.
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform;
- (11) release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within one (1) Business Day, or as promptly thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that Paso

Robles promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility to determine the materiality of any of the Listed Events.

(c) Whenever Paso Robles obtains knowledge of the occurrence of a Listed Event, because of a notice from the District, or the Trustee pursuant to subsection (b), or otherwise, Paso Robles shall as soon as possible determine if such event would be material under applicable federal securities laws.

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

(e) If in response to a request under subsection (b), Paso Robles determines that the Listed Event would not be material under applicable federal securities laws, Paso Robles shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(f) If the Dissemination Agent has been instructed by Paso Robles to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories with a copy to Paso Robles. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) 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 Indenture.

**Section 6.** Electronic Filing. Submission of Annual Reports and notices of Listed Events to DisclosureUSA.org or another “Central Post Office” designated and accepted by the Securities and Exchange Commission shall constitute compliance with the requirement of filing such reports and notices with each Repository hereunder, and Paso Robles may satisfy its obligations hereunder to file any notice, document or information with a Repository by filing the same with any dissemination agent or conduit, including DisclosureUSA.org or another “Central Post Office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff or required by the Securities and Exchange Commission. For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the agent or conduit has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the agent or conduit to transmit information to the Repository will be treated for purposes of the Rule as if such information were transmitted directly to the Repository.

**Section 7.** Termination of Reporting Obligation. Paso Robles’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption, if any, or payment in full of all of the Series of Bonds related to Paso Robles’s *pro rata* share of the

Project. If Paso Robles's obligations under the Agreements are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were Paso Robles, and Paso Robles shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, Paso Robles shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5(f).

**Section 8.** Dissemination Agent. Paso Robles may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by Paso Robles pursuant to this Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to Paso Robles and the Trustee. The Dissemination Agent shall not be responsible for the content of any report or notice prepared by Paso Robles. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by Paso Robles in a timely manner.

**Section 9.** Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, Paso Robles, the Dissemination Agent and the Trustee may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by Paso Robles, provided that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

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

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

In the event of any amendment or waiver of a provision of this Disclosure Agreement, Paso Robles shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial

information or operating data being presented by Paso Robles. In addition, if the amendment relates to the accounting principles to be followed in preparing its comprehensive annual financial report, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the comprehensive annual financial report as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 10. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent Paso Robles 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 Paso Robles 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, Paso Robles shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**Section 11. Default.** In the event of a failure of Paso Robles or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or 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 Paso Robles or the Trustee, as the case may be, 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 Indenture or the Delivery Contract, and the sole remedy under this Disclosure Agreement in the event of any failure of Paso Robles or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

**Section 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and Paso Robles agrees to indemnify and save the Dissemination Agent and the Trustee, their 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 their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them

hereunder. The obligations of Paso Robles under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**Section 13.** Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To Paso Robles: City of Paso Robles  
1000 Spring Street  
Paso Robles, CA 93446  
Attention: Mike Compton, Dir. of Admin. Services  
Phone (805) 237-3999  
Attention: Doug Monn, Public Works Director  
Phone (805) 237-3861

To the Authority: SLO County Financing Authority  
c/o County of San Luis Obispo  
Room D220, County Government Center  
1055 Monterey Street  
San Luis Obispo, CA 93408  
Attention: Gere W. Sibbach

To the Trustee: U.S. Bank National Association  
633 W. Fifth Street, 24th Floor  
Los Angeles, California 90071  
Attention: Corporate Trust Services  
Ref.: SLO County Financing Authority  
Nacimiento Revenue Bonds, 2007 Series A

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

**Section 14.** Representations, Warranties and Agreements of Paso Robles. Paso Robles has requested the issuance of the Bonds by the Authority and has taken certain actions in connection with the issuance thereof, including without limitation the execution and delivery of the Delivery Contract, pursuant to which Paso Robles has pledged the gross water sales revenues of the City of Paso Robles's Water Enterprise, and the adoption of a resolution on \_\_\_\_\_, 2007 (the "Resolution"). The delivery of the Bonds is subject to the adoption of the Resolution and the execution and delivery of the Indenture, the Pledge Agreement, and this Disclosure Agreement. Paso Robles represents and warrants to, and covenants and agrees with, the Authority and the Participating Underwriter including, without limitation, in order to induce the Authority to sell and the Participating Underwriter to purchase the Bonds, as applicable, as contemplated in the Bond Purchase Contract, Paso Robles represents and warrants to, and covenants and agrees with, the Participating Underwriter that:

(a) *Due Organization.* Paso Robles is a general law city and municipal corporation of the State and has, and at the time of the closing on \_\_\_\_\_, 2007 (the "Closing Date") will

have, full legal right, power and authority (i) to execute and enter into the Delivery Contract and this Disclosure Agreement, (ii) to adopt the Resolution, (iii) to acquire, construct, install, own and operate its portion of the improvements to be financed by the Bonds, (v) to carry out and to consummate the transactions contemplated by, and to perform all of its obligations under the Resolution, the Delivery Contract and this Disclosure Agreement and (vi) to approve and deliver that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES”.

(b) *Due Authorization, Execution and Delivery.* Paso Robles has (i) duly authorized and approved that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES”, (ii) duly authorized and approved the execution and delivery of, and performance by Paso Robles of its obligations under its Delivery Contract and this Disclosure Agreement, (iii) duly authorized and approved the performance by Paso Robles of its obligations under the Resolution and the consummation by it of all other transactions contemplated by the Official Statement, and (iv) duly authorized and adopted the Resolution.

