

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2021

NEW ISSUE-BOOK-ENTRY ONLY

RATING:NONE

\$ _____ *

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
2021 WATER REVENUE BONDS
(BANK QUALIFIED)

Dated: Date of Delivery

The Bonds are being executed and delivered in fully registered form and when executed and delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in principal amounts of \$5,000 and integral multiples thereof and will be in book entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. Interest evidenced by the Bonds is payable semiannually on _____ 1 and _____ 1 of each year, commencing _____ 1, 2022. The principal of and interest with respect to the Bonds is payable by the Trustee to Cede and Co.; and such interest and principal payments and premium, if any, are to be disbursed to the beneficial owners of the Bonds through their nominees.

The Bonds are subject to optional and extraordinary prepayment as more fully described herein.

The Bonds are being delivered to provide funds (i) to fund a construction fund; (ii) to fund a reserve fund, and (iii) to pay costs of delivery of the Bonds, all as more fully described herein.

The Bonds are being delivered pursuant to the Trust Agreement dated as of _____ 1, 2021, by and among the Pajaro/Sunny Mesa Community Services District and U.S. Bank Global Trust as Trustee. The obligation of the District to pay principal of and interest on the Bonds is a special limited obligation of the District payable solely from Net Water Revenues of the District and certain funds and accounts created under the Trust Agreement.

Principal and interest on the Bonds are payable from Net Water Revenues of the District, consisting of the District's water system revenues and certain other revenues of the District remaining after payment of Operation and Maintenance Costs. The District may incur additional obligations payable from Net Water Revenues on parity with the Bonds, subject to the terms and conditions of the Trust Agreement, as more fully described herein.

The obligation of the District to pay principal and interest on the Bonds does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which it has levied or pledged any form of taxation. The obligation of the District to pay principal and interest on the Bonds is a special limited obligation of the District payable solely from net water revenues, and does not constitute a debt of the District or of the state of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

In the opinion of Robert M. Haight, Attorney at Law, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, the portion of each Water Revenue Payment constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of the Special Counsel, the portion of each Water Revenue Payment constituting interest (and original issue discount) is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences with respect to the Bonds.

This cover page contains certain information for reference only. It is not a summary of this issue. Investors are advised to read the entire official statement to obtain information essential to the making of an informed investment decision.

STINSON SECURITIES LLC

The Bonds are offered when, as and if delivered and received by the Underwriter, subject to the approval of the valid, legal and binding nature of the Trust Agreement by Robert M. Haight, Attorney at Law, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the District by Alan Smith, Esq., and for the Trustee by its counsel. It is anticipated that the Bonds will be available for delivery through the facilities of The Depository Trust Company on or about _____, 2021.

\$ _____

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
2021 WATER REVENUE BONDS
MATURITY SCHEDULE

<u>Maturity</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield</u>
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No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering made hereby and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. 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 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The Underwriter has provided the following sentence for inclusion in this official statement.

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

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. The information and expression of opinions 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 since the date hereof.

In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act. The Bonds have not been registered or qualified under the securities laws of any state.

All information material to the making of an informed investment decision with respect to the Bonds is contained in this Official Statement. While the District maintains an internet website for various purposes, none of the information on its website is incorporated by reference into this Official Statement. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

**PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS**

Sanford Coplin, President
Robert Moody, Vice-President
Darlene Lamboley, Director; District Secretary
Michael Moore, Director; Asst. District Secretary
Harry Wiggins, Director, Treasurer

DISTRICT STAFF

Don Rosa, General Manager/District Secretary
Thomas Yeager, District Engineer
Alan Smith, District Counsel
Judy Vasquez Varcia, Operations Manager

PROFESSIONAL SERVICES

District Counsel

Alan Smith
Watsonville, California

Special Counsel

Robert M. Haight
Scotts Valley, California

Trustee

U.S. Bank Global Trust
Los Angeles, California

Dissemination Agent

NBS Government Finance Group
Temecula, California

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JUNE 30, 2021**

SUMMARY STATEMENT

This summary is subject in all respects to the more complete information contained in this Official Statement, and the offering of the Bonds to potential investors is made only by means of the entire Official Statement.

Purpose. The Bonds are being delivered to provide funds (i) to fund a construction fund; (ii) to fund a reserve fund, and (iii) to pay costs of delivery of the Bonds, all as more fully described herein.

Security for the Bonds. The Bonds are payable from Net Water Revenues of the District, consisting of water system revenues and certain other revenues of the District remaining after payment of Operation and Maintenance Costs, and are additionally secured by certain funds and accounts established pursuant to the Trust Agreement. Under the Trust Agreement, the District has covenanted not to issue or incur any obligations payable from Net Water Revenues senior to the Bonds. The District may issue additional Bonds or incur contracts payable from Net Water Revenues on a parity with the Bonds in the future as described herein. The District may at any time execute an obligation payable from Water Revenues payable on a subordinated basis to the payment of the principal of and interest on the Bonds.

The obligation of the District to pay principal of and interest on the Bonds is absolute and unconditional, and until such time as all payments required thereunder shall have been paid in full (or provision for the payment thereof shall have been made as provided for in the Trust Agreement).

The obligation of the District to pay principal of and interest on the Bonds does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay principal of and interest on the Bonds is a special limited obligation of the District payable solely from the Net Water Revenues, and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

The Bonds are issued on a parity with (a) 2007 Loan Refinancing, more particularly set forth in Table 1 herein, and (b) the 2015 Water Revenue Bonds more particularly set forth.

Rate Covenant. The Trust Agreement will require the District, to the fullest extent permitted by law, to fix, prescribe and collect rates and charges for the Water Service provided by the Water System which will be at least sufficient to yield during each Fiscal Year Water System Net Water Revenues equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year, on the Bonds and any then outstanding parity obligations.

Additional Bonds Test. The Trust Agreement permits the District to execute any contract or issue any Bonds, as the case may be, payable from Net Water Revenues on parity with the Bonds, provided that certain conditions under the Trust Agreement are satisfied as described herein.

Reserve Fund. Concurrently with the execution and delivery of the Bonds, the Trustee is to establish, maintain and hold in trust a Reserve Fund and the District will deposit therein District reserves in an amount equal to the Reserve Requirement. Moneys in the Reserve Fund will be used and withdrawn solely for the purpose of paying principal of and interest evidenced by the Bonds in the event moneys in the Bond Payment Fund are insufficient therefore and making the final payments of principal of and interest evidenced by the Bonds.

