

See “RATINGS” herein

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each 2020 Installment Payment designated as and constituting interest paid by the District under the 2020 Installment Sale Agreement and received by the Owners of the 2020 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the 2020 Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the 2020 Certificates, or the amount, accrual or receipt of the portion of each 2020 Installment Payment constituting interest. See “TAX MATTERS.”

\$ _____ *

**LAGUNA COUNTY SANITATION DISTRICT
SANITATION SYSTEM REVENUE CERTIFICATES OF PARTICIPATION
SERIES 2020**

Dated: Date of delivery

Due: as shown on inside cover

The \$ _____ * Laguna County Sanitation District Sanitation System Revenue Certificates of Participation, Series 2020 (the “2020 Certificates”) are being executed and delivered pursuant to, and are secured under a Trust Agreement, dated as of September 1, 2020 (the “2020 Trust Agreement”) by and among the Laguna County Sanitation District (the “District”), the Santa Barbara County Finance Corporation, Inc. (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”) to (i) pay the costs of certain improvements (the “2020 Project”) to the District’s sanitation and sewer management system (the “Sanitation System”), in particular the District’s wastewater reclamation plant; and (ii) pay costs of issuance of the 2020 Certificates. See “THE SANITATION SYSTEM – The 2020 Project.”

The principal, premium, if any, and interest due with respect to the 2020 Certificates are payable solely from payments to be made by the District to the Corporation pursuant to the terms of an Installment Sale Agreement, dated as of September 1, 2020, by and between the District and the Corporation (the “2020 Installment Sale Agreement”). Pursuant to the 2020 Installment Sale Agreement, the District’s obligation to make payments under the 2020 Installment Sale Agreement (“2020 Installment Payments”) is a special obligation of the District payable solely from amounts pledged therefor, including Net Revenues (defined herein) of the Sanitation System. Net Revenues generally consist of the fees, service charges, user charges and income received by or imposed by the District in connection with the operation of the Sanitation System less the Maintenance and Operation Costs (defined herein) of the Sanitation System. The District has previously issued obligations payable from Net Revenues on a parity with the 2020 Installment Payments, and the 2020 Installment Sale Agreement permits the execution of additional obligations payable from Net Revenues on a parity with the 2020 Installments Payments. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 CERTIFICATES,” “- Outstanding Parity Obligations” and “- Additional Parity Obligations.”

NEITHER THE OBLIGATION OF THE DISTRICT TO MAKE THE 2020 INSTALLMENT PAYMENTS NOR THE 2020 CERTIFICATES CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF ARE PLEDGED TO THE PAYMENT OF THE 2020 INSTALLMENT PAYMENTS OR TO THE PAYMENT OF THE PRINCIPAL AND PREMIUM, IF ANY, OR INTEREST EVIDENCED BY THE 2020 CERTIFICATES.

Interest with respect to the 2020 Certificates is payable semiannually on June 1 and December 1 of each year, commencing June 1, 2021. The 2020 Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

York, New York (“DTC”), which will act as securities depository for the 2020 Certificates. Individual purchases of the 2020 Certificates will be made in book-entry form only. Purchasers of the 2020 Certificates will not receive certificates representing their ownership interests in the 2020 Certificates purchased. The 2020 Certificates will be issuable in the principal amount of \$5,000 and any integral multiple thereof. Principal of and interest payments with respect to the 2020 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2020 Certificates.

The 2020 Certificates are subject to prepayment prior to maturity, as described herein. See “THE 2020 Certificates—Prepayment.”

This cover page contains certain information for quick reference only and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The purchase of the 2020 Certificates involves certain risks. See “CERTAIN RISK FACTORS” herein.

The 2020 Certificates will be offered when, as and if executed and delivered, and received by the Purchaser (as defined herein), subject to the approval as to the validity of the 2020 Installment Sale Agreement by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the District by the Santa Barbara County Counsel and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel to the District and for the Corporation by the Santa Barbara County Counsel. It is anticipated that the 2020 Certificates in definitive form will be available for delivery to DTC on or about September __, 2020.

**BIDS TO BE RECEIVED ON _____, 2020
SEE “OFFICIAL NOTE OF SALE”**

Dated: _____, 2020

MATURITY SCHEDULE
\$ _____*
LAGUNA COUNTY SANITATION DISTRICT
SANITATION SYSTEM REVENUE CERTIFICATES OF PARTICIPATION
SERIES 2020

Maturity (December 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
----------------------------------	-----------------------------	--------------------------	--------------	--------------	---------------

(c) Priced to call at par on December 1, 20__.

* Preliminary; subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2020 CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. CUSIP® numbers are provided for convenience of reference only. Neither the District or the Purchasers take any responsibility for the accuracy of such numbers.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2020 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the Corporation or the Purchaser.

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Purchaser. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the 2020 Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

IN CONNECTION WITH THE OFFERING OF THE 2020 CERTIFICATES, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2020 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE PURCHASER MAY OFFER AND SELL THE 2020 CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE PURCHASER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under "THE SANITATION SYSTEM."

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

LAGUNA COUNTY SANITATION DISTRICT

BOARD OF DIRECTORS OF DISTRICT/SANTA BARBARA COUNTY BOARD OF SUPERVISORS

Das Williams, 1st District
Gregg Hart, Chair, 2nd District
Joan Hartmann, 3rd District
Peter Adam, Vice Chair, 4th District
Steve Lavagnino, 5th District

COUNTY/DISTRICT OFFICIALS

Mona Miyasato, County Executive Officer
Jeff Frapwell, Assistant County Executive Officer
Harry Hagen, Treasurer-Tax Collector
Kim Tesoro, Assistant Treasurer-Tax Collector
Betsy Schaffer, Auditor-Controller
Ed Price, Assistant Auditor Controller
Kyle Slattery, Chief Deputy Controller
Michael Ghizzoni, County Counsel
Anne Rierson, Senior Deputy County Counsel
Lina Somait, Senior Deputy County Counsel
Scott McGolpin, Public Works Director
Julie Hagen, Public Works Deputy Director
Leslie Wells, Public Works Deputy Director
Martin Wilder, Laguna County Sanitation District Manager

SPECIAL SERVICES

SPECIAL COUNSEL

Orrick, Herrington & Sutcliffe LLP

DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation

TRUSTEE

U.S. Bank National Association

MUNICIPAL ADVISOR

KNN Public Finance, LLC

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**LAGUNA COUNTY SANITATION DISTRICT
SANITATION SYSTEM REVENUE CERTIFICATES OF PARTICIPATION
SERIES 2020**

INTRODUCTION

This introduction contains only a brief summary of certain terms of the 2020 Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions.

Purpose

This Official Statement, including the cover and the Appendices attached hereto (the “Official Statement”), provides certain information concerning the sale and delivery of the Laguna County Sanitation District Sanitation System Revenue Certificates of Participation, Series 2020 (the “2020 Certificates”). The 2020 Certificates are being executed and delivered pursuant to, and are secured under a Trust Agreement, dated as of September 1, 2020 (the “2020 Trust Agreement”) by and among the Laguna County Sanitation District (the “District”), the Santa Barbara County Finance Corporation, Inc. (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”) to (i) pay the costs of certain improvements (the “2020 Project”) to the District’s sanitation management system (the “Sanitation System”); and (iii) pay costs of issuance of the 2020 Certificates. See “THE SANITATION SYSTEM – The 2020 Project” and “PLAN OF FINANCE.” Each 2020 Certificate constitutes a proportional undivided interest of the registered owners (the “Owners”) thereof in the payments payable by the District to the Corporation pursuant to the 2020 Installment Sale Agreement (defined herein).

Security and Sources of Payment for the 2020 Certificates

The District and the Corporation are entering into an Installment Sale Agreement, dated as of September 1, 2020 relating to the 2020 Project and related facilities (the “2020 Installment Sale Agreement”). Pursuant to the 2020 Installment Sale Agreement, the District is obligated to make payments (“2020 Installment Payments”) to the Corporation. Pursuant to an Assignment Agreement dated as of September 1, 2020 (the “Assignment Agreement”), the Corporation will assign to the Trustee, for the benefit of the owners of the 2020 Certificates, all of its right, title and interest (other than its right to indemnification and certain other rights under the 2020 Installment Sale Agreement) in and to the 2020 Installment Sale Agreement, including the right to receive 2020 Installment Payments. Each 2020 Certificate represents the owner’s proportionate share of the 2020 Installment Payments. Pursuant to the 2020 Installment Sale Agreement, the District is generally required to pay to the Corporation, from the sources identified therein, specified 2020 Installment Payments which are designed to be sufficient, in both time and amount to pay, when due, the principal and premium (if any), and interest with respect to the 2020 Certificates. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 Certificates – Schedule of 2020 Installment Payments.”

The District’s obligation to make 2020 Installment Payments is a special obligation of the District payable solely from amounts pledged therefor pursuant to the 2020 Installment Sale Agreement, including certain revenues of the Sanitation System, and is on a parity with other obligations previously executed and which may be issued or executed from time to time in the future by the District subject to satisfaction of the requirements of the 2020 Installment Sale Agreement. The 2020 Installment Sale Agreement and any other

* Preliminary; subject to change.

obligations previously executed or executed in the future which are payable from Net Revenues on a parity are referred to herein as “Parity Obligations.” Such revenues of the Sanitation System so pledged consist primarily of the Net Revenues of the Sanitation System. The Net Revenues consist generally of fees, service charges, connection charges and income received by or imposed by the District in connection with the ownership and operation of the Sanitation System less the Maintenance and Operation Costs of the Sanitation System. See “SECURITY AND SOURCES OF PAYMENTS FOR THE 2020 CERTIFICATES,” “Outstanding Parity Obligations” and “ – Additional Parity Obligations.”

No debt service reserve fund will be established for the 2020 Certificates.

As more particularly described herein, the 2020 Installment Sale Agreement provides that the District will fix, prescribe and collect rates and charges for the Sanitation System during each Fiscal Year which will be at least sufficient to yield Net Revenues during each Fiscal Year equal to one hundred twenty five percent (125%) of Debt Service for such Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 CERTIFICATES — Rate Covenant.”

NEITHER THE OBLIGATION OF THE DISTRICT TO MAKE THE 2020 INSTALLMENT PAYMENTS NOR THE 2020 CERTIFICATES CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF ARE PLEDGED TO THE PAYMENT OF THE 2020 INSTALLMENT PAYMENTS OR TO THE PAYMENT OF THE PRINCIPAL AND PREMIUM, IF ANY, OR INTEREST EVIDENCED BY THE 2020 CERTIFICATES.

Outstanding Parity Obligations of the Sanitation System

The District has previously entered into obligations payable from Net Revenues on a parity with the 2020 Installment Payments, consisting of (i) a loan from the California State Water Resources Control Board initially executed in 2002 (the “State Loan”), which is currently outstanding in the principal amount of \$1,703,707 and (ii) an Installment Sale Agreement between the County and the District initially executed in 2011 (the “2011 Installment Sale Agreement”), which is currently outstanding in the principal amount of \$1,810,000. See “SECURITY AND SOURCES OF PAYMENTS FOR THE 2020 CERTIFICATES - Outstanding Parity Obligations.”

Prepayment

The 2020 Certificates are subject to optional prepayment, extraordinary prepayment and mandatory sinking fund prepayment prior to their stated maturities as set forth herein. See “THE 2020 Certificates — Prepayment.”