(c) *No Conflicts.* The execution and delivery of this Disclosure Agreement and the Delivery Contract, the delivery of that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES” and the adoption of the Resolution, and compliance with the provisions of each thereof do not and will not violate or constitute a breach of or default under any applicable constitution, law or administrative regulation of the State or the United States or any applicable judgment or decree or any agreement, resolution, commitment, contract or other instrument to which Paso Robles is a party or is otherwise subject.

(d) *Preliminary Official Statement, Final Official Statement and Continuing Disclosure Agreement.* That portion of Appendix A to the Preliminary Official Statement under the heading “THE CITY OF PASO ROBLES” does not, and that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES” as the date hereof and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein in light of the circumstances under which they were made, not misleading. The financial data relating to Paso Robles and the excerpts of the financial statements of Paso Robles contained in the Official Statement fairly present, and as of the Closing Date will fairly present, the financial condition and results of the operation of Paso Robles at the dates and for the periods therein specified in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the comprehensive annual financial report of Paso Robles.

Paso Robles hereby ratifies the use by the Participating Underwriter, prior to the date hereof, of the Preliminary Official Statement dated \_\_\_\_\_, 2007, relating to the Bonds (the “Preliminary Official Statement”) in connection with the public offering of the Bonds. Paso Robles authorizes the Participating Underwriter to use and distribute the Resolution, the Delivery Contract, the Joint Powers Agreement, this Disclosure Agreement and the information contained in such documents in connection with the public offering and the sale of the Bonds. Paso Robles confirms that, as of the dated date of the Preliminary Official Statement, Appendix A to the Preliminary Official Statement was “deemed final” by it for purposes of Rule 15c2-12(b)(1) of the Securities and Exchange Commission. Paso Robles hereby agrees to participate

in the preparation of a final official statement of the Authority relating to the Bonds (the “Official Statement”), which will consist of the Preliminary Official Statement with such changes as may be made thereto to reflect the final terms of the Bonds.

Paso Robles hereby authorizes the Participating Underwriter to use and distribute the Official Statement, and all other documents, certificates and statements furnished by it to the Participating Underwriter in connection with the transaction contemplated by such documents and this Disclosure Agreement, in connection with the offer and sale of the Bonds.

Prior to the earlier of (i) receipt of notice from the Participating Underwriter that Official Statements are no longer required under Rule 15c2-12 of the Securities Exchange Commission (the “Rule”), or (ii) 25 days after the End of the Underwriting Period (as defined below), Paso Robles shall provide the Participating Underwriter with such information regarding Paso Robles, its current financial condition and ongoing operations as the Participating Underwriter may reasonably request. The term “End of the Underwriting Period” means the later of (i) the Closing Date, or (ii) the date the Participating Underwriter does not retain directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Participating Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to the preceding sentence shall be in written form and delivered to the Authority and Paso Robles at or prior to the Closing Date, and shall specify a date (other than the Closing Date) to be deemed the “End of the Underwriting Period.”

Paso Robles acknowledges that the Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information or enter into an obligation under the Rule and that Paso Robles will undertake, pursuant to this Disclosure Agreement, to provide its Annual Report and notices of certain material events. Paso Robles has never failed to comply in all material respects with any continuing disclosure undertakings with regard to the Rule to provide its Annual Report or notices of material events.

(e) *Covenant to Notify.* If, at any time prior to the earlier of (i) receipt of notice from the Participating Underwriter that Official Statements are no longer required to be delivered under the Rule, or (ii) 25 days after the End of the Underwriting Period, any event occurs as a result of which the Official Statement as then amended or supplemented might include an untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, Paso Robles shall promptly notify the Participating Underwriter in writing of such event, and if in the opinion of the Participating Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, Paso Robles will at its expense supplement or amend the Official Statement in a form and manner approved by the Participating Underwriter. Any information supplied by Paso Robles for inclusion in any amendments or supplements to the Official Statement will not contain any untrue or misleading statement of a material fact required to be stated therein or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(f) *No Other Debt.* Between the dated date of this Disclosure Agreement and the Closing Date, (i) except as described in or contemplated by that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES”, Paso Robles will not, without the prior written consent of the Participating Underwriter, issue any bonds, notes or other obligations on its behalf, or on behalf of the Water Enterprise (as defined in the Delivery Contract), or payable from gross water sales revenues of the City of Paso Robles’s Water Enterprise, and (ii) except as described in or contemplated by the Official Statement, Paso Robles will not incur any material liabilities direct or contingent payable from revenues of Paso Robles’s water enterprise fund, other than those in the ordinary course of business.

(g) *Additional Encumbrances.* Paso Robles will not make any pledge of or place any lien on Water Revenues or the moneys in the Water Fund except as provided in the Delivery Contract and in those documents securing outstanding indebtedness of Paso Robles and the Water System. Paso Robles may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Water Revenues. Except as described in the Official Statement, Paso Robles does not currently expect to issue any evidences of indebtedness or incur other obligations which are payable from and secured by a pledge of and lien on Water Revenues senior to the pledge of and lien on Water Revenues of the amounts due under the Delivery Contract for the benefit of the Bonds.