Redemption. The Bonds are subject to optional prepayment as described herein.

The District. The Pajaro/Sunny Mesa Community Services District (the "District") was incorporated in 1983 pursuant to the Community Services District Act as set forth in the Government Code of the State of California. The present District was formed in 1992 by consolidating the area formerly served by the Pajaro Fire District and the Sunny Mesa Mutual Water Company. It is located in the foothills of the Pajaro Valley which is adjacent to the City of Watsonville, California, eighty (80) miles southeast of San Francisco, California, and fifteen (15) miles north of Salinas, California (see the location map above).

The District is, among other things, empowered to provide park and street lighting services to the community of Royal Oaks and to supply domestic water from its various facilities, which, as of January 1, 2021, consisted of 1403 connections.

The District is governed by a 5-member Board of Directors who are appointed by the Monterey County Board of Supervisors to serve 4-year terms.

\$ _____ *

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
2021 WATER REVENUE BONDS

INTRODUCTION

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of Pajaro/Sunny Mesa Community Services District 2021 Water Revenue Bonds (the "Bonds"). Descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in Appendix B hereto entitled "DEFINITIONS AND SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The Bonds are payable by the Pajaro/Sunny Mesa Community Services District (the "District") and are issued under the Trust Agreement dated as of _____, 2021 (the "Trust Agreement"), by and between the District and U.S. Bank Global Trust (the "Trustee").

The Bonds are being delivered to provide funds (i) to fund a construction fund; (ii) to fund a reserve fund, and (iii) to pay costs of delivery of the Bonds, as more fully described under the caption "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The principal of and interest on the Bonds are payable from Net Water Revenues of the District, consisting of water system revenues and certain other revenues of the District remaining after payment of Operation and Maintenance Costs and are additionally secured by certain funds and accounts established under the Trust Agreement. The District may incur additional obligations payable from Net Water Revenues on parity with the Bonds, subject to the terms and conditions of the Trust Agreement, as more fully described under the caption "SECURITY FOR THE BONDS" herein.

The obligation of the District to pay principal of and interest on the Bonds under the Trust Agreement is absolute and unconditional, and until such time as all payments required thereunder shall have been paid in full (or provision for the payment thereof shall have been made as provided for in the Trust Agreement).

The obligation of the District to pay principal of and interest on the Bonds pursuant to the Trust Agreement does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay principal of and interest on the Bonds is a special limited obligation of the District payable solely from the Net Water Revenues, and does not constitute a debt of the District or of the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Under the Trust Agreement, the District has covenanted not to issue or incur any obligations payable from Net Water Revenues senior to the Bonds. The District may issue additional Bonds or execute contracts payable from Net Water Revenues on parity with the Bonds in the future as described herein. The Trust Agreement does not impose any limitation on the issuance of additional obligations payable from Net Water Revenues subordinate to the Bonds.

The summaries and references to the Trust Agreement and all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary or reference is qualified in its entirety by reference to the full the Trust Agreement and each such

* Preliminary, subject to change.

document, statute, report or instrument, copies of which are available for inspection at the offices of the District in Royal Oaks, California and will be available from the Trustee upon request and payment of duplication cost. The capitalization of any word not conventionally capitalized or otherwise defined herein, indicates that such word is defined in the Trust Agreement and, as used herein, has the meaning given to it in the Trust Agreement Unless otherwise indicated, all financial and statistical information herein has been provided by the District.

The District regularly prepares a variety of reports, including audits, budgets and related documents. Any Bond Owner may obtain a copy of such report, as available, from the Trustee or the District. Additional information regarding this Official Statement may be obtained by contacting Don Rosa, General Manager, Pajaro/Sunny Mesa Community Services District, 136 San Juan Road, Royal Oaks, California 95076, telephone (831) 722-1389.

THE BONDS

General Provisions

The Bonds will be executed and delivered in the aggregate principal amount of \$ * The Bonds will be dated as of the date of initial delivery thereof (the "Delivery Date"), will represent interest from such date at the rates per annum set forth on the inside front cover page hereof, payable semiannually on 1 and 1 of each year, commencing 1, 2022 (each, an "Interest Payment Date"), and will mature on the dates set forth on the cover page hereof. Interest with respect to the Bond will be computed on the basis of a 360-day year of twelve thirty-day months.

The Bonds will be delivered only in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC" or the "Depository"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form, in denominations of \$5,000 or any integral multiple thereof See the caption "Book-Entry Only System" below and Appendix D attached hereto.

In the event the book-entry only system described below is discontinued, the principal and prepayment premium (if any) evidenced by any Bonds are payable by check or draft of the Trustee upon presentation and surrender thereof at maturity or upon prior prepayment at the office of the Trustee in San Francisco, California (the "Office of the Trustee"). Interest evidenced by each Bond is payable on each Interest Payment Date to the person whose name appears on the registration books maintained by the Trustee (the "Registration Books") as the Owner thereof as of the close of business on the fifteenth day of the calendar month preceding the Interest Payment Date (the "Record Date"), such interest to be paid by check or draft of the Trustee, sent by first class mail to the Owner at such Owner's address as it appears on the Registration Books. An Owner of \$1,000,000 or more in principal amount of Bonds may, at such Owner's option, be paid interest by wire transfer of immediately available funds in accordance with written instructions provided to the Trustee by such Owner prior to the applicable Record Date. The principal of and interest and premium evidenced by the Bonds shall be payable in lawful money of the United States of America.

Interest with respect to any Bond will be payable from the Interest Payment Date preceding the date of execution thereof, unless such date is after a Record Date and on or before the succeeding Interest Payment Date, in which case interest with respect thereto will be payable from such Interest Payment Date, or unless such date is on or before the fifteenth day of the calendar month prior to the first Interest Payment Date, in which case interest with respect thereto will be payable from the Delivery Date.

* Preliminary, subject to change.