The District

The District is a dependent special district of the County of Santa Barbara (the “County”) formed pursuant to California law on December 29, 1958. The Board of Supervisors of the County of Santa Barbara (the “County”) acts as the Board of Directors of the District (the “District Board”). Functionally, the District is managed within the County Public Works Department and utilizes other departments of the County for accounting, legal and other necessary services.

The District provides wastewater services to the Orcutt and unincorporated Santa Maria area of northern Santa Barbara County. The District’s service area covers approximately 16 square miles and contains a population of approximately 35,000.

COVID-19 Pandemic.

See “THE SANITATION SYSTEM—COVID-19 Pandemic” for a description of potential impacts of the COVID-19 Pandemic on the District’s operations and finances.

Continuing Disclosure

The District has agreed to provide, or cause to be provided, in accordance with Securities Exchange Commission Rule 15c2-12(b)(5), certain annual financial information and operating data, including the audited financial statements of the Sanitation System, and an update of certain information relating to the Sanitation System. See “CONTINUING DISCLOSURE” herein and APPENDIX D — “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Miscellaneous

The 2020 Certificates will be offered when, as and if executed and delivered, and received by the Purchaser, subject to the approval as to validity of the 2020 Installment Sale Agreement by Special Counsel and certain other conditions. It is anticipated that the 2020 Certificates in definitive form will be available for delivery to DTC on or about _____, 2020.

The descriptions herein of the 2020 Trust Agreement, the 2020 Installment Sale Agreement and the Assignment Agreement are qualified in their entirety by reference to such documents, and the descriptions herein of the 2020 Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at 633 West Fifth Street, 24th Floor Los Angeles, CA 90071.

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the 2020 Trust Agreement. See APPENDIX D – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — DEFINITIONS” for definitions of certain words and terms used but not otherwise defined herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The estimated sources and uses of funds with respect to the 2020 Certificates are set forth below:

<i>Estimated Sources of Funds</i>	Total
Par Amount	
Net Original Issue Premium	
Total Sources	_____
<i>Estimated Uses of Funds</i>	
Deposit to Project Fund	
Cost of Issuance ⁽¹⁾	
Total Uses	_____

⁽¹⁾ Includes rating agency, legal, financial advisory, printing costs and other costs of issuance.

THE 2020 CERTIFICATES

General

The 2020 Certificates are dated their date of delivery. Interest with respect to the 2020 Certificates is payable semiannually on June 1 and December 1 of each year, commencing June 1, 2021. The 2020 Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the 2020 Certificates. Ownership interests in the 2020 Certificates may be purchased in book-entry form only, in the denominations of \$5,000 each or any integral multiple thereof. See “APPENDIX F — “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Prepayment

Optional Prepayment. Except as described under the caption “—*Extraordinary Prepayment from Insurance Proceeds,*” the 2020 Certificates with a stated Certificate Payment Date before December 1, ____, will not be subject to optional prepayment prior to their respective stated Certificate Payment Dates. The 2020 Certificates with a stated Certificate Payment Date on or after December 1, ____, will be subject to prepayment prior to their stated Certificate Payment Date, at the option of the District, from any available source of funds, as a whole or in part (among Series and Certificate Payment Dates as directed by the District) on any date on or after December 1, ____ at the principal amount evidenced and represented thereby, plus interest evidenced and represented thereby accrued to the date of prepayment, without premium.

Extraordinary Prepayment from Insurance Proceeds. The 2020 Certificates are subject to prepayment prior to their respective Certificate Payment Dates, upon notice as hereinafter described, on any date as a whole or in part (among Certificate Payment Dates as directed by the District), from amounts deposited in the Prepayment Account from insurance proceeds transferred to the Trustee pursuant to the 2020 Installment Sale Agreement, at a prepayment price equal to the sum of the principal amount or such part thereof evidenced and represented by the Certificates to be prepaid, plus accrued interest evidenced and represented thereby to the date fixed for payment, without premium.

Mandatory Sinking Fund Prepayment. The 2020 Certificates with a Certificate Payment Date of December 1, ____ are also subject to mandatory prepayment prior to their stated Certificate Payment Date in part on December 1 of each year on and after December 1, ____, by lot, from and in the amount of the principal components of the 2020 Installment Payments applicable thereto and due and payable on such dates, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date of prepayment, without premium. The principal component of each such 2020 Installment Payment is set forth below:

December 1	Amount
------------	--------

Selection of 2020 Certificates for Prepayment. The 2020 Trust Agreement provides that, whenever less than all the Outstanding 2020 Certificates are to be prepaid on any one date, the Trustee shall select the Certificate Payment Dates of the Certificates to be so prepaid and the amount of Certificates with such

respective Certificate Payment Dates in accordance with the provisions contained in a Request of the District. Whenever less than all of the Outstanding Certificates of any one Certificate Payment Date are to be prepaid on any one date, the Trustee shall select the Certificates of such Certificate Payment Date to be prepaid in whole or in part from the Outstanding Certificates of such Certificate Payment Date by lot in any manner that the Trustee deems appropriate and fair, and the Trustee shall promptly notify the District in writing of the numbers of the Certificates so selected for prepayment in whole or in part on such date.

Notice of Prepayment. The 2020 Trust Agreement provides that notice of prepayment shall be given by first class mail to the respective Owners of any Certificates designated for prepayment in whole or in part prior to their prepayment date. Notice of prepayment shall be mailed by first class mail by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the prepayment date. Each notice of prepayment shall state the date of notice, the prepayment date, the prepayment place and the prepayment price, shall designate the Certificate Payment Dates, CUSIP numbers, if any, and the serial numbers of the Certificates to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment, shall (in the case of any Certificate called for prepayment in part only) state the part of the principal amount evidenced and represented thereby which is to be prepaid, and shall state that the interest evidenced and represented by the Certificates or parts thereof designated for prepayment shall cease to accrue from and after such prepayment date and that on such prepayment date there will become due and payable on each of the Certificates or parts thereof designated for prepayment the prepayment price evidenced and represented thereby.

In case of the prepayment of all the Certificates then Outstanding or all of the Certificates of the same Certificate Payment Date, the notice of prepayment need not specify the serial numbers of such Certificates.

The Trustee shall give notice of prepayment of any Certificates or parts thereof to be prepaid upon receipt of a Request of the District (which Request shall be given to the Trustee at least forty-five (45) days prior to the date fixed for prepayment or such lesser number of days acceptable to the Trustee in its sole discretion, such notice for the convenience of the Trustee).

Neither failure to mail any notice of prepayment nor any defect in the notice so mailed shall affect the sufficiency of the proceedings for the prepayment of any of the Certificates for which notice was properly given.

The District may, at its option, prior to the date fixed for prepayment in any notice of prepayment rescind and cancel such notice of prepayment by Request of the District to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of prepayment being cancelled.

SECURITY AND SOURCES OF PAYMENT FOR THE 2020 CERTIFICATES

General

Each 2020 Certificate evidences an undivided proportionate interest in the 2020 Installment Payments to be made by the District from Net Revenues under the 2020 Installment Sale Agreement. The Corporation, pursuant to the Assignment Agreement, has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, all of the Corporation's rights, title and interest (other than its right to indemnification and certain other rights) under the 2020 Installment Sale Agreement, including the right to receive 2020 Installment Payments from the District and the right to exercise any remedies provided therein in the event of a default by the District thereunder.

Pursuant to the 2020 Installment Sale Agreement all Net Revenues (defined below) are pledged to the payment of the 2020 Installment Payments and debt service on other Parity Obligations as provided in the 2020 Installment Sale Agreement, and the Net Revenues shall not be used for any other purpose while any 2020 Installment Payments remain unpaid; provided, however, that out of the Net Revenues there may be

apportioned such sums for such purposes as are expressly permitted by the 2020 Installment Sale Agreement, including payment of debt service on any Parity Obligations. The pledge pursuant to the 2020 Installment Sale Agreement constitutes a lien on the Net Revenues for the payment of the 2020 Installment Payments and debt service on any Parity Obligations in accordance with the 2020 Installment Sale Agreement. The 2020 Certificates are not secured by a mortgage or other security interest in the Sanitation System.

“System” means properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to sanitation service, including all additions, extensions, expansions, improvements and betterments thereto and equipments thereof, together with any other properties or assets hereafter determined by the Board of Directors to be part of the System.

“Net Revenues” means, for any period of computation, the amount of the Gross Revenues during such period less the amount Maintenance and Operation Costs during such period.

“Gross Revenues” means all gross income and revenue received by the District from the ownership and operation of the System, determined in accordance with Generally Accepted Accounting Principles, including, without limiting the generality of the foregoing, (a) Direct Subsidy Payments, (b) all income, rents, rates, fees, connection fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the System, (c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys, and (d) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the System as permitted in the Installment Sale Agreement; provided, however, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

“Maintenance and Operation Costs” means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the 2020 Installment Sale Agreement or of any resolution authorizing the execution of any Parity Obligation or of such Parity Obligation, such as compensation, reimbursement and indemnification of the other party to such Parity Obligation and fees and expenses of Independent Certified Public Accountants and Insurance Consultants, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles and intergovernmental transfers by the District which are not reimbursements or payments for overhead or other administrative expenses incurred by the District.

In the 2020 Installment Sale Agreement, the District covenants that it will not pledge, encumber or otherwise secure its obligations from Net Revenues except as otherwise provided in the 2020 Installment Sale Agreement. The District has the right to issue or incur indebtedness or other obligations on a parity with the 2020 Installment Payments. See “- Additional Parity Obligations.”

2020 Installment Payments

The 2020 Installment Sale Agreement requires the District to make payments of 2020 Installment Payments prior to a related Interest Payment Date, and continuing thereafter during the term of the 2020 Certificates, in amounts as specified in the 2020 Installment Sale Agreement. See “--Application of Revenues” below and “APPENDIX C” - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The 2020 Installment Payments shall be paid directly to the Trustee.

The District’s obligation to make 2020 Installment Payments is a special obligation of the District payable solely from amounts pledged therefor pursuant to the 2020 Installment Sale Agreement, including

certain revenues of the Sanitation System, and is on a parity with other Parity Obligations (as herein defined) which may be issued or executed from time to time in the future by the District subject to satisfaction of the requirements of the 2020 Installment Sale Agreement. Such revenues of the Sanitation System so pledged consist primarily of the Net Revenues of the Sanitation System.

NEITHER THE OBLIGATION OF THE DISTRICT TO MAKE THE 2020 INSTALLMENT PAYMENTS NOR THE 2020 CERTIFICATES CONSTITUTE A DEBT OF THE DISTRICT OR OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT OR THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF ARE PLEDGED TO THE PAYMENT OF THE 2020 INSTALLMENT PAYMENTS OR TO THE PAYMENT OF THE PRINCIPAL AND PREMIUM, IF ANY, OR INTEREST EVIDENCED BY THE 2020 CERTIFICATES.

Rate Covenant

The 2020 Installment Sale Agreement provides that the District will fix, prescribe and collect charges, fees and rates for the use of the Sanitation System which shall be at least sufficient to yield Net Revenues during each Fiscal Year equal to one hundred twenty five percent (125%) of Debt Service for such Fiscal Year. The District may make adjustments from time to time to such charges, fees and rates and may make such classification thereof as it deems necessary, but shall not reduce the charges, fees and rates then in effect unless the Net Revenues from such reduced charges, fees and rates will at all times be sufficient to meet the requirements of the 2020 Installment Sale Agreement.

The obligation of the District to establish charges, fees and rates is referred to herein as the “Rate Covenant.”