(h) *No Litigation.* No controversy or litigation of any nature is now pending or, to the best of Paso Robles’s knowledge, threatened in any court or before any governmental agency:

(i) restraining or enjoining, or seeking to restrain or enjoin, the issuance, sale, execution or delivery of the Bonds;

(ii) in any way contesting or affecting (A) the validity or enforceability of the Bonds, (B) any proceedings of or on behalf of Paso Robles taken with respect to the Resolution or the Delivery Contract, (C) the adoption of the Resolution or the execution and delivery of the Delivery Contract, this Disclosure Agreement or the information provided in that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES”, (D) the pledge of Pledged Revenues and other funds effected by the Delivery Contract as described in the Official Statement, or (E) the existence or powers of Paso Robles; or

(iii) which would have a material adverse effect upon the operations of Paso Robles including, without limitation, as related to the operations of Paso Robles’s Water System or Paso Robles’s water enterprise fund, or to the contemplated use of the proceeds thereof.

None of Paso Robles’s proceedings or authority for the execution and delivery of the Delivery Contract, this Disclosure Agreement, that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES”, or the adoption of the Resolution has been repealed, modified, amended, revoked or rescinded.



(i) *Blue Sky.* Paso Robles will furnish such information, execute such instruments and take such other action in cooperation with the Participating Underwriter, as the Participating Underwriter may reasonably request, to qualify the Bonds for offer and sale under the Blue Sky or securities laws and regulations of such states and other jurisdictions of the United States as the Participating Underwriter may designate.

(j) *No Consents Required.* All approvals and consents which would constitute a condition precedent to the performance by Paso Robles of its obligations under the Resolution, the Delivery Contract, the Joint Powers Agreement and this Disclosure Agreement have been obtained and are in full force and effect. No other authorization, consent or approval of, or filing or registration with, any Governmental Authority or court is, or under existing requirements of law will be, necessary for the valid execution and delivery of, or performance by Paso Robles of its obligations under, the Resolution, the Delivery Contract, the Joint Powers Agreement and this Disclosure Agreement, other than any authorization, consent, approval, filing or registration as may be required under the Blue Sky or securities laws of any state in connection with the offering, sale or issuance of the Bonds. All authorizations, consents or approvals of, or filings or registrations with any Governmental Authority or court necessary for the valid issuance of, and performance by Paso Robles of its obligations under, the Resolution, the Delivery Contract, the Joint Powers Agreement and this Disclosure Agreement, will have been duly obtained or made prior to the issuance of the Bonds (and disclosed to the Participating Underwriter).

(k) *No Defaults.* Paso Robles has not, since its creation, been declared to be in default in the payment of principal of, premium, if any, or interest on, or otherwise been declared to be in default with respect to, any bonds, notes or other obligations which it has issued, assumed or guaranteed as to payment of principal, premium, if any, or interest.

(l) *Certificates.* Any certificate signed by any official of Paso Robles and delivered to the Participating Underwriter shall be deemed a representation and warranty by Paso Robles to the Participating Underwriter as to the truth and statements therein contained.

(m) *Closing.* On the Closing Date, Paso Robles will deliver or caused to be delivered the following opinions, documents and certificates:

(i) A certificate or certificates, dated the Closing Date and signed by an authorized officer of Paso Robles, to the effect that:

(A) the representations and warranties of Paso Robles contained in this Section 14 are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date;

(B) none of the proceedings or authority for the execution and delivery of the Delivery Contract or this Disclosure Agreement or the adoption of the Resolution has been repealed, modified, amended, revoked or rescinded;

(C) subsequent to June 30, 2006 and prior to the Closing Date, there have been no material adverse changes in the financial position of Paso Robles;

(D) no event affecting Paso Robles (or the Water Enterprise) has occurred since the date of the Official Statement which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in That portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES” or is not reflected in that portion of Appendix A to the Official Statement under the heading “THE CITY OF PASO ROBLES” but should be reflected therein in order to make the statements and information therein not misleading in any material respect; and

(E) no litigation is pending or threatened (i) to restrain or enjoin the issuance, sale or delivery of any of the Bonds, (ii) in any way contesting the Bonds, the Resolution, the Delivery Contract, the Joint Powers Agreement, the Bond Purchase Contract or this Disclosure Agreement, (iii) which may result in any material adverse change in the business, properties, assets or the financial condition of Paso Robles or which may have a material adverse effect on the ability of Paso Robles to meet its obligations under the Resolution, the Delivery Contract or this Disclosure Agreement, or (iv) in any way contesting the existence or powers of Paso Robles;

(ii) The Resolution, to be attached thereto, certified by an authorized officer of Paso Robles has been duly executed and adopted by such entity and as being in effect, without amendment or supplement, on the Closing Date, and this Section 14, the Delivery Contract and the Joint Powers Agreement, without amendment or supplement, duly executed by the Authority and/or Paso Robles, as applicable, and this Disclosure Agreement duly executed by Paso Robles and the Trustee, and all executed Like-Contracts, resolutions, memoranda of understanding, letters of intent or similar agreement with respect to the Pipeline involving parties other than Paso Robles.