Book-Entry Only System

Prior to the execution and delivery of the Bonds, the District may provide that such Bonds shall be initially executed and delivered as book-entry Bonds. If the District shall elect to deliver any Bonds in bookentry form, then the District shall cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such Bonds in an authorized denomination corresponding to that total principal amount of the Bonds designated to mature on such date. Upon initial execution and delivery, the ownership of each such Bond shall be registered in the Bond registration books in the name of the Nominee, as nominee of the Depository and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in the Trust Agreement.

In the event (i) the Depository determines not to continue to act as securities depository for bookentry Bonds, or (ii) the District determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Bonds or the District, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Bond for each of the maturity dates of such book-entry Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Trust Agreement. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be restricted to being registered in such Bond register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of the Trust Agreement.

With respect to book-entry Bonds, the District and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Bonds, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond registration books, of any notice with respect to book-entry Bonds, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be prepaid in the event the District prepaes the Bonds in part, or (iv) the payment by the Depository or any Participant or any other person, of any amount with respect to principal, premium, if any, or interest with respect to book-entry Bonds. See Appendix D hereto for additional information concerning DTC.

Transfers and Exchanges upon Termination of Book-Entry Only System

Any Bond may, in accordance with its terms, be transferred by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Trustee shall execute and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Bond executed and delivered upon any transfer. The Trustee may require the payment by any Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Bonds, the Trustee shall cancel and destroy the Bonds it has received.

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Trustee may charge a sum for each new Bond executed and delivered upon any exchange except in the case of any exchange of temporary Bonds for definitive Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Bonds, the Trustee shall cancel and destroy the Bonds it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to the Trust Agreement, of any Bond (i) within 15 days preceding selection of Bonds for prepayment or (ii) selected for prepayment.

Optional Redemption

The Bonds with stated maturities on or after _____, 20__ shall be subject to redemption prior to their respective stated maturities, as a whole or in part on any Interest Payment Date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after _____, 20__ from amounts prepaid by the District pursuant to the Trust Agreement at a Prepayment Price below equal to the principal amount of such Bonds to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment:

Redemption Dates (Inclusive)	Redemption Price
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TO COME

Extraordinary Redemption from Insurance and Condemnation Proceeds

The Bonds shall be subject to extraordinary prepayment from insurance and condemnation proceeds prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 30 days prior to such date and by lot within each maturity in integral multiples of \$5,000 from prepaid Water Revenue Payments made by the District from Net Proceeds, upon the terms and conditions of, and as provided for in the Trust Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Notice of Redemption

Before making any redemption, the District may, within five (5) days following the event permitting the exercise of such right to redeem or creating such obligation to redeem, give written notice to the Trustee describing such event and specifying the date on which the redemption of the Bonds will be paid, which date shall be not less than twenty (20) days from the date such notice is given, unless such redemption must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of redemption may be timely given pursuant to the Trust Agreement.

Notice of redemption shall be mailed, first class postage prepaid, to the respective Owners of any Bonds designated for redemption at their addresses appearing on the Bond registration books and to the Information Services and by registered or certified or overnight mail to the Securities Depositories at least 20 days but not more than 30 days prior to the redemption date.

Each notice of redemption shall state the date of notice, the redemption date, the place or places of redemption and the Redemption Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Bonds of any such maturity are to be redeemed, the serial numbers of the Bonds of such maturity to be

redeemed by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for redemption and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal represented thereby in the case of a Bond to be redeemed in part only, together with interest accrued with respect thereto to the redemption date, and that (provided that moneys for redemption have been deposited with the Trustee) from and after such redemption date interest with respect thereto shall cease to accrue, and shall require that such Bonds be then surrendered to the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the redemption of any Bond.

Notice of redemption of Bonds shall be given by the Trustee on behalf of and at the expense of the District.

2007 LOAN PAYMENT SCHEDULE

The 2007 Loan Refinancing and District Improvement Project (the "2007 Loan") in the original principal amount of \$520,000 was executed and delivered on March 14, 2007 for the purpose of refinancing an existing loan with Santa Cruz County Bank and the construction of various District improvements, and constituted a first lien on all District Net Water Revenues. The Bonds are secured by a lien on Net Water Revenues on parity with the 2007 Loan. The present outstanding 2007 Loan payment schedule, assuming the 2007 Loan is outstanding until the maturity date, is set forth in Table 1:

TABLE 1

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Annual Debt Service</u>
September 14, 2021			\$5,643.75	\$5,643.75	
May 14, 2022	5.250	\$30,000	5,643.75	35,643.75	\$41,287.50
September 14, 2022			4,856.25	4,856.25	
May 14, 2023	5.250	35,000	4,856.25	39,856.25	44,712.50
September 14, 2023			3,937.50	3,937.50	
May 14, 2024	5.250	35,000	3,937.50	38,937.50	42,875.00
September 14, 2024			3,018.75	3,018.75	
May 14, 2025	5.250	35,000	3,018.75	38,018.75	41,037.50
September 14, 2025			2,100.00	2,100.00	
May 14, 2026	5.250	40,000	2,100.00	42,100.00	44,200.00
September 14, 2026			1,050.00	1,050.00	

May 14, 2027	5,250	40,000	1,050.00	41,050.00	42,100.00
Total		\$215,000	\$41,212.50	\$256,212.50	\$256,212.50

TABLE 2
DEBT SERVICE SCHEDULE
2015 WATER REVENUE REFUNDING BONDS

Bond Payment Date	Principle	Interest Rate	Debt Service	Annual Debt Service
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11/01/21		\$37,697.50	\$37,697.50	
05/01/22	\$70,000	37,697.50	107,697.50	\$145,395.00
11/01/22		36,647.50	36,647.50	
05/01/23	70,000	36,647.50	106,647.50	143,295.00
11/01/23		35,562.50	35,562.50	
05/01/24	75,000	35,562.50	110,562.50	146,125.00
11/01/24		34,343.75	34,343.75	
05/01/25	75,000	34,343.75	109,343.75	143,687.50
11/01/25		33,031.25	33,031.25	
05/01/26	80,000	33,031.25	113,031.25	146,062.50