No Debt Service Reserve Fund

No debt service reserve fund is being established with respect to the Series 2020 Certificates.

Additional Parity Obligations

The 2020 Installment Sale Agreement provides that the District may at any time execute and deliver any Parity Obligation, the payment of which is payable from and secured by a lien and charge on the Net Revenues on a parity with the lien and charge on Net Revenues securing the 2020 Installment Payments due under the 2020 Installment Sale Agreement, provided:

(a) Either -

(1) as evidenced by a Certificate of the District, during the immediately preceding twelve (12) consecutive calendar months, the Net Revenues were at least equal to one hundred twenty-five percent (125%) of the Maximum Annual Debt Service for all Outstanding 2020 Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed; or

(2) as evidenced by a Certificate of the District, the projected Net Revenues during the first Fiscal Year in which Debt Service on the Parity Obligation is payable (other than from proceeds of the Parity Obligations), is at least equal to one hundred twenty-five percent (125%) of the Maximum Annual Debt Service for all Outstanding 2020 Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

(b) The proceeds of such Parity Obligation proposed to be executed shall be used solely to finance or refinance (including reimbursement to the District of amounts advanced for such costs) one or more

additions, betterments or improvements to the System as designated by the District and to pay any incidental costs and expenses related thereto including the costs of issuance, execution or delivery of such proposed Parity Obligation;

(c) There shall have been delivered to the District an Opinion of Counsel substantially to the effect that (1) the Parity Obligation has been duly executed and delivered by the District and is a valid obligation of the District, and (2) the Parity Obligation has been duly and validly issued in accordance herewith; and

(d) The District is not in default under the 2020 Installment Sale Agreement.

The projections set forth in clause (a)(2) above may take into account only rate increases for Sanitation Service adopted by the Board of Directors prior to the date of issuance of such Parity Obligations and which are scheduled to be effective during the first Fiscal Year in which Debt Service on such Parity Obligation is payable (other than from proceeds of such Parity Obligation).

Notwithstanding the foregoing provisions, neither clause (a) nor clause (b) above shall limit the ability of the District to execute any Parity Obligations at any time to refund any Outstanding 2020 Installment Payments or Outstanding Parity Obligations if the annual Debt Service for each Fiscal Year during which such Parity Obligation is Outstanding will not be increased by reason of the issuance of such Parity Obligation.

There are no limitations on the ability of the District to incur debt or other obligations payable from Net Revenues on a basis subordinate to the payment by the District of the 2020 Installment Payments.

Outstanding Parity Obligations

The District has previously entered into obligations payable from Net Revenues on a parity with the 2020 Installment Payments, consisting of (i) a loan from the California State Water Resources Control Board initially executed in 2002 (the "State Loan") and currently outstanding in the principal amount of \$1,707,707 and (ii) an Installment Sale Agreement between the County and the District initially executed in 2011 (the "2011 Installment Sale Agreement"), currently outstanding in the principal amount of \$1,810,000.

The 2011 Installment Sale Agreement constitutes a "Qualified Energy Conservation Bond (QECB)" under the Internal Revenue Code and, as a result, the District receives a subsidy payment from the U.S. Government to offset a portion of the debt service. The amount of subsidy payments relating to obligations such as the 2011 Installment Sale agreement have been reduced from time to time. See " - Schedule of Parity Obligation Payments."

The State Loan and the 2011 Installment Sale agreement contain a variety of covenants and agreements of the District, and are subject to acceleration upon the occurrence and continuance of specified events of default by the District.

2020 Installment Payments are Absolute and Unconditional

The 2020 Installment Sale Agreement provides that the obligation of the District to pay the 2020 Installment Payments from the Net Revenues as provided in the 2020 Installment Sale Agreement is absolute and unconditional.

Additional Covenants

Additional covenants of the District contained in the 2020 Installment Sale Agreement include, but are not limited to, the following:

(a) Maintenance and Operation. The 2020 Installment Sale Agreement provides that the District will maintain and preserve the Sanitation System in good repair and working order at all times and will operate the Sanitation System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

(b) Budgets. Not later than [August 30th] of each year, the District will adopt a budget approved by the Board of Directors setting forth the estimated Maintenance and Operation Costs and the estimated payments for Parity Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year.

(c) Insurance. The 2020 Installment Sale Agreement provides that the District will procure and maintain such insurance relating to the Sanitation System which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal sanitation systems similar to the Sanitation System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal sanitation systems similar to the Sanitation System and is, in the opinion of an Insurance Consultant, financially sound. (The District is currently self-insured.)

(d) Covenants Against Sale or Other Disposition. The District may sell, transfer or otherwise dispose of any of the facilities of the System or any real or personal property comprising a part of the Sanitation System only if such property subject to such sale, transfer or other disposition is not material to the operation of the Sanitation System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Sanitation System, or is no longer necessary, material or useful to the operation of the System and if such transfer will not reduce the Net Revenues below the requirements to be maintained pursuant to the Rate Covenant.

See APPENDIX C-“SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Schedule of Parity Obligation Payments

The following table contains the schedule of payments payable by the District pursuant to the State Loan, the 2011 Installment Sale Agreement and the 2020 Installment Sale Agreement.

Debt Service Schedule

Fiscal Year Ending June 30	State Loan		2011 Installment Sale Agreement*		2020 Certificates		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2021	\$554,488	\$40,889	\$285,000	\$91,402			\$971,779
2022	567,796	27,581	295,000	76,169			966,546
2023	581,423	13,954	300,000	60,672			956,049
2024			305,000	44,782			349,782
2025			310,000	28,760			338,760
2026			315,000	12,476			327,476
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2034							
2035							
2036							
2037							
2038							
Totals							

* Does not reflect a subsidy of approximately \$260,000 (total over the life of the 2011 Installment Sale Agreement).

THE SANITATION SYSTEM

General

The District is a dependent special district of the County and was formed pursuant to California law on December 29, 1958. The Board of Supervisors of the County acts as the ex-officio board of directors of the District (the “Board of Directors”). The District was formed in response to anticipated housing needs in the Orcutt area of the County following the establishment of the Vandenberg Air Force Base and the demand for housing in the area south of the Santa Maria Airport.

The assets and liabilities of the District are held separately from the County. The operations of the District are managed within the Public Works Department, Resource Recovery and Waste Management Division. In addition, the District depends on other departments of the County for accounting, legal and other services, and reimburses the County for services provided.

Service Area

The District provides wastewater services through the Sanitation System to the Orcutt and unincorporated Santa Maria area of northern Santa Barbara County. The District’s service area covers approximately 16 square miles and serves approximately 12,000 customers accounting for a population of approximately 35,000. The area is primarily a bedroom community with approximately 300 commercial customers.

Management

Following are biographies of key management personnel of the County who provide services for the District:

Scott McGolpin, P.E., Director, Public Works Department – Mr. McGolpin has over 31 years of experience in the design, construction, operation, and management of public works facilities. As Director, he oversees the functions of all divisions of the Public Works Department including Transportation, Resource Recovery and Waste Management, Water Resources as well as the Surveyor’s Office and Finance and Administration. Mr. McGolpin has been Director for over 13 years. He holds a Bachelor of Science in Civil Engineering from Northeastern University in Boston, and has been a California licensed Professional Engineer for 29 years.

Leslie Wells, Deputy Director of Resource Recovery and Waste Management Division – Ms. Wells has over 24 years of experience in implementing innovative environmental programs and currently heads the Resource Recovery & Waste Management Division. This division is responsible for managing wastewater services in the Orcutt area through the Laguna County Sanitation District and solid waste management services to the County’s unincorporated areas as well as the cities of Buellton, Goleta, Santa Barbara, and Solvang comprised of managing solid waste, recyclables, green waste, and hazardous and electronic waste as well as solid waste collection services. She holds a Bachelor of Arts in International Relations with an emphasis on Nonrenewable Resources and a Master of Environmental Management from Duke University.

Martin Wilder, P.E., Laguna County Sanitation District Manager – Mr. Wilder has over 31 years of experience in the design, construction, operation, and management of public works facilities, 22 of which as manager of the District. During that time, he oversaw significant upgrades of District facilities. Mr. Wilder holds a Bachelor of Science degree in Civil Engineering from California Polytechnic State University in San Luis Obispo, and has been a California licensed Professional Engineer for 29 years. He also holds certifications as a Qualified Stormwater Practitioner/Developer and Qualified Industrial Stormwater Practitioner under the State Water Resources Control Board. Mr. Wilder is a member of the American Society of Civil Engineers, the California WaterReuse Association, the American Public Works Association, and the Southern California Alliance of Publicly Owned Treatment Works.

Jeremy Chaja, Chief Plant Operator - Mr. Chaja has over 22 years of experience in the wastewater treatment industry and has been the Chief Plant Operator of the District wastewater reclamation plant for 2 years, having been the plant supervisor for 12 years before that. He is a certified Grade IV plant operator licensed by the State Water Resources Control Board and acts as Lab Director for the district’s in-house laboratory, holding a Grade 1 California Water Environment Association lab analyst certificate.

Julie Hagen, CPA, CPFO, Deputy Director of Finance and Administration – Ms. Hagen is a Certified Public Accountant and a Certified Public Finance Officer with over 22 years of experience at the County. She was originally hired in the Auditor-Controller’s Office as the Internal Audit Division Supervisor. With previous public accounting experience in auditing, financial reviews and tax preparation, Ms. Hagen was promoted to the Financial Accounting Division Manager, Payroll Division Manager, oversaw software development teams, and served as Chief Deputy Controller of the County. In September of 2016 she was promoted to Deputy Director of Finance and Administration in the Public Works Department where she oversees Finance, Accounting, Safety, Public Information and Human Resources.

Employees

The District does not have any employees, and utilizes the services of County personnel. County employees assigned to the District’s business center (specific fund) operate and manage the Sanitation System. For the purposes of recruitment and personnel services, the District utilizes the County Human Resources Department like any other County department. A total of 17 full time employees are dedicated specifically to the District’s operations, 14 of whom are assigned to plant or collection system operations. The remaining three are the District Manager, a civil engineer and District accountant. County employees assigned to the District are represented by the following bargaining units:

Bargaining Unit	Number of Employees	Memorandum of Understanding Expiration
SEIU Local 620	15	June 27, 2021
Engineers and Technicians Association	1	June 27, 2021
Non-Represented	1	

Wastewater System Facilities

The District wastewater reclamation plant (the “District Plant”) is located at the western terminus of Dutard Road west of Black Road and north of State Route 1 (northwest of the District service area). The District includes advanced treatment for salt reduction and produces disinfected tertiary recycled water. Brine generated from District Plant operations is disposed via an EPA regulated class 1 non-hazardous injection well located approximately 6 miles northwest of the plant. Recycled water pipelines convey water for reuse to customers. Recycled water not used on demand is stored in a reservoir north of the District Plant for later use on District-owned pasture land used for cattle grazing. The District Plant is required to comply with State-mandated waste discharge requirements and is operated by the District pursuant to a permit issued by the State Regional Water Quality Control Board (“RWQCB”).