(iii) An opinion, dated the Closing Date and addressed to the Underwriter and the Authority and the District, of counsel to Paso Robles to the effect that: (A) Paso Robles is duly organized and validly existing as a general law city and municipal corporation under the Constitution and laws of the State, and Paso Robles has full legal right, power and authority to adopt the Resolution and to execute and deliver the Delivery Contract, the Pledge Agreement and this Disclosure Agreement; (B) the Resolution has been duly adopted at a meeting of the governing body which was called and held pursuant to the law and with all public notice required by law and at which a quorum was present and acting throughout and the Resolution is in full force and effect and has not been modified, amended or rescinded; (C) the adoption of the Resolution, the execution of the Delivery Contract, the Pledge Agreement and this Disclosure Agreement, and compliance with the provisions and covenants thereof will not conflict with or constitute a breach of or default under any existing law, administrative regulation, court decree, resolution or agreement to which Paso Robles is subject as of the Closing Date; (D) except as disclosed in the Official Statement, to the best knowledge of such counsel after due inquiry with respect thereto, no litigation or other proceedings are pending or threatened in any court or other tribunal of competent jurisdiction, State or federal, in any way (1) restraining or enjoining the issuance, sale or delivery of any of the

Notes, (2) questioning or affecting the validity of the Resolution, the Delivery Contract, the Pledge Agreement, this Disclosure Agreement, the pledge by Paso Robles of gross water sales revenues of the City of Paso Robles's Water Enterprise, or other security provided under the Delivery Contract, the Pledge Agreement or the Resolution, (3) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution, registration, issuance or delivery of the Bonds, or (4) questioning or affecting (i) the organization or existence of Paso Robles or the title to office of the officers thereof, or (ii) the power or authority of Paso Robles to levy and collect charges and levy taxes for the benefit of Paso Robles's water enterprise fund pledged to the payment of the Notes; (E) Paso Robles had and has good right and lawful authority under the Constitution of the State and the Act to adopt the Resolution, to execute and deliver the Delivery Contract, the Pledge Agreement and this Disclosure Agreement and to request the issuance of the Bonds; (F) the Delivery Contract, the Pledge Agreement and this Disclosure Agreement have been duly executed and delivered by, and the Resolution has been duly adopted by, Paso Robles and each thereof constitutes a valid and legally binding agreement of Paso Robles enforceable in accordance with its terms, except to the extent that the enforceability of such documents may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights and except that equitable remedies lie in the discretion of a court and may not be available; (G) the obligation of Paso Robles to make payments under and as required by the Delivery Contract constitutes a valid and binding obligation of Paso Robles, payable from funds of Paso Robles lawfully available therefore; and (H) the portion of Appendix A to the Preliminary Official Statement under the heading "THE CITY OF PASO ROBLES" has been duly authorized, executed and delivered for distribution in connection with the sale of the Bonds and the as of date thereof did not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(iv) A Tax Exemption Certificate of the Authority and Paso Robles, in form and substance satisfactory to Bond Counsel; and

(n) *Parties of Interest; Survival of Representations and Warranties.* This Section 14 is included herein solely for the benefit of the Authority and the Participating Underwriter, and no other person shall acquire or have any right hereunder or by virtue hereof. All of Paso Robles's representations, warranties and agreements contained in this Section 14 shall remain operative and in full force and effect regardless of (i) any investigations made by or on behalf of the Participating Underwriter, (ii) delivery of any payment for the Bonds pursuant to the Disclosure Agreement, and (iii) any termination of the Disclosure Agreement.

**Section 15. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the Authority, the Trustee, the Dissemination Agent, 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 16.** 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.

IN WITNESS WHEREOF, the City of Paso Robles and U.S. Bank National Association have caused this Agreement to be executed each on its behalf as of the day and year first above written.

CITY OF PASO ROBLES

By: \_\_\_\_\_  
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

U.S. BANK NATIONAL ASSOCIATION,  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: SLO County Financing Authority  
Name of Issue: SLO County Financing Authority Nacimiento Water Project  
Revenue Bonds, 2007 Series A  
Date of Issuance: \_\_\_\_\_, 2007  
Name of Obligated Party: City of Paso Robles

NOTICE IS HEREBY GIVEN that the City of Paso Robles (“Paso Robles”) has not provided an Annual Report with respect to the above-named Bonds as required by Section 6 B (12) of the Water Delivery Entitlement Contract, with an Effective Date of August 17, 2004 as amended (the “Delivery Contract”), by and between Paso Robles and the San Luis Obispo Flood Control and Water Conservation District. [Paso Robles anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_

U.S. BANK NATIONAL ASSOCIATION, on  
behalf of City of Paso Robles

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cc: City of Paso Robles  
SLO County Financing Authority

## THE CITY OF PASO ROBLES

### General

The City of Paso Robles (“Paso Robles”), a municipal corporation, was incorporated in 1889 and is located at the confluence of State Highway 101 and State Highway 46 in the central coast area of the State, approximately 150 miles south of San Jose and 220 miles north of Los Angeles. Paso Robles continues to be the fastest growing city within the County of San Luis Obispo and has become its second largest city with 28,969 residents.

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

For additional financial information regarding Paso Robles, see the excerpts of the financial statements submitted by Paso Robles in APPENDIX B – “PARTICIPANT AUDITED FINANCIAL INFORMATION FOR THE FISCAL YEAR ENDED APRIL OR JUNE 30, 2006.”

### Governance and Management

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

### Land and Land Use

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

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

The total area within the corporate limits of Paso Robles is approximately 19.9 square miles, comprising a total of 12,738 acres. In 2003, Paso Robles established the maximum potential geographical boundaries to which Paso Robles could grow in the foreseeable future.

As of 2003, there were 28,969 residents and 11,100 dwelling units in Paso Robles. Paso Robles anticipates accommodating a population of up to approximately 44,000 residents in 2025.

The existing sphere of influence (areas outside of Paso Robles current boundaries where growth may occur in the future) comprise approximately 243 acres of developable land. In addition to allowing buildout of the expansion areas, Paso Robles has adopted a general plan that allows for buildout of vacant and under-developed lands within its city limits, including two large specific planning areas to be located at Chandler Ranch and Olsen and Beechwood.