11/01/26		31,571.25	31,571.25	
05/01/27	80,000	31,571.25	111,571.25	143,142.50
11/01/27		30,071.25	30,071.25	
05/01/28	85,000	30,071.25	115,071.25	145,142.50
11/01/28		28,435.00	28,435.00	
05/01/29	90,000	28,435.00	118,435.00	146,870.00
11/01/29		26,680.00	26,680.00	
05/01/30	90,000	26,680.00	116,680.00	143,360.00
11/01/30		24,880.00	24,880.00	
05/01/31	95,000	24,880.00	119,880.00	144,760.00
11/01/31		22,956.25	22,956.25	
05/01/32	100,000	22,956.25	122,956.25	145,912.50
11/01/32		20,906.25	20,906.25	
05/01/33	105,000	20,906.25	125,906.25	146,812.50
11/01/33		18,727.50	18,727.50	
05/01/34	110,000	18,727.50	128,727.50	147,455.00
11/01/34		16,417.50	16,417.50	
05/01/35	110,000	16,417.50	126,417.50	142,835.00

11/01/35		14,080.00	14,080.00	
05/01/36	115,000	14,080.00	129,080.00	143,160.00
11/01/36		11,550.00	11,550.00	
05/01/37	120,000	11,550.00	131,550.00	143,100.00
11/01/37		8,910.00	8,910.00	

Figures are rounded to the nearest dollar.

SECURITY FOR THE BONDS

Limited Obligations Payable from Net Water Revenues

Principal and interest on the Bonds are payable from Net Water Revenues of the District, consisting of the District's water system revenues and certain other revenues of the District remaining after payment of Operation and Maintenance Costs. The District may incur additional obligations payable from Net Water Revenues on parity with the Bonds, subject to the terms and conditions of the Trust Agreement, as more fully described herein.

The obligation of the District to pay principal of and interest on the Bonds is absolute and unconditional, and until such time as the Bonds specified in the Trust Agreement shall have been paid in full (or provision for the payment thereof shall have been made as provided for in the Trust Agreement).

THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO PAY PRINCIPAL OF AND INTEREST ON THE BONDS UNDER THE TRUST AGREEMENT IS A SPECIAL LIMITED OBLIGATION OF THE DISTRICT PAYABLE SOLELY FROM NET WATER REVENUES, AND DOES NOT CONSTITUTE A DEBT OR INDEBTEDNESS OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS.

In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to receive all Water Revenues in trust hereunder and shall be deposited when and as received in a special fund designated as the "Water Revenue Fund," which fund has been previously established

by the District and is hereby continued and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as the 2021 Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided in Section 5.1 of the Trust Agreement. All moneys in the Water Revenue Fund shall be held in trust and shall be applied, used and withdrawn for the purposes set forth in this Section.

The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable.

Rate Covenant

The Trust Agreement will require the District to the fullest extent permitted by law, to fix, prescribe and collect rates and charges for the Water Service provided by the Water System which will be at least sufficient to yield during each Fiscal Year Water System Net Water Revenues equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year allocable to the Water System, including any parity obligations.

The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Water System Net Water Revenues from such reduced rates and charges will at all times be sufficient to meet the covenant described in the prior paragraph.

Additional District Indebtedness

General. Under the Trust Agreement, the District has covenanted not to issue or incur any obligations payable from Net Water Revenues senior to the Bonds. The District may issue contracts or additional bonds payable from Net Water Revenues on parity with the Bonds in the future as described herein. The Trust Agreement does not impose any limitation on the issuance of additional obligations payable from Net Water Revenues subordinate to the Bonds under the Trust Agreement, the District may execute any Contracts or issue any Bonds, as the case may be, payable from Net Water Revenues after payment of Operation and Maintenance Costs, on parity with the Bonds, provided that certain conditions are satisfied as provided below.

a. The Net Water Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Contracts or Bonds, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant on such calculation on file with the District, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the Debt Service on any outstanding Parity debt for such Fiscal Year; and

b. The Net Water Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Contracts or Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the Debt Service on any outstanding Parity debt for such Fiscal Year. (See Table 1 and 2 above for the amount of payments.)

Reserve Fund

A Reserve Fund is established under the Trust Agreement in an amount equal to \$ _____, representing the Reserve Requirement (the "Reserve Requirement"). The Reserve Requirement will be funded from the proceeds of the Bonds. If one day prior to any Payment Date the moneys in the Bond Payment Fund are insufficient to make the payments required by the Trust Agreement with respect to Bonds on such Payment Date, the Trustee will transfer from the Reserve Fund to the Bond Payment Fund the amount of such insufficiency.

The "Reserve Requirement" means the lesser of (i) 10% of the proceeds of the Bonds, (ii) the maximum annual debt service, or (iii) 125% of the average annual debt service on the Bonds.

If the amount available and contained in the Reserve Fund exceeds the Reserve Requirement and if the District is not then in default under the Trust Agreement, the Trustee shall semiannually on or before 1 and 1 withdraw the amount of such excess from the Reserve Fund and shall deposit such amount in the Bond Payment Fund, and for this determination the Trustee shall make a valuation of the Reserve Fund on each Payment Date. Except for such withdrawals, all moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying, when due, principal and interest with respect to the Bonds in the event that no other moneys of the District are available therefor or to pay such amounts at maturity.

For the purpose of determining the amount in the Reserve Fund, all Permitted Investments credited to the Reserve Fund shall be valued at the lower of cost (inclusive of all interest accrued but not paid) or market value. In making any valuations of Permitted Investments, the Trustee shall utilize such securities pricing services as may be available to it, including those within the Trustee's regular accounting system.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds:

SOURCES:

Bond Proceeds	\$
Original Issue Discount	
Total Sources	\$

USES:

Construction Fund
Reserve Fund⁽¹⁾

Costs of Issuance⁽²⁾

Total Uses

\$

- (1) Equal to the Reserve Requirement
 (2) Includes underwriter's discount and certain legal, financing and printing costs.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

General

The District was formed and incorporated in 1983 pursuant to the Community Services District Act as set forth in the Government Code of the State of California. The present District was formed in 1992 by consolidating the area formerly served by the Pajaro Fire District and the Sunny Mesa Mutual Water Company. It is located in the foothills of the Pajaro Valley which is adjacent to the City of Watsonville, California, eighty (80) miles southeast of San Francisco, California, and fifteen (15) miles north of Salinas, California.

The District is, among other things, empowered to provide park and street lighting services to the community of Pajaro/Sunny Mesa and to supply domestic water from its various facilities, which, as of January 1, 2021, consisted of 1,403 connections.