Pipes and Other Facilities. The Sanitation System collection facilities comprise 128 miles of sewer line and one lift station (a lift station pumps wastewater to a point where it can resume gravity flow). Twenty-one (21) miles are trunk lines, 0.5 mile force main with the remainder consisting of mains. Trunk lines collect wastewater from sewer mains and conveys wastewater to the reclamation plant. Two trunk line extensions have been constructed since 2002, one by the District and one by a private developer. Sewer laterals, considered to extend from the structure being served to the sewer main, typically located near the center of the street, are considered as owned by the land owner. The sewer system conveys sewage only (no stormwater) and was installed over time since 1904 with the majority installed between 1960 and 1990. The single lift

station provides service to 3 housing tract areas. Pipe material is mostly polyvinyl chloride (“PVC,” a specialized plastic used in the water industry) and vitrified clay pipe (“VCP”). PVC is used today as an industry standard in new development. The entire system is cleaned once every two years while the system is expected to be completely closed circuit television inspected within the next 5 years. A repair, replacement and maintenance plan is updated annually pursuant to the state required Sewer System Management Plan.

Wastewater Treatment

Background. The District Plant was initially constructed in 1959 with a capacity of 1.6 million gallons per day (“mgd”). Effluent from the District Plant was initially discharged by irrigation to sugar beet crops with winter discharge to Solomon Canyon Creek (also known as Orcutt Creek), a tributary to the Santa Maria River. In 1971 the District converted to land application only. In 1976 the capacity of the District Plant was expanded 2.4 mgd, and subsequently expanded to 3.2 mgd in 1986. Although the plant capacity was expanded to 3.2 mgd, only 2.4 mgd of capacity was available until certain new effluent quality limits for salt compounds established by the RWQCB could be met.

As flows to the District Plant reached 2.5 mgd in the 1990’s the District could not accommodate new customers given anticipated population growth in the service area as delineated in the County-adopted Orcutt Community Plan. Therefore, the District undertook an upgrade program in order to address the effluent limitations that were restricting capacity below the 3.2 mgd level described above. A major component of the upgrade was the installation of processes designed to reduce salt in the flow to the District Plant as a result of the relatively “hard” water present in the service area and prevalent use of water softeners. The upgrade also resulted in an increase in capacity of the District Plant to 3.7 mgd.

Current Operations. The District Plant currently separates incoming flows into separate low salt and high salt treatment streams which are subjected to different treatment processes. Effluent meeting disinfected tertiary recycled water standards is sent to holding tanks from which a recycled water pump station moves water to either offsite users pursuant to user agreements or to seasonal storage. Seasonal stored water is water that is not used daily on demand and stored for discharge throughout the year on District-owned cattle pasture.

Biosolids generated from the operation of the District Plant is treated through anaerobic digesters. Sludge from the digesters is sent to drying beds and hauled off quarterly to a composting facility. See attached process flow diagram.

Average Flow and Discharge. Based on 2019 averages, daily flow is approximately 1.67 mgd; brine waste and sludge flows are 0.07 mgd; and resulting recycled water flow is approximately 1.6 mgd. Prior to California drought restrictions imposed in 2015, daily flow was approximately 2.05 mgd. The highest average daily flow of 2.56 mgd occurred in 2001. As described above the treatment capacity of the District Plant is 3.7 mgd.

Recycled Water Storage and Use. Water produced by the District meets State criteria for disinfected tertiary recycled water. Pursuant to State law, recycled water is sold to users for an amount somewhat less than the alternative water supply. Because distributing recycled water is the District’s only means of discharge, the District contracts with bulk users as opposed to many small users in order to maximize distribution infrastructure capital costs. Current recycled water customers are therefore large agricultural and industrial users that would otherwise use well water, an inexpensive water supply. Revenue from recycled water sales is therefore not significant.

Because recycled water is not needed when it rains, water not needed during the rainy season is stored in larger holding facilities for later use on cattle pastures. Based on existing flow and discharges, the District estimates its current peak annual storage needs are approximately 165 million gallons. Current District long term storage capacity is approximately 380 million gallons comprised of a 300 million gallon upper reservoir and eight lower ponds capable of holding 80 million gallons. Current discharge capacity is approximately 2.4 mgd based on the primary bulk users described above coupled with irrigation of the District-owned cattle

pastures. Other recycled water distribution projects are proposed for implementation (as needed) include the expansion of industrial uses, a park conversion and two golf course conversions. The terms for use for each recycled water user are subject to regulatory agency approved recycled water use agreements.

The 2020 Project

The District commissioned a Master Plan in 2010 to assess existing plant facility condition, useful lives, functionality, future planning, regulatory climate, and costs for improvements. Much of the original infrastructure at the District Plant is operating beyond its normal useful life, is structurally deficient, lacks redundancy and is functionally obsolete in meeting future operational needs. As is common among facilities of the age of the District plant, process replacement is necessary in order to continue to provide quality service to its customers based on modern technologies. The Master Plan identified the need for the replacement of aged, outmoded and structurally deficient treatment processes, equipment and facilities at the District plant (referred to as “Phase 1”). The Master Plan also identified expansion needs to be undertaken at some as-yet undetermined point in the future depending on growth in the District service area (referred to as “Phase 2”).

A subsequent Project Study Report was commissioned in 2015 to assess the best Phase 1 improvement upgrade alternatives given certain priorities for discharge, and adaptability with the future Phase 2 capacity improvements. The Phase 2 expansion would add primary clarification and/or additional secondary treatment facilities and is planned to accommodate up to 5 mgd based on planned build-out of the Orcutt and southern unincorporated Santa Maria area.

2020 Project Scope. The 2020 Project consists of conventional treatment processes standard in the wastewater treatment industry. The replacement wastewater treatment processes include a new headworks comprised of an influent structure with grit removal and screening processes; activated sludge aeration basins and blower/pump facilities; and secondary clarification; and a retrofit to the existing feed pump system to the ultraviolet disinfection system. The existing membrane filtration, reverse osmosis and ultraviolet disinfection processes will remain in service.

The District awarded the contract for the Phase 1 plant upgrade project on August 18, 2020, after a competitive process in which two bids were received from 11 pre-qualified bidders. The low bid of \$53,063,500 was submitted by the winning contractor, W.M. Lyles, Co. Inc., which is based in Bakersfield, California. W.M. Lyles Co., Inc. is a well-qualified mechanical contractor with extensive experience in wastewater treatment plant construction. They were founded in 1945 with five construction divisions throughout California and are listed in Engineering News Record’s Top 400 Contractors. W.M. Lyles, Co. Inc.’s bonding capacity is \$1 billion single project and \$2 billion aggregate. Recently completed relevant projects include the Paso Robles Wastewater Treatment Plant Upgrade to 12.74 mgd (\$37.9 million), the Tulare Industrial Wastewater Treatment Plant Expansion to 12 mgd (\$81.8 million), and the Visalia Water Conservation Plant Upgrade to 22 mgd (\$103.5 million). Performance and labor/material payment bonds each in the amount of 100% of the contract amount will be provided.

Construction of the Phase 1 project is anticipated to begin in October 2020 and last approximately 3 years. Plant operator staff are currently certified to operate both the existing and proposed treatment facilities, however, startup operations will include operator training specific to the new improvements. Cost and funding data for the Phase 1 plant upgrade project are shown in the following table. The District will plan for construction contingencies (to be funded from capital reserves) at construction contract award. Construction staging will provide for a simple transition from the existing treatment processes to be abandoned to the new treatment processes.

Funding Sources

Existing District cash reserves	\$38.1
<u>2020 Certificates proceeds</u>	<u>28.0</u>
Total funding sources	\$64.9

Project Costs

Construction estimate	\$55.7
Engineering, programming, permits	4.9
Environmental	0.4
Construction insurance	1.2
<u>Construction management</u>	<u>3.9</u>
Total project costs	\$66.1

Regulatory Compliance

Generally. The Regional Water Quality Control Board (“RWQCB”) regulates water quality in the Central Coast Region under the authority of the Federal Clean Water Act and the State’s Porter-Cologne Water Quality Control Act. The RWQCB is the enforcement arm of the State and federal water-pollution-control programs. Treatment works are regulated under the National Pollutant Discharge Elimination System (“NPDES”) for discharges to waters of the state or under Waste Discharge Requirements (“WDR”) for discharges to land. The WDR may be in the form of a Master Recycling Permit, as is the case for the District. The NPDES or WDR is the operating permit for a treatment facility.

WDRs typically do not have a stated expiration and instead are replaced with new WDRs when material changes to the treatment processes are proposed. The current WDR and Master Recycling Permit is Order No. R3-2011-0217. A Report of Waste Discharge was submitted to the RWQCB on June 24, 2019 that will generate a replacement Order (and WDR) for the new treatment works. Issuance of the WDR is not required prior to startup to the new improvements and is typically issued during construction of the new facilities. The District is not aware of any legal or practical impediments to receipt of the new Order and WDR on a timely basis.

The regulation of sanitary sewer collection systems falls under Statewide General Waste Discharge Requirements for Sanitary Sewer Systems issued by the State Water Resources Control Board (“SWRCB”). This Statewide WDR is intended to prevent sanitary sewer overflows and requires an entity owning one or more miles of sewer system to develop a Sewer System Management Plan that addresses cleaning, inspecting, repairing, and replacing wastewater conveyance facilities as well as capacity analysis and the control of fats, oils and grease. The District is in conformance with the requirements of this WDR.

Stormwater. The Statewide General Permit for Stormwater Discharges Associated with Industrial Activities became effective in July 2015. This permit clarified that wastewater treatment plant facilities are industrial sites that must manage on site generated stormwater and is not to be confused with the collection and treatment of community stormwater, which is prohibited by ordinance. The District is in conformity with this order. However, a recently completed flood protection project at the District Plant will prevent any runoff from leaving the site. Stormwater generated onsite will be collected by a component of the 2020 Project. Upon completion of this component, a request will be submitted to the RWQCB for exemption from the Statewide General Permit for Stormwater Discharges.

Air Pollution Control. The reclamation plant is regulated by the Santa Barbara County Air Pollution Control District (“APCD”) for the District’s diesel fired backup diesel generators and digester operations. A permit application for a third generator will be processed during 2020 Project construction.

Brine discharge. Brine created by the reverse osmosis process at the District Plant is disposed in a class 1 non-hazardous injection well regulated by the US Environmental Protection Agency.

No other permits other than the WDR and APCD updates described above are required for the Phase 1 plant upgrade.

Future Regulatory Requirements. The District believes that the wastewater system complies with current operations and reporting requirements of all regulatory entities. While regulations may change, potentially resulting in an increase to operating costs, no such regulatory changes are known at this time.

Other Environmental Regulation. A mitigated negative declaration related to the Phase 1 upgrade in compliance with the California Environmental Quality Act was adopted on July 3, 2018. The proposed work is within dispersal range of the federally threatened California red-legged frog and federal endangered/state threatened California tiger salamander habitat. To mitigate ground disturbing activities, the District established a conservation easement for these species and received an incidental take permit from the US Fish and Wildlife Service and consistency determination from the California Department of Fish and Wildlife.

Customers

The following table shows the number of connections of the Sanitation System by user type. Non-residential accounts typically represent approximately 20% of system revenues.

**Table 1
Number of Connections by User Type
(Fiscal Year ended June 30)**

User Type	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Residential - single	9,248	9,276	9,285	9,324	9,403
Residential - multiple	2,644	2,645	2,649	2,649	2,861
Commercial	357	355	353	354	355
School	15	15	15	16	16
Total	12,264	12,291	12,302	12,343	12,635

Source: The District

Residential customers account for approximately 94% of annual user charge revenue and approximately 88% of the annual wastewater flow.