### **Paso Robles' Water Rights**

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

### **Litigation**

There is no litigation pending or, to Paso Robles' knowledge, threatened in any way to restrain or enjoin the delivery of the 2007 Bonds, to contest the validity of the 2007 Bonds, or any proceeding of Paso Robles with respect thereto.

## **THE WATER SYSTEM OF CITY OF PASO ROBLES**

### **Service Area**

Paso Robles' service area is limited to the incorporated city limits, serving a population of approximately 29,000, with a combined 10,000 residential and commercial utility accounts. The service area served is approximately 19 square miles and topography varies from 660 feet above sea level at the Salinas River to more than 980 feet on the hillsides east of Golden Hill storage tanks.

### **Water and Wastewater Facilities**

Paso Robles' water system (the "Paso Robles Water System") is composed of 16 active groundwater wells, six booster stations and four storage reservoirs with a total capacity of 12,150,000 gallons. It also includes approximately 160 miles of distribution mains. The storage reservoirs include: two 4-million gallon welded steel tanks; one 4-million gallon HDPE lined earthen reservoir; and, a 150,000 gallon welded steel tank. Paso Robles also owns and operates a five million gallon per day capacity advanced secondary trickling filter treatment plant (the "Paso Robles Wastewater Plant"), which discharges treated effluent to the Salinas River. The Paso Robles Wastewater Plant is composed of: two bar screens and aerated grit chambers; two primary clarifiers; four trickling filters; one rectangular and three circular clarifiers; polishing ponds; three digesters; a belt press; and, drying beds.

### **Water Permits, Licenses and Other Regulations**

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

The State Water Resources Control Board, Division of Water Rights, regulates the underflow wells pursuant to permit No. 5956. The permit limits the annual diversion (extraction) of the underflow



wells to 4,600 acre-feet per year, with a maximum flow of 8 cubic feet per second. Production over the last few years from the underflow wells has averaged approximately 4,300 acre-feet per year.

### **The Paso Robles Water System and Water Supply**

As of December 2006, there were 10,305 active consumer connections compared with 8,422 as of December 2001. Paso Robles has no affiliation with other existing water agencies except for its affiliation with for the delivery of Nacimiento Water.

Paso Robles' current water is supplied by local wells. Paso Robles has no surface water supplies and no reclaimed or recycled water supplies. Paso Robles also has no water supply contracts with other water purveyors. Upon completion of the Water Project, Paso Robles expects to increase its sources of water by 4,000 acre feet annually.

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

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

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

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

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

### **Historic and Projected Water Supply**

Historically, Paso Robles has met its water supply demand primarily through pumping water from the Paso Robles Basin. These water supplies are expected to meet all future water demands through 2025. Upon completion of the Water Project in 2010, Paso Robles ground water supply will be augmented by water from Lake Nacimiento.

### **Historic Water Connections**

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

**Table 13**  
**Paso Robles**  
**Historic Water Connections**

<i>Fiscal Year Ending</i> <u>June 30</u>	<u>Connections</u>	<u>Increase</u>
2002	8,692	N/A
2003	8,946	2.84%
2004	9,432	5.15
2005	9,923	4.95
2006	10,305	3.71

Source: Paso Robles.

**Historic Water Deliveries**

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

**Table 14**  
**Paso Robles**  
**Historic Water Deliveries**

<i>Fiscal Year Ending</i> <u>June 30</u>	<u>Total</u>	<u>Increase/(Decrease)</u>
2002	2,805,262	N/A
2003	2,945,620	4.77%
2004	2,658,184	(10.81)
2005	4,113,830	35.38
2006	2,658,444	(54.75)

Source: Paso Robles.

**Historic Water Sales Revenues**

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

**Table 15**  
**Paso Robles**  
**Historic Water Sales Revenues**

<i>Fiscal Year Ending</i> <u>June 30</u>	<u>Sales Revenues</u>	<u>Increase/(Decrease)</u>
2002	\$2,160,052	N/A
2003	2,268,128	4.76%
2004	2,551,857	11.12
2005	3,232,395	21.05
2006	3,283,179	1.55

Source: Paso Robles.

**Largest Customers**

The following table sets forth the largest customers of the Paso Robles Water System as of June 30, 2006 as determined by usage in cubic feet per year.

**Table 16  
Paso Robles  
Largest Water Customers Based  
As of June 30, 2006**

<u>Customer</u>	<u>Average Usage</u>
Quail Run Mobile	442,900
City of Paso Robles	394,100
Paso Robles Schools	161,000
Mid-State Fair	149,700
Housing Authority	137,900
Paso Robles Schools	134,400
Woodland Plaza	128,900
Firestone Walker LLC	99,100
Chemron Inc.	97,900
Shirlene Raymond	<u>93,400</u>
Total	1,839,300

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Source: Paso Robles.

These largest customers accounted for approximately 1.4% of water usage in the fiscal year ended June 30, 2006.

**Paso Robles Water System Rates and Charges**

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

**Connection Fee.** Paso Robles assesses a connection fee based on customer class and meter size. The fee is as follows:

**Table 17  
Paso Robles  
Connection Fee  
Fiscal Year Ended June 30, 2006**

<u>Meter Size (in inches)</u>	<u>Connection Fee</u>
Up to 5/8	\$ 8,426
10	645,941

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Source: Paso Robles.

A study to update Paso Robles’ connection fees is being undertaken by Hilton, Farnkopf and Hobson. The staff review is complete and is expected to be considered by the Paso Robles City Council Ad Hoc Committee by September 2007. If adopted in its current draft form, the fee for meters that are up

to 5/8” will increase to \$12,775, and the fee for 10” meters will increase to \$979,395. A full schedule of fees for meter sizes between 5/8” and 10” is available from Paso Robles upon request.