Governance and Management

The District is governed by a 5-member Board of Directors (the "Board") who are appointed by the Monterey County Board of Supervisors and serve 4-year terms. The current directors are set forth below:

<u>Directors</u>	<u>Expiration of Term</u>	<u>Occupation</u>
Sanford Coplin, President	November 30, 2021	Retired
Robert Moody, Vice-President	November 30, 2023	Retired
Harry Wiggins, Treasurer	November 30, 2021	Retired
Darlene Lamboley, Secretary	November 30, 2023	Retired
Michael Moore, Assistant Secretary	November 30, 2021	Director of Quality Operations

General Manager, Don Rosa, has a Grade T2 Certification Water Treatment Operator Certificate, a Water Distribution Operator Grade D3, and Cross Connection Control Specialist and has attended State sponsored classes at Hartnell College. He has 17 years of on-the-job experience.

Land and Land Use

The District encompasses an area of approximately 3,840 acres of which approximately 1,280 acres are presently urban or suburban and approximately 2,560 acres are agricultural. Highway 1 runs through the District. Land within the District is relatively level, with elevations from 28 feet above sea level to 1,500 feet above sea level. Average rainfall is approximately 18 inches a year.

Employees and Employee Benefits

General. The District currently employs approximately 11 persons, of whom 6 work in the water department, 3 work in maintenance operations, and 2 work in accounting and clerical support.

The employees of the District are not represented by a union. The District has not experienced any strike or other labor actions.

Retirement Plan. The District administers its own defined contribution retirement plan which provides retirement benefits to all full-time employees. The District is required to contribute an amount equal to fifteen percent (15%) of the permanent full-time employees' gross salaries. The contribution to the Plan was \$104,427 for the year ended June 30, 2020. On June 30, 2020, the assets of the plan were invested in cash equivalents, mutual funds and debt instruments. Employees become 50% vested in the Plan immediately upon hire. An employee becomes 100% vested after the Plan has been in effect for five years and after he/she has completed five years of regular, full-time employment and has attained the age of 55 or older. Any employee forfeitures revert back to the District. The fair market value (and carrying value) of the Plan is determined by the current value of the Plan's investment portfolio in the open market.

Budget Process

Prior to June 1 of each year, the Manager submits a proposed budget for the District for the Fiscal Year commencing the following July 1 to the Board of the District. The Board generally discusses the budget at one of its regularly-scheduled public meetings to provide an opportunity for comments from residents and ratepayers. Subsequent to the public workshops, the Board approves the budget prior to July 1. The District's budget is prepared on the accrual basis and includes the District's projected water and sewer system revenues and expenses.

The Board adopted capital and operating budgets for the 2020-21 Fiscal Year on June 24, 2021, a copy of which is attached hereto as Appendix A.

District Insurance

The District is insured for property losses, auto and general liability, workers compensation, public official's liability, and underground tank storage losses, through a risk-pooling, self-insurance authority, Association of California Water Agencies Joint Powers Insurance Authority. The District establishes a self-insured retention amount which represents the District's deductible per occurrence and ASCWA JPIA provided self-insured covered up to the established pool limits for the various type of insurance coverage. Coverage limits are \$2,000,000 per occurrence for general liability, automotive and public official's liability; replacement cost for property, subject to varying deductibles; \$100,000 for crime coverage; and statutory limits for workers compensation.

The District also maintains worker's compensation insurance with the JPIA.

The District paid no material uninsured losses during the last three Fiscal Years.

Water Service Charges

On April 22, 2021, the District enacted Ordinance No. 04-01-21 which established rates and charges for Fiscal Years 2021-2026 in compliance with Proposition 218. For information with respect to certain constitutional provisions which may affect the ability of the District to increase rates and charges, see the caption "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES". There is no mandatory connection policy in the District.

The District's 2020-2021 Rate Schedule is set forth in Appendix F hereto. The District completed a cost-of-service rate study in September 2020, which updated rates for fiscal year 2021-2022. The District has approved an additional rate increase on July 1, 2022 for the fiscal year 2022-2023 and new rate schedules for fiscal years 2022-2023 through 2025-2026. The cumulative rate increases for the five-year period of fiscal years 2021-2022 through 2025-2026 is 63 percent.

The District various rate charges include the following:

- (1) service availability charges;
- (2) water service construction charges;
- (3) residential and non-residential connection charges;
- (4) meter installation charges;
- (5) main extension charges
- (6) fire service charges; and
- (7) miscellaneous service charges.

Collection Procedures

The District collects its water revenues on a monthly basis based on the amount of water consumed in the previous 30 days.

For accounts in arrears, the following procedures apply:

- (1) If a customer become 30 days overdue, the next statement is stamped "Past Due" as a reminder notice and late fees are assessed.
- (2) If account becomes 60 days overdue, the next statement will include a "3-Day Notice".

- (3) If account is paid in full or payment arrangements are made, no further action will be taken.
- (4) If account is not paid after the "3-Day Notice", a "24-Hr. Notice" is hand delivered to residence.
- (5) If account remains delinquent, water service is discontinued and customer is charged a reconnection fee to restore service.

As of May 1, 2021, there are 25 accounts that are subject to a "3-Day Notice" amounting to 1.8% of the District's estimated total connections.

Outstanding Indebtedness

Other than the District's 2007 Loan Refinancing, with an outstanding principle balance of \$215,000 and the 2015 Water Revenue Refunding Bonds with an outstanding principal balance of \$1,875,000, the District does not have any further indebtedness payable from Water Revenues or Net Water Revenues.

Future System Improvements

The District routinely makes capital improvements and additions to the District's water system and other District facilities. Except as described below, the District does not currently project issuing any Bonds to finance any water improvements or additions.

Water Supply Sources

The District presently operates ten (10) operating water wells and three (3) standby water wells within its water delivery system, as follows:

	<u>Status</u>	<u>Pumping Capacity</u> (Gallons/Minute)
Pajaro Well #1	Active	800
Pajaro Well #2	Standby	1,394
Sunny Mesa Well #1	Active	375
Sunny Mesa Well #2	Standby	195
Vega Well - Vista Verde	Active	196
Vega Well - Oak Leaf	Active	220
Blackie Well #1	Active	50
Langley/Valle Pacifico Well #2	Active	16
Moss Landing Water Well #1	Active	450
Moss Landing Water Well #3	Standby	475
Normco Water Well #1	Active	125

Vierra Estates Well #3	Active	26
Springfield Water Well #1	Active	85
Total		4,878

Source: The District

All water systems consist of a water well, tank(s), pressure system, main lines, laterals, meters with boxes, valve system for protection, and isolation by areas.