Rates and Charges

Subject to the requirements of Proposition 218, the District has the power to establish rates and charges for its wastewater services. The rates and charges are typically recommended to the District Board annually for adoption. The District has implemented rate increases over the last several years which it believes are generally sufficient to make the 2020 Installment Payments and otherwise comply with the requirements of the 2020 Installment Agreement. The following table shows the increase percentage and the adopted monthly single residential unit (“SRU”) and multi-family unit (“MFU”) rate the since Fiscal Year 2011-12. The District’s rate structure is based on industry best practices for operation, maintenance and replacement, comply with reserve policies and to meet federal, State, and local regulatory mandates. Rates annually constitute approximately 90% of total revenues.

The Projected Operating Results contained in Table 2 assume future annual rate increases in the range of 1.5% to 2.0. Any such rate increases would be subject to approval of the District Board and compliance with the requirements of Proposition 218.

**Table 2
Adopted Rate Increases**

Fiscal Year	SRU Rate	% Change	MFU Rate	% Change
2011-12	\$49.10	7%	\$ 44.24	7.4%
2012-13	54.50	11	49.05	11
2013-14	60.49	11	54.45	11
2014-15	67.75	12	60.98	12
2015-16	75.88	12	68.30	12
2016-17	80.31	6	68.30	0
2017-18	81.83	1.9	68.30	0
2018-19	84.12	2.8	68.30	0
2019-20	87.32	3.8	70.73	3.6
2020-21	89.38	2.4	72.40	2.4

Source: The District

One-time capacity charges (commonly known as developer impact fees, connection charges or connection fees) are collected from new development to pay for their share of the use of existing treatment facilities and for the future capacity space they require. These funds are typically tracked separately and are not included for operational costs. Increases are generally based on the Construction Costs Index as published by the Engineering News Record. The following table shows adopted SRU and MFU rates capacity charge since Fiscal Year 2010-2011.

**Table 3
Adopted Capacity Charge Increases**

Fiscal Year	SRU Rate	% Change	MFU Rate	% Change
2011-12	\$ 4,979	2.4%	\$ 4,481	2.4%
2012-13*	6,302	26.5	5,672	26.5
2013-14	6,415	1.8	5,774	1.8
2014-15	6,704	4.5	6,034	4.5
2015-16	6,872	2.5	6,185	2.5
2016-17	6,941	1.1	6,185	0
2017-18	7,219	4.0	6,185	0
2018-19	7,457	3.3	6,185	0
2019-20	7,502	0.6	6,185	0
2020-21	8,429	12.4	6,827	10.4

*The District Board reset rates in Fiscal Year 2012-13.

Source: The District

Revenue Collection Procedures

The District provides wastewater services only and for this reason, residential customers are billed a flat rate sewer service charge for having a sewer connection while commercial customers are billed on water use and waste loading. Customers are considered to be the legal land owners and are typically billed on the tax roll as a fixed charge. Certain customers such as schools are hand billed. The District participates in the County Teeter Plan. Under the Teeter Plan, the County funds the District the entire amount of its fixed charges rather than funding only actual collections (charges less delinquencies). In exchange, the County receives the interest and penalties that accrue on delinquent payments, when the late charges are collected. Certain other revenues for recycled water sales and brine disposal fees offset operating costs.

Capacity charges for the treatment plant and certain trunk sewer lines are typically collected from a developer either at map recordation or at occupancy approval. Treatment plant capacity charge revenues are intended to fund improvements related to developer needs for treatment space. Trunk line fees are collected to reimburse the District or other developers for prior trunk line capacity improvements.

Sewer service charge revenue is used to fund operating, maintenance, repair and replacement costs. District service charges are established at level designed to provide for the payment of all operating and debt services expenses with no dependency upon other revenues such as capacity charges or trunk line fees as those revenues are solely dependent upon development. Miscellaneous revenues from recycled water sales and brine disposal fees offset operating costs.

Future customers, primarily anticipated as described in the County Planning and Development Department's Orcutt Community Plan, are mostly residential in nature, however, some commercial development is also anticipated. Historical growth rates have averaged 111 residential unit equivalents per year. Because growth cannot be accurately predicted, only marginal growth effects to revenue were considered in the preparation of the Projected Operating Results.

Budgetary and Financial Procedures

The District operates as an enterprise fund as a means to account for the activities associated with the collection and treatment of wastewater. It supports both the capital and the operating costs of providing wastewater services throughout the wastewater system service area, including the costs of collection, treatment and discharge systems. Service charge revenues are generally used to fund enterprise operations and improvements and are based on the estimated reasonable cost of providing these services.

To provide for various accounting items, the District maintains the following retained earnings accounts in connection with the wastewater system as stipulated in the Comprehensive Fund Balance Policy:

Capital Replacement Reserve. Revenue generated by service charges for the purpose of providing wastewater service to its customers. These funds are structured to cover the costs of providing wastewater service to its customers, which include costs of plant operation, maintenance, and replacement, collection-system repair and maintenance, related engineering services, and capital improvements. The current balance is \$20.1 million.

Capital Expansion Reserve. Capacity charges are deposited to this reserve. These fees are one-time fees paid at structure occupancy and represent the estimated reasonable cost of providing system capacity to new development based on the system buy-in methodology for existing facilities and for future capacity expansion. The current balance is \$6.3 million.

Operating Reserve. This reserve provides working capital to provide sufficient resources for the District to address a variety of adverse economic situations and is based on 180 days of operating costs. The District is in compliance with the operating reserve policy and the current balance is \$3.0 million.

Emergency Reserve. This reserve is intended to support the District during times of financial emergencies for any reason including catastrophic natural events such as an earthquake, flood, or fire. The target level increases with the value of the infrastructure and the current balance is \$2.8 million.

Retained Earnings Unreserved. This reserve is the portion of retained earnings that are not appropriated and is the results of operations. The current balance is \$14.2 million.

Capital Improvement Program

The District's capital improvement program ("CIP") is part of the entire County capital improvement program. The CIP is a guide for identifying current and future infrastructure requirements and becomes the

basis for determining annual capital-budget expenditures. Capital improvements are major projects undertaken that are generally not recurring and are for repairs, maintenance, improvement, or acquisition with a total cost of at least \$100,000.

Major Wastewater Improvements. The focus of the District CIP over the next five years will be the implementation of the 2020 Project. (Costs and funding sources relating to the Phase 1 project are described in “The 2020 Project.”

The following table sets forth elements of the District CIP over the next five years in addition to the 2020 Project. The District intends to utilize existing reserves and then-current revenues to fund these additional projects, which includes the replacement of major components on a recurring basis (major pumps, blowers, motors, membranes, etc.) as well as repair, replacement and maintenance of the sanitary sewer system. The District CIP is consistent with SWRCB requirements and is detailed in the District’s sewer system management plan (“SSMP”). The SSMP accounts for capacity analysis for existing and future wastewater flows, sewer system condition assessment and sewer system function. Pipeline capital improvements consist of rehabilitation, repair and replacement work as development typically involves the construction of new sewer system improvements.

Table 4
5-Year Major Capital Improvements
(in addition to 2020 Project)

Project	Remaining Cost (millions)	Fiscal Year (completion)
Sludge Beds Upgrade	\$1.8	2020-21
Flood Protection	\$0.2	2020-21
Phase 4 Recycled Water Distribution and Retrofit	\$6.8	2021-22
Sewer System Rehabilitation	\$1.7 yearly average	2020-21 through 2023-24

1. For 5 year planning period Fiscal Year 2019-20 through Fiscal Year 2023-24, not including the Phase 1 Plant Upgrade project.
 2. Costs are total costs remaining for respective projects.
 3. Fiscal Year indicates anticipated year of construction completion.
 4. Sewer System Rehabilitation costs are ongoing.
- Source: The District

Future Capital Improvements. Long-term capital improvements (including Phase 2, as described in “The 2020 Project”) are also planned that will ensure the District is able to invest in critical and aging infrastructure. The goals of the long-term plan are to anticipate major replacement and for future capacity needs that fully comply with regulatory, legislative, and other requirements. Because plant and sewer system capacity needs are developer driven, new development is expected to bear allocable costs of growth-related expansions or improvements through developer related capacity charges.

Insurance

The District follows the County’s insurance criteria. For general liability, medical malpractice, and workers’ compensation claims, excess coverage is provided by the California State Association of Counties Excess Insurance Authority (“EIA”), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its members, which include 93% of the counties in California and nearly 60% of the cities, as well as numerous school districts, special districts, housing authorities, fire districts, and other Joint

Powers Authorities. A Board of Directors consisting of representatives from its members governs the Authority.

The EIA retains financial responsibility for risk management claims in excess of the County’s self-insurance retention. Self-insurance and EIA limits are as follows:

Type of Coverage	Self-Insured Retention	Policy Limit
General Liability	\$500,000	\$50,000,000
Medical Malpractice	N/A	\$21,500,000
Workers’ Compensation	N/A	Statutory

The County purchases property insurance (which insurance includes coverage for District assets) through the EIA from commercial insurance companies and is comprised of 54 California counties and other California public agencies. The County is insured up to \$600 million for All Risk coverage, and up to \$600 million for Flood and up to \$640 million for Earthquake coverages. All property damage risks except earthquake and flood are covered on a per occurrence basis and insured at full replacement values up to the policy limits. Earthquake and flood limits are annual aggregates. Deductibles per occurrence are \$10,000 for fire or other property damage and \$25,000 flood (except \$100,000 for high hazard flood). The earthquake deductible is 5% of total values per separate building per occurrence, subject to a \$100,000 minimum and \$50,000,000 maximum. The EIA has an earthquake buy down credit of 3% of total values per unit of insurance, per occurrence subject to a \$30,000,000 maximum annually. The County’s insurance program is subject to modifications based on insurance market conditions, the availability of insurance to public entities and the cost effectiveness of certain levels of self-insured retentions.

Floods

The Federal Emergency Management Agency (“FEMA”) produces Flood Insurance Rate Maps (“FIRMs”) that show which portions of the city are in the 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1-in-100 probability of occurrence in any year.

The District wastewater reclamation plant was sited in Zone A of the FIRM maps before flood management for Orcutt Creek existed. Zone A on a FIRM map represents areas potentially subject to flooding from a 100-year runoff event but that have not been studied in detail and therefore no flood elevation has been calculated. Historically hand calculations demonstrated plant facilities were not subject to 100-year flooding. A modern flood study was performed when a solar project was implemented in 2012 that indicated that existing facilities are generally isolated from 100-year inundation. A subsequent study was performed for the proposed plant upgrades (Phase 1 and Phase 2) that indicated that portions of the proposed improvements are subject to minor inundation from a 100-year flood event. Construction of flood protection facilities were recently completed consisting of a wall, gate and berm that surrounds the plant facilities.

Historical Financial Results

The following table contains a summary of certain historical operating cash flow data for revenues and expenses. These results are not presented in accordance with the conventions of the 2020 Installment Sale Agreement.