Connection fees are updated every two years and are adjusted every July 1st by the percentage increase in CPI.

**Unit Charge.** Paso Robles’ user fee is entirely consumption based (except for the flat rate Nacimiento Water surcharge). A unit charge is based on the number of 100 cubic feet used and is automatically adjusted every July 1 by the CPI. The current water rate is \$1.24 per unit, and is scheduled to increase to \$1.28 per unit on July 1, 2007.

**Rate Increases.** Paso Robles has imposed five rate increases since the fiscal year ended June 30, 2002 to accommodate increased costs and economic inflation. The rate increases for all customers are set forth in the following table:

**Table 18  
Paso Robles  
Historic Water Sales Rates**

<i><u>Fiscal Year Ending</u></i> <i><u>June 30</u></i>	<i><u>Rate per Hundred</u></i> <i><u>Cubic Feet</u></i>	<i><u>Increase</u></i>
2002	\$0.77	N/A
2003	0.77	0.00%
2004	0.96	19.84
2005	1.21	20.66 <sup>(1)</sup>
2006	1.24	20.14
2007	1.28	3.23

<sup>(1)</sup> Reflects rate increase percentage for the entire fiscal year, including the rate increase from \$0.96 to \$0.98 on July 1, 2005 and the rate increase from \$0.98 to \$1.21 on November 1, 2005.  
Source: Paso Robles.

On July 1, 2005, Paso Robles imposed the first of a series of annual \$6 flat rate surcharge fees in connection with its participation in the Water Project. The current rate is \$12 per month per customer. As currently adopted, the rate is scheduled to increase each July 1st until it reaches \$36 per month per customer on July 1, 2010. However, due to the current estimated cost of the Water Project, and Paso Robles’ need to construct and operate a water treatment facility, Paso Robles expects further adjustments in the future. The Paso Robles City Council is holding a Proposition 218 public hearing on July 17, 2007, at which time an ordinance will be introduced to modify the annual increases in the fee for the water from Lake Nacimiento from \$6 to \$12 annually to provide a full rate of \$60 per month per customer on July 1, 2010. Thus, the \$6 increase currently scheduled for July 1, 2007 will be deferred until October 1, 2007, when it is expected to increase to \$12 per month per customer, with \$12 increases each July 1st thereafter.

The current monthly charge for debt service and operating costs in connection with the Water Project is \$12 and scheduled to rise to \$18 on July 1, 2007. Thereafter, the charge is scheduled to increase annually in \$6 increments through and including July 1, 2010. User fee rates are reviewed every two years in tandem with the development of Paso Robles’ two year budget and four year financial plan.

**Water Service Charges.** The following table sets forth a comparison of the average monthly water services charge of Paso Robles and those of nearby water purveyors as of July 30, 2006.

**Table 19  
Paso Robles  
Rate Comparison  
As of July 30, 2006  
CENTRAL COAST SERVICE AREAS**

<u>Community</u>	<u>Total Monthly Charge<sup>(1)(2)</sup></u>
Atascadero	\$39.40
Templeton CSD	39.78
<b>Paso Robles</b>	<b>43.25</b>
Pismo Beach	50.97
Grover Beach	54.20
SLO	62.20
Cambria	98.60
Morro Bay	146.54
CSA 10	33.01

<sup>(1)</sup> Total charge are calculated based on 18,700 gallons per month of metered water. Where several rates exist based on elevation or zone, the lowest rate is assumed.

<sup>(2)</sup> Total monthly charge is the sum of monthly residential service charge and monthly commodity charge. Total monthly charges calculated using the inside city rate. Applicable base charges, service charges and surcharges are included in the calculation. The State Public Utilities Commission's charges and taxes are not included.

Source: Atascadero.

**Collection Procedures.** Paso Robles is on a monthly billing cycle for water service. Payment is due by the 5th day of the following month in which the bill goes out and is considered delinquent if not paid by that date. If not paid by end of such day, the account is deemed delinquent and customers are assessed a 10% late fee. If the amount due is not paid within 10 days of the penalty date (about the 15th day of the month following the billing date), water service is discontinued until paid. Termination notices are delivered to each such delinquent account 2 days prior to the discontinuance date. Customers receiving termination notices are currently assessed a \$26 penalty fee. If service is discontinued, the customer must pay an additional \$77 service restoration fee. Both fees are scheduled to increase by the annual percentage increase of the CPI on July 1, 2007.

**Connection Fees.** Paso Robles charges connection fees for improvement or expansion of water treatment and distribution facilities to meet the requirements of community growth. The current connection fee for single family residences and commercial and industrial units range from \$8,426 to \$645,941 depending upon the meter size installed. As previously noted, the connection fee is currently under study and is expected to increase to provide adequate revenues to meet new infrastructure needs arising from new development and Paso Robles' capital construction obligations for its pipeline and treatment facility.

**Assessed Valuations, Tax Collections and Tax Delinquencies**

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

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

**Table 20**  
**Paso Robles**  
**Secured Assessed Valuation**  
**Fiscal Years Ended June 30, 2002 Through 2006**

<u>Fiscal Year</u>	<u>Total Secured Assessed Valuation</u> <sup>(1)</sup>
2002	\$951,469,383
2003	1,095,030,424
2004	1,314,883,360
2005	1,431,862,012
2006	1,656,550,223

<sup>(1)</sup> Secured property is generally real property, defined as land, mines, minerals, timber and improvements such as buildings, structures, crops, trees and vines.  
Source: San Luis Obispo County Assessor's Office.