At a pumping ability to deliver 5,160 gallons per minute (or 222,912,000 gallons per month), the District has more than sufficient capacity to deliver water into the near future. As of May 2021, the District pumps approximately 424 gallons per minute (or 18,305,804 gallons per month).

Source: The District

Numbers of Water Connections

The numbers of water connections has gradually increased during the 2020-2021 period. Table 3 sets forth the number of connections, the two zones within the District and total number of water connections for this period.

Table 3
NUMBER OF CONNECTIONS

Routes 1-8	853
Routes 10-15	550
Total Number of Connections	1403
Source: The District	

California Drought

The District is presently adhering to the Governor's voluntary reduction of water conservation by 20%.

Consumption Data and Conversion Table

The amount of water consumption (100 cu. ft.) and the gallon conversion for the two zones within the District for the period of 2018-2021 are set forth in Table 4.

Table 4

<u>Fiscal Year</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
Routes 1-8	169,300	160,269	165,271	164,377
Routes 10-15	105,063	94,027	99,456	103,877
Total Water Consumption (100 cu.ft.)	274,363	254,296	264,727	268,254
<u>Converted to Gallons</u>	205,223,524	190,213,408	198,015,796	200,653,992

WATER CONSUMPTION (100 CU. FT.)

(Number of units x 748 = gallons)

(¹) 2020-21 Fiscal Year through April, 2021

Source: The District

Five Largest Water Consumers

The five largest water consumers in fiscal year 2020-2021 within the District are set forth in Table 5.

Table 5

FIVE LARGEST WATER CONSUMERS

<u>Customer</u>	<u>Cubic Feet Consumed</u>	<u>Revenue Generation</u>	<u>% of Water Revenue</u>
-----------------	----------------------------	---------------------------	---------------------------

1 MLC0001 11-0720	10,113	\$60,910.85	3
2 KR10001 01-1420	5,241	\$34,276.11	1.7
3 PAJ0006 03-060	5,034	\$33,039.78	1.6
4 PVU0001 03-0105	4,146	\$29,986.50	1.4
5 HOL0001 13-1895	3,876	\$22,895.16	1.1

Source: The District

DISTRICT FINANCIAL INFORMATION

2020-21 Capital Operating Budget

A copy of the District's 2021-22 Unaudited Capital Operating Budget is included as Appendix A hereto (the "2021-22 Budget").

Financial Statements and Independent Auditor Report

A copy of the District's Financial Statement for the year ended June 30, 2020 is included as Appendix G. The District's Financial Statement for the year ended June 30, 2021 has not been completed to date.

Historic Revenues

The 2007 Loan Refinancing was secured by the District's irrevocable pledge of District revenues, the Revenue Fund and the other funds and accounts of the District which were deposited in the Revenue Fund, less Operation and Maintenance Costs.

The Revenue Certification of Participation, Series 2010, were secured by the total Revenues of the District for each Fiscal Year, less Operation and Maintenance Costs for such Fiscal Year.

Table 6 sets forth all revenue and expenses of the District for the three most recent Fiscal Years, in compliance with the security provisions of the 2007 Loan Refinancing and the 2015 Water Revenue Refunding Bonds.

Table 6**Historic District Revenues From All Sources*****Subject to Final Audit**

REVENUES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21*</u>
Water Fees ⁽¹⁾	1,826,951	1,814,080	1,967,158	2,026,173
PVWMA Fees ⁽²⁾	25,189	26,223	31,300	32,237
Connection Fees ⁽⁴⁾	5,000	36,806	22,283	22,951
Other Revenue(s)	472,412	404,245	206,697	212,898
Total Revenues in Dollars	2,387,267	2,344,703	2,256,135	2,294,261
Expenses				
Salaries and Benefits	958,659	979,404	988,411	1,018,063
Operational Maintenance Expense	293,753	327,506	425,020	437,771
All Other Expenses	603,424	555,218	350,910	361,437
Total O&M Expenses	1,855,836	1,862,128	1,764,342	1,817,217
Net Water Revenues	531,431	482,574	491,793	476,990
Debt Service on 2007 Loan Refinancing	42,063	40,750	44,500	42,862
Debt Service on 2015 Water Revenue Refunding Bonds	146,775	145,475	143,715	147,355
Net Operating Revenues After Debt Service	342,593	296,349	303,578	286,773
Debt Service Coverage	2.81	2.59	2.61	2.5

- (1) District Contracts with various residential subdivisions to maintain streets, landscaping, and storm-drainage systems on a fiscal fee basis
- (2) District receives 25% of all fees collected on behalf of the Pajaro Water Management Agency
- (3) Contract Fees include fees for the operation and maintenance of seven privately or community owned water facilities.
- (4) Connections are based on charges for new construction. In fiscal year 2020-2021, two new commercial structures were connected to the water system of the District.
- (5) Other Revenues consist of insurance, utility and lighting reimbursement, administration fees, accounting and bookkeeping reimbursement.
- (6) All Other Expenses include utilities, bookkeeping, accounting, insurance, testing, office supplies, postage, licenses, permits and fuel.

Projected Water Revenues and Expenses; Debt Service Coverage

The District's projected Water Revenues and Expenses (pertaining to the Water Enterprise only) for the Fiscal Years ending June 30, 2019 to June 30, 2021 are set forth below, reflecting certain assumptions concerning future events and circumstances. The financial forecast represents the District's estimate of projected financial results based on the assumptions set forth in the footnotes to the table below. The assumptions set forth in the footnotes to the table set forth below are material in the development of the District's financial projections, and variations in the assumptions may produce substantially different financial results.

The estimated assumptions of water revenues and expenses for the current fiscal year and the next three fiscal years is set forth in Table 7. The 2021 Water Revenue Bonds herein described are only secured by Net Water Revenues of the District less applicable Operation and Maintenance expenses.

In Table 7 the District estimates that projected water revenues and expenses for the current and next three Fiscal Years will be as follows.