Table 5
Summary of Historical Operating Results
Fiscal Year 2015-16 to Fiscal Year 2019-20
(in thousands)⁽⁸⁾

	2015-16	2016-17	2017-18	2018-19	2019-20 (Unaudited)
Operating Revenues					
Sanitation Services Rates ⁽¹⁾	\$ 11,817	\$ 12,353	\$ 12,535	\$ 12,917	\$ 13,506
Capacity Charges ⁽²⁾	282	93	239	1,001	1,364
Other Fees ⁽³⁾	191	100	363	110	313
Recycled Water Sales Revenues	38	65	32	39	25
Federal Subsidy ⁽⁴⁾	99	92	83	75	66
Interest Earnings	108	205	414	727	765
Miscellaneous Revenues ⁽⁵⁾	269	83	-22	561	374
Total Operating Revenues:	\$ 12,804	\$ 12,991	\$ 13,644	\$ 15,429	\$ 16,413
Maintenance and Operation Costs					
Salaries & Employee Benefits	\$ 1,641	\$ 2,199	\$ 2,398	\$ 2,441	\$ 2,512
Support Services and Supplies ⁽⁶⁾	996	897	1,117	1,115	1,691
System Maintenance	893	1,283	740	1,216	1,017
Other Operating Costs ⁽⁷⁾	554	970	776	965	699
Total Maintenance and Operation Costs	\$ 4,085	\$ 5,349	\$ 5,030	\$ 5,738	\$ 5,919
Sanitation System Net Revenues	\$ 8,719	\$ 7,643	\$ 8,614	\$ 9,691	\$ 10,494
Outstanding Parity Obligations					
State Loan	\$ 594	\$ 594	\$ 594	\$ 594	\$ 595
2011 Installment Sale Agreement	428	419	410	396	386
Total Parity Obligation Debt Service	\$ 1,023	\$ 1,014	\$ 1,004	\$ 990	\$ 981
Coverage Requirement Compliance					
Parity Obligations and Bonds	8.53x	7.54x	8.58x	9.79x	10.69x
	8.53	7.54	8.34	9.22	

⁽¹⁾ Sanitation Services Rate increases were 12% for Fiscal Year 2015-16, 5.8% for Fiscal Year 2016-17; 1.9% for Fiscal Year 2017-18; and 2.8% for Fiscal Year 2018-19; and 3.8% for Fiscal Year 2019-20.

⁽²⁾ Year-over-year variance driven by development activity within each Fiscal Year. Fees are increased annually based on the Construction Costs Index as published by the Engineering News Record.

⁽³⁾ Includes Trunk Line Fees and Liquid Waste Water Disposal Fees.

⁽⁴⁾ Interest cost subsidy payments associated with the District's 2011 Installment Sale Obligation that financed a solar project that was eligible to receive Federal tax credits.

⁽⁵⁾ Includes unrealized gain/loss on investments, rental income, one time revenues, and other revenue items.

⁽⁶⁾ Includes various purchases for the ongoing operation of the Sanitation System, including the purchase of chemicals.

⁽⁷⁾ Includes plant electricity and gas and other operating costs.

⁽⁸⁾ Totals may not add due to rounding.

Source: The District

Projected Financial Results

The following table contains a summary of certain projected operating results showing the projected cash flow of revenues and expenses. The projected operating results are based upon a variety of assumptions, calculations, and qualifications. While it is believed that these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions because of unanticipated events and circumstances. To the extent that actual future conditions vary from those assumed in the preparation of the projected operating results, the actual results will vary from those contained in the Table. See “CERTAIN RISK FACTORS - Rate Covenant Not a Guarantee; Failure to Meet Projections.”

The projected operating expectations reflect current capital improvement planning with rate increases as shown through Fiscal Year 2024-2045. There can be no assurances that there will not be modifications to the rehabilitation and capital-improvement plan described herein or decline to adopt rates in the amounts contemplated in the projected operating results.

For the purposes of projecting revenue, a certain amount of growth in customers has been assumed. While customer growth directly affects when a capacity related expansion is required, it has no effect on the currently planned replacement upgrade. For the sake of budget planning it is assumed that expansion would occur in 2030. The capacity expansion project would actually be constructed when sufficient development occurs and are expected to be funded using impact fee revenues and/or to be developer built and dedicated.

Table 6
Summary of Proforma Operating Results
Fiscal Year 2020-21 to Fiscal Year 2024-25
(in thousands)⁽¹³⁾

	2020-21 (Budget)	2021-22 (Estimated)	2022-23 (Estimated)	2023-24 (Estimated)	2024-25 (Estimated)
Operating Revenues					
Sanitation Services Rates ⁽¹⁾	\$ 13,809	\$ 14,196	\$ 14,475	\$ 14,759	\$ 15,048
Connection Fees ⁽²⁾	1,263	300	300	300	300
Other Fees ⁽³⁾	228	232	235	239	242
Recycled Water Sales Revenues ⁽⁴⁾	50	51	52	52	53
Federal Subsidy ⁽⁵⁾	56	47	37	28	18
Interest Earnings ⁽⁶⁾	657	308	187	98	78
Miscellaneous Revenues ⁽⁷⁾	159	161	162	162	163
Total Operating Revenues:	\$ 16,222	\$ 15,294	\$ 15,446	\$ 15,638	\$ 15,902
Maintenance and Operation Costs					
Salaries & Employee Benefits ⁽⁸⁾	\$ 2,810	\$ 2,895	\$ 2,982	\$ 3,071	\$ 3,163
Support Services and Supplies ⁽⁹⁾	2,022	1,676	1,726	3,595	2,943
System Maintenance ⁽¹⁰⁾	1,552	1,598	1,646	1,696	1,746
Other Operating Costs ⁽¹⁰⁾	825	850	876	902	929
Total Maintenance and Operation Costs	\$ 7,210	\$ 7,018	\$ 7,229	\$ 9,263	\$ 8,781
System Net Revenues	\$ 9,012	\$ 8,275	\$ 8,217	\$ 6,375	\$ 7,121
Outstanding Parity Obligations					
State Loan	\$ 595	\$ 595	\$ 595	\$ 0	\$ 0
2011 Installment Sale Agreement	376	371	361	350	339
2020 Certificates ⁽¹¹⁾	787	1,764	1,765	1,764	1,766
Total Parity Obligation Debt Service	\$ 1,759	\$ 2,730	\$ 2,721	\$ 2,114	\$ 2,105
Coverage Requirement Compliance					
Parity Obligations and Bonds	5.12x	3.03x	3.02x	3.02x	3.38x
Capital Outlay					
Plant Upgrade	(\$16,708)	(\$22,034)	(\$21,118)	(\$6,203)	\$ 0
Other Capital Costs ⁽¹²⁾	(7,010)	(7,725)	(2,057)	(2,107)	(4,257)
Total Capital Outlay	(\$23,718)	(\$29,759)	(\$23,175)	(\$8,310)	(\$4,257)
Sanitation System Cumulative Cash Balances					
Beginning Cash	\$50,028	\$ 61,563	\$ 37,349	\$ 19,671	\$ 15,622
Net Change ⁽¹²⁾	11,535	-24,214	-17,678	-4,049	759
Ending Cash	61,563	37,349	19,671	15,622	16,381
Cash Designated to Reserves	11,635	11,896	12,358	13,732	13,199
Cash Available for Pay-Go	49,928	25,453	7,313	1,890	3,182

Notes on following page.

NOTES

- (1) Sanitation Services Rates are projected to increase by 2.4% in Fiscal Year 2020-21 and 1.5% in Fiscal Years 2021-22 to Fiscal Year 2024-25.
- (2) Fiscal Year 2020-21 reflects budgeted amount based on rolling 3-year average plus additional fees associated with the North County Jail project. FY 2021-22 through FY 2024-25 reflects longer term average of historical connection fees.
- (3) Includes Trunk Line Fees and Liquid Waste Water Disposal Fees; which are projected to increase annually at 1.5%.
- (4) Projected based on historical averages and increased annually at 1.5%.
- (5) Interest cost subsidy payments associated with the District's 2011 Installment Sale Obligation that financed a solar project that was eligible to receive Federal tax credits.
- (6) Based on available cash at the beginning of the year and assumed earnings rate of 0.50%.
- (7) Does not include unrealized gains/losses.
- (8) Fiscal Year 2020-21 reflects budgeted amount based on County of Santa Barbara salary forecasting model. FY 2021-22 through FY 2024-25 reflect a CPI inflator of 3%.
- (9) Includes various purchases for the ongoing operation of the Sanitation System, including anticipated cost related non-capital system maintenance. Variability reflects scheduled cyclical expenditures in this category.
- (10) Projected to increase based on a CPI inflator of 3%.
- (11) Estimated based on market conditions plus interest rate cushion; subject to change based on final sale results.
- (12) Includes impact of proceeds from the Certificates.
- (13) Totals may not add due to rounding.

Source: The District

Certain Retirement Benefits

Salaries and benefits costs of the Sanitation System (which constitute Maintenance of Operation Costs of the Sanitation System) include funding of retirement benefits for employees assigned to the District who, as County employees, participate in the Santa Barbara County Employees' Retirement System ("SBCERS"), a plan operated under section 401(a) of the U.S. Internal Revenue Code.

For a variety of reasons, including assumption changes, less than expected investment returns, increases in beneficiary longevity and enhanced retirement benefits for County employees, SBCERS has experienced increasing unfunded liabilities; however, the funded ratio of SBCERS' actuarial liability has increased over the past several fiscal years. Retirement costs payable with respect to all County employees, including those assigned to the Sanitation System, have increased significantly in recent years. In addition, recent projections indicate that retirement costs payable with respect to all County employees, including those assigned to the Sanitation System are expected to increase. See APPENDIX B – "COUNTY OF SANTA BARBARA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019."

As a result of assumption changes made by the SBCERS Board of Retirement as part of its June 30, 2016 Actuarial Experience Study, including the reduction of the discount rate from 7.5% to 7.0%, County-wide employer contributions are expected to increase over the period ending June 30, 2020 through June 30, 2022. For the fiscal year beginning July 1, 2020, County-wide rates are estimated to increase from 39.3% to 39.8% of covered payroll. Projections provided by the SBCERS actuary suggest that County-wide retirement rates will increase through the fiscal year ending June 30, 2022 and will peak at 40.5% of covered payroll. The actual increases in retirement costs payable from the District are dependent primarily on the investment returns of SBCERS and assumptions set by the SBCERS Board of Retirement, whose governing board is separate from the County Board of Supervisors, which are subject to change on a periodic basis. There can be no assurances that the actual rates in the future will not exceed projections. The SBCERS Board of Retirement most recently considered these assumptions as part of its triennial experience study that occurred in fall 2019, which resulted in a total change in such assumptions of 0.14%.

District contributions to SBCERS on behalf of County employees assigned to the District were \$671,249 in Fiscal Year 2017-18, \$614,680 in Fiscal Year 2018-19, and are estimated to be \$570,586 in Fiscal Year 2019-20. District contributions to SBCERS on behalf of County employees assigned to the District are expected to be \$537,300 for Fiscal year 2020-21.

In addition to required contributions for retirement benefits for employees for the Department, the County pays certain post-employment health care ("OPEB") benefits for such employees. The OPEB related contributions for the Sanitation System were approximately \$42,242 in Fiscal Year 2017-18 and approximately \$65,972 in Fiscal Year 2018-19, and the County estimates that OPEB related contributions were approximately \$41,273 for Fiscal Year 2019-20. The District estimates that OPEB related contributions for the Sanitation System will be approximately \$63,100 in Fiscal Year 2020-21.

Contributions related to OPEB benefits constitute Maintenance and Operation Costs of the Sanitation System and are reflected in the Projected Operating Results. The County's OPEB plan was closed to new District employees on June 25, 2012. On March 1, 2016 the County adopted a funding policy for the OPEB plan that states that the County will provide minimum annual contributions to the Plan at a level equivalent to 4% of total pensionable payroll for all County employees participating in the SBCERS 401(a) pension plan (the County's core retirement plan).

For additional information concerning the County's retirement-related and OPEB obligations, see Note 21 and Note 22 in APPENDIX A – "COUNTY OF SANTA BARBARA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019."