Paso Robles' 1% allocation of property tax revenues in the County of San Luis Obispo for the fiscal year ended June 30, 2006, as reported by the County of San Luis Obispo is \$4,952,372, a 0.05% increase over the prior year.

**Future Paso Robles Water System Improvements**

Future improvements to the Paso Robles Water System over the next five years include the installation of two new production wells, rebuilding and enlarging the 21st Reservoir, the replacement and installation of water mains in accordance with the 2006 Water Master Plan, and designing and building a surface water treatment plant for water deliveries from Lake Nacimiento.

## Projected Water Connections Fees

The following table sets forth the projected number of water connection fees to be collected by the Paso Robles Water System for the current and next five fiscal years.

**Table 21**  
**Paso Robles**  
**Projected Water Connections**

<i>Fiscal Year Ending</i> <u>June 30</u>	<u>Connection Fee</u>	<u>Increase</u>
2007	\$1,222,700	N/A
2008	1,591,200	30.14%
2009	2,012,600	26.48
2010	2,433,800	20.93
2011	2,506,800	3.00
2012	2,582,000	3.00

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Source: Paso Robles.

## Projected Water Deliveries

Paso Robles currently estimates that water deliveries for the current and next five fiscal years will be as follows:

**Table 22**  
**Paso Robles**  
**Projected Water Deliveries In Acre Feet Per Year**

<i>Fiscal Year Ending</i> <u>June 30</u>	<u>Total</u>	<u>Increase</u>
2007	7,571	N/A
2008	7,798	3.00%
2009	8,032	3.00
2010	8,273	3.00
2011	8,521	3.00
2012	8,777	3.00

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Source: Paso Robles.

## Projected Water Sales Revenues

The following table of annual water sales revenues, including Nacimiento Water fees of the Paso Robles Water System are based on the recently adopted budget for Paso Robles. Paso Robles currently projects water rates to increase at approximately 3% (estimated CPI) in each of the next five fiscal years.

**Table 23**  
**Paso Robles**  
**Projected Water Sales Revenues**  
**For Fiscal Years Ending June 30, 2008 Through 2012**

<i><u>Fiscal Year Ending</u></i> <i><u>June 30</u></i>	<i><u>Water</u></i> <i><u>Sales Revenues</u></i>	<i><u>Increase</u></i>
2008	5,889,300	N/A
2009	6,753,300	14.67%
2010	7,622,500	12.87
2011	8,497,200	11.48
2012	9,170,300	7.92

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Source: Paso Robles.

## FINANCIAL INFORMATION OF THE CITY OF PASO ROBLES

### Budgetary Process

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

To further improve upon this process, Paso Robles also prepares a ten year financial plan. While ten year projections are difficult, they have proven to be successful in identifying major funding challenges.

Beginning in January of each year, as part of Paso Robles' "Mid Year Budget Report" to the Paso Robles City Council, the department managers prepare revenue collection estimates and expenditure projections through June 30 for the current fiscal year. These revenue and expenditure estimates become the basis for projecting year end fund balances and the foundation for preparation of the four year financial plan.

In January/February, department managers estimate collections for the next four fiscal years with respect to revenues under their care and control. The Director of Administrative Services prepares the estimates for all other revenues. These revenue estimates are then scrutinized by the executive management team (all department managers), an ad hoc committee appointed by the Paso Robles City Council (two Council members) and, finally, by the full Paso Robles City Council. The revenue format



in the four year financial plan provides for the prior two years actual collections, revenue estimate (budget) and collection projection for the current fiscal year and revenue projections for the next four fiscal years.

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

The Director of Administrative Services compiles revenue and expenditure projections into a “draft” or preliminary four year financial plan for publication and review by mid-April of each year. The Paso Robles City Council ad hoc budget committee then holds a series of budget meetings with each executive manager and their respective staffs to discuss their needs and requests. Following these meetings, the ad hoc budget committee formulates recommendations for full Paso Robles City Council consideration. The Paso Robles City Council then holds a number of public workshop meetings and a public hearing, before adopting a final two year budget within the context of a four year financial plan at its second regular meeting in June.

### **Financial Statements**

Certain excerpts of the most recent comprehensive annual financial report of Paso Robles prepared by Moss, Levy & Hartzheim L.L.P., independent certified public accountants, are included as Appendix B hereto. The independent auditor’s letter concludes that the comprehensive annual financial report present fairly, in all material respects, the financial position of the business-type activities of Paso Robles as of June 30, 2006, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

### **Historic Operating Results**

The following table is a summary of operating results of Paso Robles Water System, for the last five fiscal years. These results have been derived from the Financial Statements of Paso Robles but exclude certain receipts which are not included as Revenues under the Water Delivery Entitlement Contract and certain non-cash items and include certain other adjustments. Although Paso Robles Water System revenues, in addition to wastewater system revenues, were pledged to the payment of installment payments with respect to its existing pledges, only wastewater system revenues were used for the payment of such debt service. See the caption “—Outstanding Long-Term Indebtedness” below under this heading.