Table 7
Projected Water Revenues and Expenses
(From Water Enterprise Only)

RATE REVENUE REQUIREMENTS SUMMARY	Budget	Budget	Projected Rates for Adoption Period				
	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Sources of Water Funds							
Rate Revenue Under Prevailing Rates	\$ 2,023,700	\$ 2,052,600	\$ 2,052,600	\$ 2,052,600	\$ 2,052,600	\$ 2,052,600	\$ 2,052,600
Non-Rate Revenues	66,195	67,095	67,095	67,095	67,095	67,095	67,095
Interest Earnings (in Operating & Capital Reserves) ¹	5,130	5,130					
Total Sources of Funds	\$ 2,095,025	\$ 2,124,825	\$ 2,119,695	\$ 2,119,695	\$ 2,119,695	\$ 2,119,695	\$ 2,119,695
Uses of Water Funds							
Operating Expenses: ²							
Salaries	\$ 677,700	\$ 685,800	\$ 713,232	\$ 741,761	\$ 771,432	\$ 802,289	\$ 834,381
Benefits	307,980	333,720	347,069	360,952	375,390	390,405	406,021
Other Operating Expenses	812,705	777,930	703,341	726,130	749,659	773,952	799,036
Subtotal: Operating Expenses	\$ 1,798,385	\$ 1,797,450	\$ 1,763,642	\$ 1,828,843	\$ 1,896,480	\$ 1,966,647	\$ 2,039,438
Other Expenditures:							
Existing Debt Service	\$ 188,418	\$ 190,218	\$ 186,683	\$ 188,008	\$ 189,000	\$ 184,725	\$ 190,263
New Debt Service	-	-	95,000	95,000	95,000	95,000	95,000
Rate Funded Capital Expenses	-	235,366	344,317	567,483	696,806	943,768	746,406
Subtotal: Other Expenditures	\$ 188,418	\$ 425,584	\$ 625,999	\$ 850,490	\$ 980,806	\$ 1,223,494	\$ 1,031,668
Total Uses of Water Funds	\$ 1,986,803	\$ 2,223,034	\$ 2,389,641	\$ 2,679,333	\$ 2,877,286	\$ 3,190,140	\$ 3,071,106
plus Revenue from Rate Increases	-	-	307,890	614,754	908,163	1,145,024	1,304,905
Annual Surplus/(Deficit)	\$ 108,223	\$ (98,209)	\$ 37,944	\$ 55,116	\$ 150,572	\$ 74,578	\$ 353,494
Net Revenue Req'd (Total Uses less Non-Rate Revenue)	\$ 1,915,478	\$ 2,150,519	\$ 2,372,546	\$ 2,652,230	\$ 2,910,951	\$ 3,123,045	\$ 3,004,011
Total Rate Revenue After Rate Increases	\$ 2,023,700	\$ 2,052,600	\$ 2,360,490	\$ 2,667,354	\$ 2,960,763	\$ 3,197,624	\$ 3,357,505
Projected Annual Rate Revenue Increase	0.00%	0.00%	15.00%	13.00%	11.00%	8.00%	5.00%
Cumulative Increase from Annual Revenue Increases	0.00%	0.00%	15.00%	29.95%	44.24%	55.78%	63.57%
Debt Coverage After Rate Increase	1.57	1.72	2.36	3.20	3.98	4.64	4.86

- 1 Interest earnings per the District's adopted budget for FY 2019/20 and FY 2020/21. For years beyond 2020/21, it is calculated based on historical LAIF returns.
- 2 The operating expenses are based on the District's Final Budget for FY 2019/20 and FY 2020/21 (Source files 2019-2020 Budget pdf & 2020-2021 Final Budget xls). Inflationary factors are applied to these expenses to project costs in FY 2020/21 and beyond.

Source: NBS

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS AND CHARGES

Article XIII B

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978/79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that charges for Water Service do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Water System Net Water Revenues from such reduced rates and charges will at all times be sufficient to yield during each Fiscal Year Water System Net Water Revenues equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year allocable to the Water System.

Proposition 218

General. An initiative measure entitled the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State of California at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the ability of local governments to impose taxes and property-related assessments, fees and charges."

Article XIII D. Article XIII D defines the terms "fee" and "charge" to mean "any levy other than an ad valorem tax, a special tax or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property-related service." A "property-related service" is defined as "a public service having a direct relationship to property

ownership." Article XIID further provides that reliance by an agency on any parcel map (including an assessor's parcel map) may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership.

Article XIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, if and to the extent that a fee or charge imposed by a local government for water or wastewater service is ultimately determined to be a "fee" or "charge" as defined in Article XIID, the local government's ability to increase such fee or charge may be limited by a majority protest.

In addition, Article XIID includes a number of limitations applicable to existing fees and charges including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service, (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed, (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential of future use of a service are not permitted.

Based upon the California Court of Appeals decision in *Howard Jarvis Taxpayers Association v. City of Los Angeles*, 85 Cal. App. 4th 79 (2000), which was denied review by the California Supreme Court, it was generally believed that Article XIID did not apply to charges for water services that are "primarily based on the amount consumed" (i.e., metered water rates), which had been held to be commodity charges related to consumption of the service, not property ownership. The Supreme Court stated in *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (the "Bighorn Case"), however, that fees for ongoing water service through an existing connection were property-related fees and charges. The District had reviewed the applicability of the notice, public hearing and protest requirements of Article XIID to its water rate determination procedures and, as a result thereof, conducted a mailed notice of public hearing on December 17, 2009, and, thereafter, held a public hearing and enacted Ordinance No. 88-04-01, which increased the District's consumption charge not to exceed ten percent (10%) per year for the years 2015, 2016, 2017, 2018 and 2019.

Article XIIC. Article XIIC provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIIC does not define the terms "local tax," "assessment," "fee" or "charge" so it was unclear whether the definitions set forth in Article XIID referred to above are applicable to Article XIIC. Moreover, the provisions of Article XIIC are not expressly limited to local taxes, assessments, fees and charges imposed after November 6, 1996. On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIIC included rates and fees charged for domestic water use. In the decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the District and its District Counsel do not believe that Article XIIC grants to the voters within the District the power to repeal or reduce rates and charges in a manner which would be inconsistent with the contractual obligations of the District under the Trust Agreement. However, there can be no assurance of the availability of particular remedies adequate to protect the beneficial owners of the Bonds. Remedies available to beneficial owners of the Bonds in the event of a default by the District under the Trust Agreement are dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time-consuming to obtain.