COVID-19 Pandemic

As described further under the caption “CERTAIN RISK FACTORS—COVID-19 Pandemic,” the spread of COVID-19 is having significant negative impacts throughout the world, including in California. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the United States, the State, and numerous counties throughout the State, including the County of Santa Barbara where the Laguna County Sanitation District wastewater reclamation plant is located. The purposes behind these declarations are to coordinate and formalize emergency actions and across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

The State and the County have issued “stay at home” or “shelter in place” orders, which severely restrict the movements of residents and generally mandate residents to remain in their home and, in effect, prohibit non-essential workers from working outside their home. Due to these orders, the District has implemented a telecommuting plan to reduce the number of District employees in office workplaces as needed and staggered plant and field staff lunch and break schedules to limit proximity activity. In addition work schedules may be revised to eliminate personnel overlap if deemed necessary. Standard safety precautions such as distancing, mask use, cleaning and sanitization are being practiced.

The District estimates no significant reduction in rate revenues for Fiscal Year ending June 30, 2020 and that the District will also not experience any significant reduction of revenue in the future because sewer charges are primarily billed on a flat rate, per-connection basis and billed on the tax roll. See the caption “— Revenue Collection Procedures.”

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Wastewater System is unknown, but is not expected to have a material adverse effect on the operations and finance of the District or on the ability of the District to make the 2020 Installment Payments.

See “CERTAIN RISK FACTORS—COVID-19 Pandemic for a discussion of certain investor considerations relating to the COVID-19 Pandemic.

CERTAIN RISK FACTORS

Rate Covenant Not a Guarantee

Pursuant to the 2020 Installment Sale Agreement, the District has agreed to fix, prescribe and collect rates and charges for the Sanitation System during each Fiscal Year which will be at least sufficient to yield Net Revenues during each Fiscal Year equal to one hundred twenty five percent (125%) of Debt Service for such Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2020 CERTIFICATES – Rate Covenant” and APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The ability of the District to make debt service payments with respect to the 2020 Certificates depends on the ability of the Sanitation System to generate Net Revenues in the amounts required by the 2020 Installment Sale Agreement. Although, the Projected Operating Results project that sufficient revenues will be generated through the imposition of service charges and impact fees, there is no assurance that the imposition of the service charges and connection fees will result in the generation of Net Revenues in the amounts required by the 2020 Installment Sale Agreement. As a result, the District’s covenant does not constitute a guarantee that sufficient Net Revenues will be available to make debt service payments with respect to the 2020 Certificates.

Statutory and Regulatory Impact

Laws and regulations governing the treatment and disposal of wastewater are enacted and promulgated by government agencies on the federal, State, and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs will likely increase. Claims against the District with respect to its facilities and services could be significant. Such claims are payable from assets of the District or from other legally available sources.

Although rates are the major source of funding for regulatory costs and the District has covenanted in the 2020 Installment Sale Agreement to establish such rates as are estimated to enable the District to pay the 2020 Installment Payments, no assurance can be given that the cost to remediate identified environmental conditions or to comply with increased requirements imposed as part of permit renewals, or by new laws and regulations will not materially adversely affect the District's ability to generate Net Revenues in the amounts required by the 2020 Installment Sale Agreement.

Increased Costs

The actual cost of operating and maintaining the Sanitation System and implementing necessary capital improvements (including the 2020 Project) will depend on a variety of factors, including but not limited to potential rising costs or shortages of labor or materials; the discovery of unforeseen subsurface conditions; earthquakes, floods, or other natural disasters; severe weather conditions; potential increases in construction costs and/or construction delays; and other events outside of the District's control. There can be no assurances that actual costs will not significantly exceed the costs projected by the District. If the actual costs of operating and maintaining the Sanitation System and implementing necessary capital improvements (including the 2020 Project) significantly exceed the costs projected by the District, then there could be a material adverse impact on the ability of the District to generate Net Revenues in the amounts required by the 2020 Installment Sale Agreement.

Proposition 218

Fees and charges imposed by the District for sewer services provided to residences and commercial establishments within their jurisdictions are subject to limitations imposed by State law. The following is a summary of certain of such limitations.

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the District, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. Proposition 218 substantially restricts the District's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the District's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2)

a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters within the District service area will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges, including solid waste rates and charges.

Further, "fees" and "charges" are not defined in Article XIII C or SB 919. However, on July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "Bighorn Decision") that charges for ongoing water delivery are property related fees and charges within the meaning of Article XIID and are also fees or charges within the meaning of Section 3 of Article XIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIC.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge which was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and

Maintenance and Operation Costs. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property-related. No assurance can be given that the voters in the District service area will not, in the future, approve an initiative which reduces or repeals rates and charges for sewer services.

Article XIII D of Proposition 218 also adds several provisions affecting “fees” and “charges” which are defined as “any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The District must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the District may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two thirds voter approval by the electorate residing in the affected area.

If written protests against any proposed increases are presented by a majority of the property owners in the District service area, the fee could not be increased. Inability to increase rates and charges due to Proposition 218 could materially adversely affect the ability of the District to impose service charges and to generate Net Revenues in the amounts required by the 2020 Installment Sale Agreement.

Natural Disasters

Potential damage resulting from natural disasters, such as earthquake, wildfires, flooding or tsunami could materially adversely affect the operations and financial condition of the Sanitation System. Under these circumstances, the District’s facilities and the District Plant may not meet regulatory requirements and may not be operable for some period of time. No prediction can be made as to the impact of natural disasters upon the District’s ability to operate the Sanitation System efficiently and effectively or to generate Net Revenues in the amounts required by the 2020 Installment Sale Agreement.

Climate Change

The change in the earth’s average atmospheric temperature, generally referred to as “climate change,” is expected to, among other things, increase the frequency and severity of extreme weather events and cause substantial flooding. The District cannot predict the timing, extent, or severity of climate change and its impact on the District’s operations and finances, or the economy in the District’s service area, but there can be no assurances such impacts will not be material and adverse.

Cybersecurity

The District and the County rely on computers and technology to conduct District operations. The District and the County face cyber threats from time to time including, but not limited to, hacking, viruses,

malware and other attacks on computers and other sensitive digital networks and systems. There have been, however, only limited cyber-attacks on the County's computer system.

No assurances can be given that the District's and the County's security and operational control measures will be successful in guarding against any and each cyber threat and attack. The results of any attack on the District's or the County's computer and information technology systems could impact its operations and damage the District's or the County's digital networks and systems, and the costs of remedying any such damage could be substantial. In addition to the cost of recovery, the District and the County could also be exposed to legal liability and incur reputation damage as constituents may lose confidence in the District and County's ability to protect information.

Limitations on Remedies and Bankruptcy

The District is authorized to file for bankruptcy under certain circumstances. Should the District file for bankruptcy, there could be adverse effects on the Holders or Beneficial Owners of the 2020 Certificates.

If the Net Revenues are "special revenues" under the Bankruptcy Code, then Net Revenues collected after the date of the bankruptcy filing should be subject to the lien of the 2020 Installment Sale Agreement. "Special revenues" are defined to include receipts derived from the ownership or operation of projects or systems that are primarily used to provide utility services. Although the Net Revenues appear to satisfy this definition and thus be "special revenues," no assurance can be given that a court would not hold that the Net Revenues are not special revenues or are not subject to the lien of the 2020 Installment Sale Agreement. In addition, the determination of whether or not particular revenues are "special revenues" is subject to broad judicial discretion, and may evolve over time as decisions are rendered in various bankruptcy cases throughout the United States. If the Net Revenues are determined to not be "special revenues," then Net Revenues collected after the commencement of the bankruptcy case will likely not be subject to the lien of the 2020 Installment Sale Agreement. The Holders or Beneficial Owners of the 2020 Certificates may not be able to assert a claim against any property of the District other than the Net Revenues, and if these amounts are no longer subject to the lien of the 2020 Installment Sale Agreement, then there may be no amounts from which the Holders or Beneficial Owners of the 2020 Certificates are entitled to be paid.

The Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the related project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, the District may be able to use Net Revenues to pay necessary operating expenses of the Sanitation System that are greater than or different from the Maintenance and Operation Costs defined in the 2020 Installment Sale Agreement before the remaining Net Revenues are made available to the Trustee to pay amounts owed to the Holders or Beneficial Owners of the 2020 Certificates. It is not clear which expenses would constitute necessary operating expenses.

If the District is in bankruptcy, then the District's creditors (including the Holders or Beneficial Owners of the 2020 Certificates) may be prohibited from taking any action to collect any amount from the District (including but not limited to Net Revenues constituting "special revenues") or to enforce any obligation of the District without the bankruptcy court's permission. This prohibition may also prevent the Trustee from making payments to the Holders or Beneficial Owners of the 2020 Certificates from funds in the Trustee's possession. The Rate Covenant (see "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rate Covenant") may not be enforceable in bankruptcy by the Trustee or the Holders or Beneficial Owners of the 2020 Certificates.

The provisions of the 2020 Installment Sale Agreement that provide that the commencement of a bankruptcy case by the District is an Event of Default and that certain other insolvency-related events with respect to the District are also Events of Default may be unenforceable. This may limit the ability of the Trustee to require the District to turn over to the Trustee Net Revenues and may allow the District to continue

to spend Net Revenues for any lawful purpose as provided in the 2020 Installment Sale Agreement, free and clear of the lien of the 2020 Installment Sale Agreement, notwithstanding that the District is in bankruptcy.

The District may be able, without the consent and over the objection of the Trustee and the Holders or Beneficial Owners of the 2020 Certificates, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the 2020 Installment Sale Agreement and the 2020 Certificates as long as the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the 2020 Certificates while the court considers any of these issues. There may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on the 2020 Certificates, or result in losses to the Holders or Beneficial Owners of the 2020 Certificates. Regardless of any specific adverse determinations in a District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and value of the 2020 Certificates.

COVID-19 Pandemic

The spread of COVID-19 is having significant negative impacts throughout the world, including in California. The World Health Organization has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the United States, the State, and numerous counties throughout the State, including the County of Santa Barbara where the District wastewater reclamation plant is located. The purposes behind these declarations are to coordinate and formalize emergency actions and across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread closings of businesses, universities and schools. The United States is restricting certain person from entering the country. In addition, financial markets in the United States and globally have been volatile, with significant declines attributed to COVID-19 concerns.

The State and the County have issued “stay at home” or “shelter in place” orders, which severely restrict the movements of residents and generally mandate residents to remain in their home and, in effect, prohibit non-essential workers from working outside their home. This has caused the disruption of daily life in all jurisdictions, including the closure of, among others, bars, dine-in restaurants, retail stores, schools, gyms, movie theatres, certain government buildings and religious institutions, and generally outlawing of gatherings. Restrictions on movement may be expanded as the crisis continues. The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate impact of COVID-19 on the operations and finances of the Sanitation System is unknown but not anticipated to be impacted.

The District cannot predict (i) the duration or extent of the COVID-19 outbreak; (ii) whether and to what extent COVID-19 may have on the operations of the Wastewater System; (iii) whether and to what extent the economic impacts of the COVID-19 pandemic will result in a significant increase in late payment or non-payment by customers of bills for services provided by the Wastewater System; (iv) whether and to what extent COVID-19 may disrupt the local, State, national or global economy, manufacturing or supply chain, or whether any such disruption may adversely impact Wastewater System-related construction, the cost, sources of funds, schedule or implementation of the Wastewater System’s capital improvement program, or other Wastewater System operations; or (v) whether any of the foregoing may have a material adverse effect on the finances and operations of the Wastewater System.