**Table 24**  
**Paso Robles**  
**Paso Robles Water System**  
**Historic Operating Results**  
**Fiscal Year Ended June 30**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues					
Water sales	\$2,160,052	\$2,268,128	\$2,551,857	\$3,167,649	\$3,283,179
Interest income	558,347	317,842	106,835	288,907	412,352
Developer impact fees <sup>(1)</sup>	850,230	2,069,200	1,397,081	2,029,463	1,745,683
Other revenue and income	<u>(7,619)</u>	<u>14,999</u>	<u>14,924</u>	<u>111,883</u>	<u>(4,507)</u>
Total Revenues	\$2,900,184	\$2,775,807	\$2,824,284	\$3,671,876	\$3,998,500
Operation and Maintenance Costs <sup>(2)</sup>	2,000,775	2,237,577	2,207,347	2,690,697	3,045,284
Net Revenues	\$899,409	\$538,230	\$616,937	\$981,179	\$953,216

<sup>(1)</sup> Including development impact fees but excludes the value of physical facilities dedicated to Paso Robles by developers.

<sup>(2)</sup> Excludes depreciation and amortization of assets.

Source: Paso Robles.

### Management's Discussion and Analysis

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

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

### Outstanding Long-Term Indebtedness

There is currently no outstanding debt secured by Paso Robles' Water Operations Fund.

### Insurance

Paso Robles is a member of the California Joint Powers Insurance Authority, a risk sharing self-funded joint powers authority whose membership at last count included 113 public agencies. The California Joint Powers Insurance Authority provides program administration, claim servicing, investigation services, legal counsel, and excess coverage to its members. For general and auto liability, the California Joint Powers Insurance Authority provides \$50 million per occurrence and \$50 million in the aggregate. For workers' compensation, the coverage is statutory plus \$10 million per occurrence for employer's liability. Paso Robles also participates in the non-auto property program offered by the California Joint Powers Insurance Authority, which provides full replacement coverage for buildings and facilities. Paso Robles is self-insured for property damage to its equipment and vehicles except for major equipment (i.e., fire trucks), which Paso Robles insures through its participation in a special insurance pool. Paso Robles purchases specialty policies to cover airport liability and landfill liability and pollution coverage from other sources.

## **Pension**

Substantially all of Paso Robles' employees are eligible to participate in pension plans offered by CalPERS, which provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions are determined annually on an actuarial basis as of June 30, and Paso Robles is then required to contribute the determined contribution. The total current payroll for covered employees for the year ended June 30, 2006 was \$9,805,505 and the total payroll for all employees was \$11,413,404. Paso Robles' unfunded actuarial accrued liability is amortized as a level percentage of payroll on a closed basis. For the fiscal year ended June 30, 2006, the total unfunded liability was \$363,535. The unfunded actuarial accrued liability for the fiscal year ended June 30, 2005 was \$1,173,804,327.

## **Post-Retirement Benefits**

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

## **Capital Improvement Program**

Water and sewer development impact fees are currently under study and are expected to increase due to ongoing new development needs. Such impact fees are expected to be phased in over time. Specific plans are underway on three major developable properties. As these three areas develop, in addition to specific plan fees, these properties will pay normal development fees and be required to participate in the community services district established in relation therewith.

## **Investment Policy**

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

## **Projected Operating Results and Debt Service Coverage**

The estimated projected operating results and debt service coverage for the Paso Robles Water System for the fiscal years June 30, 2007 through 2011 are set forth below, reflecting certain significant assumptions concerning future events and circumstances. The financial forecast represents Paso Robles'

estimate of projected financial results based on the assumptions set forth in the footnotes to the chart set forth below. Such assumptions are material in the development of Paso Robles' financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

**Table 25**  
**Paso Robles**  
**Paso Robles Water System**  
**Projected Operating Results and Debt Service Coverage**  
**As of June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Revenues					
Water Sales <sup>(1)</sup>	\$4,858,000	\$5,710,500	\$6,567,800	\$7,430,100	\$8,297,500
Interest Income	365,000	510,000	600,000	690,000	780,000
Developer Impact Fees	1,883,700	2,190,800	2,278,400	2,369,600	2,464,400
Other Revenue and Income	<u>425,000</u>	<u>390,000</u>	<u>390,000</u>	<u>390,000</u>	<u>390,000</u>
Total Revenues	\$7,531,700	\$8,801,300	\$9,836,200	\$10,879,700	\$11,931,900
Operation and Maintenance Costs <sup>(2)</sup>	3,242,770	3,626,950	3,711,300	3,636,500	3,764,400
Net Revenues	\$4,288,930	\$5,174,350	\$6,124,900	\$7,243,200	\$8,167,500

<sup>(1)</sup> Water deliveries projected as set forth under the caption “THE WATER SYSTEM OF PASO ROBLES – Projected Water Deliveries” at rates set forth under the caption “THE WATER SYSTEM OF PASO ROBLES – Project Water Sales Revenues.”

<sup>(2)</sup> Projected to increase at approximately 0.27% per annum. Net of Operation and Maintenance Costs allocable to the wastewater system and recycled water system.

Source: Paso Robles.

## CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

### Article XIII B

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

### Proposition 218

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water or wastewater service is ultimately determined to be a “fee” or “charge” as defined in Article XIID, the local government’s ability to increase such fee or charge may be limited by a majority protest. The Participant has initiated a Proposition 218 protest ballot undertaking for increasing its existing Nacimiento Water use fee. The public hearing is scheduled for July 17, 2007 at which time the Paso Robles City Council will consider introduction and first reading of an ordinance to increase the fee

effective as of October 1, 2007. See the discussion under “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS - Articles XIIC and XIID of the California Constitution” in this Official Statement.

Paso Robles and its general counsel do not believe that Article XIIC grants to the voters within Paso Robles the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of Paso Robles. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the 2007 Bonds. Remedies available to beneficial owners of the 2007 Bonds in the event of a default by Paso Robles are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.