See the caption “THE SANITATION SYSTEM—COVID-19 (Pandemic)” for a discussion of the potential impacts of COVID-19 on the District.

THE COUNTY

The County was established by an act of the Legislature on February 18, 1850 as one of the original 27 counties of the State of California (the “State”), with the City of Santa Barbara as the County seat. The County has a population of approximately 435,700 and covers approximately 2,274 square miles, of which approximately one-third is located in the Los Padres National Forest, and is located on the California coast approximately 100 miles north of Los Angeles and approximately 300 miles south of San Francisco. The County is bordered by San Luis Obispo County to the north, Kern County on the east, Ventura County to the south and the Pacific Ocean on the west. The County contains eight incorporated cities.

The County has a general law form of government. A five-member Board of Supervisors, each member of which is elected by district to a four-year term, serves as the County’s legislative body. Elections are held every two years on a staggered basis. A Chair is elected annually by and from the Members of the Board of Supervisors. Also elected are the County Clerk-Recorder-Assessor, the Auditor-Controller, the District Attorney, the Superintendent of Schools, the Sheriff and Treasurer-Tax Collector/Public Administrator. A County Executive Officer and the County Counsel are appointed and hired by the Board of Supervisors.

THE CORPORATION

The Santa Barbara County Finance Corporation, Inc. was organized in July, 1983 as a California nonprofit public benefit corporation. The Corporation was formed for the specific and primary purpose of providing financial assistance to the County and other entities within the County in acquiring, constructing, improving, developing and installing certain real and personal property together with appurtenances and appurtenant work for the use, benefit and enjoyment of the public. The Corporation was formed at the request of the County and consists of a five-member Board of Directors selected by the Board of Supervisors. The Directors of the Corporation receive no compensation. The Corporation has no financial liability to the Owners of the 2020 Certificates with respect to the payment of 2020 Installment Payments by the District or with respect to the performance by the District of the other agreements and covenants it is required to perform under the legal documents relating to the 2020 Certificates.

FINANCIAL STATEMENTS

The most recent audited financial statements (the “Financial Statements”) of the County of Santa Barbara for the fiscal year ended June 30, 2019, which include the business-type activities of the District through Sanitation System, included in APPENDIX B – “COUNTY OF SANTA BARBARA AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2019,” have been examined by Brown Armstrong Accountancy Corporation, independent certified public accountants. The financial statements should be read in their entirety. Brown Armstrong Accountancy Corporation has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Brown Armstrong Accountancy Corporation with respect to any event subsequent to its report dated August 28, 2019.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each 2020 Installment Payment designated as and constituting interest paid by the District under the 2020 Installment Sale Agreement and received by the Owners of the 2020 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that

interest evidenced by the 2020 Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix B hereto.

To the extent the issue price of any scheduled principal payment of the 2020 Certificates is less than the amount payable on the scheduled principal payment date of such 2020 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such 2020 Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the 2020 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular scheduled principal payment date of the 2020 Certificates is the first price at which a substantial amount of such scheduled principal payment date of the 2020 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any scheduled principal payment date of the 2020 Certificates accrues daily over the term to the scheduled principal payment date of such 2020 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2020 Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on the scheduled principal payment date) of such 2020 Certificates. Beneficial Owners of the 2020 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2020 Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2020 Certificates in the original offering to the public at the first price at which a substantial amount of such 2020 Certificates is sold to the public.

2020 Certificates purchased, whether at original execution and delivery thereof or otherwise, for an amount higher than their principal evidenced thereby payable on the scheduled principal payment date thereof (or, in some cases, at their earlier prepayment date) (“Premium 2020 Certificates”) will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium 2020 Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium 2020 Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium 2020 Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the 2020 Certificates. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the 2020 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the 2020 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2020 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person), whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel’s attention after the date of execution and delivery of the 2020 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the 2020 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest evidenced by the 2020 Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest evidenced by, the 2020 Certificates may otherwise affect a 2020 Certificate holder’s federal, state or local tax liability. The

nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the 2020 Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2020 Certificates. Prospective purchasers of the 2020 Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel is expected to express no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2020 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to 2020 Certificates ends with the execution and delivery of the 2020 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the 2020 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed Special Counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2020 Certificates for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues may affect the market price for, or the marketability of, the 2020 Certificates, and may cause the District or the Beneficial Owners to incur significant expense.

The proposed form of opinion of Special Counsel is attached hereto as Appendix D.

CERTAIN LEGAL MATTERS

Certain legal matters in connection with the 2020 Certificates are subject to the approval of Orrick Herrington & Sutcliffe LLP, Special Counsel to the County. Certain legal matters will be passed upon for the County by the County Counsel and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel to the County, and for the Corporation by the County Counsel. The fees of Special Counsel and Disclosure Counsel are contingent and payable only upon execution and delivery of the 2020 Certificates. Special Counsel and Disclosure Counsel assume no responsibility for the accuracy, completeness or fairness of the Official Statement.

LITIGATION

To the best knowledge of the District there is no action, suit or proceeding known to be pending or threatened restraining or enjoining the execution or delivery of the 2020 Certificates, the 2020 Trust Agreement, the 2020 Installment Sale Agreement, or any other document relating to the 2020 Certificates, or in any way contesting or affecting the validity of the foregoing. The District is not aware of any litigation that would have a material adverse effect on the ability of the District to pay debt service on the 2020 Certificates.

RATINGS

Standard & Poor's Ratings Services ("S&P") has assigned the 2020 Certificates rating of "___." Such ratings reflect only the view of such rating agencies, and do not constitute a recommendation to buy, sell or hold the 2020 Certificates. Explanation of the significance of such ratings may be obtained only from the respective rating agencies. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely, if in the judgment of the rating agencies, circumstances so warrant. Any such downward revision or withdrawal of ratings may have an adverse effect on the market price of the 2020 Certificates.

PURCHASE AND REOFFERING

The 2020 Certificates were purchased at a competitive sale on _____, 2020, by _____ (the "Purchaser"), for an aggregate purchase price of \$_____ (representing the aggregate principal amount of the 2020 Certificates plus an original issue premium of \$_____ and less a Purchaser's discount of \$_____). The Notice of Sale provides that the Purchaser will purchase all of the 2020 Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions.

Under certain circumstances, the initial public offering yields stated on the page immediately following the cover of this Official Statement may be changed from time to time by the Purchaser. The Purchaser may offer and sell the 2020 Certificates to certain dealers (including dealers depositing the 2020 Certificates into investment trusts), dealer banks, banks acting as agent and others at yields higher than said public offering yields.

MUNICIPAL ADVISOR

The County has entered into an agreement with KNN Public Finance LLC (the "Municipal Advisor"), pursuant to which the Municipal Advisor provides financial recommendations and guidance to the County with respect to preparation for sale of the 2020 Certificates, timing of sale, bond market conditions, costs of issuance and other factors related to the sale of the 2020 Certificates. The Municipal Advisor has read and participated in the drafting of certain portions of this Official Statement. The Municipal Advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners (including beneficial owners of the 2020 Certificates) to provide certain financial information and operating data relating to the Sanitation System (the "Annual Report") by not later than nine months after the end of the County's fiscal year (which currently ends June 30), commencing with the report for the 2019-20 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The Annual Report and any notices of enumerated events will be filed by the County with the Municipal Securities Rulemaking Board ("MSRB") through its EMMA system. The specific nature of the information to be contained in the Annual Report or the notices of material events is included under the caption APPENDIX E — "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Purchaser in complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The District has not previously entered into continuing disclosure undertaking in connection with the Rule.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the 2020 Certificates.

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

LAGUNA COUNTY SANITATION DISTRICT

By: _____

APPENDIX A

**COUNTY OF SANTA BARBARA AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The finances of the District are reported as a “dependent special district” in the County of Santa Barbara Comprehensive Annual Financial Report. The Comprehensive Annual Financial Report also contains information with respect to the County’s General Fund, other enterprise funds, and other funds. The principal, or redemption price, of and interest on the Series 2020 Certificates are payable solely from the Net Revenues pledged for the payment thereof, and the inclusion of information relating to the General Fund, other enterprise funds, and other funds in the County of Santa Barbara Comprehensive Annual Financial Report does not create an implication that any of such other funds are available for payment of the Series 2020 Certificates.

APPENDIX B
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX C
FORM OF LEGAL OPINION

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The District, the Corporation, the Trustee and the Purchaser do not give any assurances that DTC, the Participants or others will distribute payments of principal of or interest on the 2020 Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The District, the Trustee or the Purchaser are not responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2020 Certificates or an error or delay relating thereto.

The following description of the procedures and record keeping with respect to beneficial ownership interests in the 2020 Certificates, payment of principal, prepayment premium, if any, and interest with respect to the 2020 Certificates to The Depository Trust Company (“DTC”), New York, NY, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the 2020 Certificates and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the District of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The District, the Corporation, the Trustee and the Purchaser understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

DTC will act as securities depository for the 2020 Certificates. The 2020 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2020 Certificate will be issued for each maturity of the 2020 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC is rated AA+ by Standard & Poor’s. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated by reference.

Purchases of the 2020 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2020 Certificates on DTC's records. The ownership interest of each actual purchaser of each 2020 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2020 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2020 Certificates, except in the event that use of the book-entry system for the 2020 Certificates is discontinued.

To facilitate subsequent transfers, all 2020 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2020 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2020 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2020 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2020 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2020 Certificates, such as prepayments, tenders, defaults, and proposed amendments to the 2020 Trust Agreement. For example, Beneficial Owners of the 2020 Certificates may wish to ascertain that the nominee holding the 2020 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Prepayment notices shall be sent to DTC, if less than all of the 2020 Certificates within a maturity are being prepaid. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be prepaid.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2020 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2020 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest with respect to the 2020 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District, the Corporation or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the District or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal of, premium, if any, and interest with respect to the 2020 Certificates by Cede & Co (or such other nominee as may be requested by an authorized representative of

DTC) is the responsibility of the District, the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2020 Certificates at any time by giving reasonable notice to the District, the Corporation or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2020 Certificate certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2020 Certificate certificates will be printed and delivered.

The foregoing information concerning DTC and DTC's book-entry system has been provided by DTC, and the District, the Corporation, the Purchaser or the Trustee do not take any responsibility for the accuracy thereof.

THE DISTRICT, THE CORPORATION, THE PURCHASER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF 2020 CERTIFICATES FOR PREPAYMENT.

The County, the Corporation, the Purchaser and the Trustee do not give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest with respect to the 2020 Certificates paid to DTC or its nominee, as the registered Owner, or any prepayment or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

In the event that the book-entry system is discontinued as described above, the requirements of the 2020 Trust Agreement will apply.

The District, the Corporation and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the 2020 Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the District nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the 2020 Certificates or an error or delay relating thereto.

NONE OF THE DISTRICT, THE CORPORATION, THE TRUSTEE OR THE PURCHASER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, THE SELECTION OF THE BENEFICIAL INTERESTS IN THE 2020 CERTIFICATES TO BE PREPAID IN THE EVENT OF PREPAYMENT OF LESS THAN ALL 2020 CERTIFICATES OF A PARTICULAR MATURITY OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE 2020 CERTIFICATES. NO ASSURANCE CAN BE GIVEN BY THE DISTRICT, THE CORPORATION, THE TRUSTEE OR THE PURCHASER THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES, INCLUDING PREPAYMENT NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE 2020 CERTIFICATES TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

APPENDIX F
OFFICIAL NOTICE OF SALE