In addition to the specific limitations on remedies contained in the applicable documents themselves, the right and obligation with respect to the Trust Agreement is subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of counsel to be delivered with respect to such documents, including the opinion of Special Counsel (the form of which is attached as Appendix C), will be similarly qualified.

Future Initiatives

Articles XIIB, XIIC and XIID were adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the District or the ability of any of the District to fulfill payment obligations undertaken prior to the date such initiatives are adopted.

APPROVAL OF LEGAL PROCEEDINGS

The legality and enforceability of the Trust Agreement and certain other legal matters are subject to the approval of Robert M. Haight, Attorney at Law, acting as Special Counsel. The form of such legal opinion is attached hereto as Appendix C, and such legal opinion will be attached to each Bond. Certain legal matters will be passed upon for the District by Alan Smith, and for the Trustee by its counsel.

LITIGATION

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Trust Agreement, or in any way contesting or affecting the validity or enforceability of the Bonds, the Trust Agreement, the Trust Agreement, or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

TAX COVENANTS; BANK QUALIFIED

During the term of the Bonds, the Project will be used by the general public for water purposes consistent with the permissible scope of the District's authority.

The District will make no use of moneys representing Project costs which will cause the Bonds, or any portion thereof, to be or become "arbitrage bonds" subject to federal income taxation by reason of Section 148(a) of the Internal Revenue code of 1986, as amended (the "Code"). To that end, the District will comply with all requirements of said Section 148(a) and all regulations of the United States Department of the Treasury issued thereunder, to the extent that such requirements are, at the time, applicable and in effect.

The District has designated the Bonds "Bank Qualified" for purposes of paragraph (3) of Section 265(b) of the Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141

of the Code, except qualified 501(c)(3) bonds defined in Section 145 of the Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including these Bonds, has been or will be issued by the District, including all subordinate entities of the District, during calendar year 2015.

TAX MATTERS

In the opinion of Robert M. Haight, Scotts Valley, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, the portion of each Installment Payment constituting interest is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, the portion of each Installment Payment constituting interest is exempt from State of California personal income tax.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bond is to be sold to the public) and the stated prepayment price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Bond before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the owner of a Bond will increase the owner's basis in the Bond. In the opinion of Special Counsel original issue discount that accrues to the owner of a Bond is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of the portion of each Installment Payment constituting interest (and original issue discount) is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Bonds to assure that the portion of each Installment Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Installment Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Bonds. The District has covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond Owner's basis in the applicable Bond (and the amount of tax exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement, the Trust Agreement, and the Tax Bond permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Robert M. Haight, Attorney at Law.

Although Special Counsel has rendered an opinion that the portion of the pay principal of and interest on the Bonds constituting interest (and original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Bonds.

A complete copy of the proposed opinion of Special Counsel is set forth in Appendix C - "FORM OF OPINION OF SPECIAL COUNSEL."

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Agreement for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the District by not later than the 270 days following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30th) (the "Annual Report"), commencing with the report for Fiscal Year ending June 30, 2022, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the District with EMMA (Electronic Municipal Market Access"). The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix E - "FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The District has previously executed a Continuing Disclosure Agreement for the bond proceeding known as (a.) Vega Mutual Water Assessment District Limited Obligation Improvement Bonds, Series 2007-1 (b.) the 2007 Loan Refinancing and District Improvement Project, and for (c.) the 2015 Water Revenue Refunding Bonds. All reports required by Rule 15c2-12(b) (5) have been complied with and filed in a timely fashion.

RATING

The District has not applied for, nor received, a rating on the Bonds.

UNDERWRITING

The bonds will be purchased by Stinson Securities, LLC (the "Underwriter"), under a Purchase Agreement, dated _____, 2021, pursuant to which the Underwriter has agreed to purchase all, but not less than all, of the Bonds for an aggregate purchase price of \$_____, which represents the principal amount of the Bonds, less original issue discount and less Underwriter's discount

The initial public offering prices stated on the inside cover of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agents and others at prices lower than said public offering prices.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

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

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

/s/ Sanford Coplin
President of the Board of Directors

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APPENDIX A TEN YEAR CAPITAL IMPROVEMENT PLAN

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
10 YEAR CAPITAL IMPROVEMENT PLAN

DESCRIPTION	EST. REPLACEMENT VALUE	YEAR CONSTR.	USEFUL IN LIFE	YEARS 2021	LIFE LEFT	ANNUAL RESERVE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Pajaro																
Generator (Financed over 5 years -Capital Reserve)	\$ 83,850	2021	35	0	35	\$ 16,750.00	\$ 16,750	\$ 16,750	\$ 16,750	\$ 16,750	\$ 16,750					
610,000 Gal Tank (1 ea.) Re-furbish	\$ 1,000,000	1985	35	36	-1	\$ -										
60 HP Well Pump 200 ft	\$ 7,500	1985	40	36	4	\$ 1,875.00				\$ 7,500						
60 HP Well Pump Motor	\$ 5,000	2007	25	14	11	\$ 454.55										
100 HP Vertical Turbine Pump/Motor	\$ 25,000	1985	40	36	4	\$ 6,250.00										
60 HP Vertical Turbine Pump/Motor	\$ 20,000	2009	25	12	13	\$ 1,538.46										
14000 Gal Hydro pneumatic Tank	\$ 40,000	1987	40	34	6	\$ 6,666.67										
8000 Gal Hydro pneumatic Tank	\$ 30,000	1985	40	36	4	\$ 7,500.00										
Chlorination Bldg. (25 sf)	\$ 5,000	1985	50	36	14	\$ 357.14										
Chlorination Equip.	\$ 2,500	2021	10	0	10	\$ 250.00										
Pump Control Panel and Elec.	\$ 100,000	1985	50	36	14	\$ 7,142.86										
Pajaro Subtotal						\$ 48,784.67	\$ 16,750	\$ 16,750	\$ 16,750	\$ 24,250	\$ 16,750	\$ 25,000	\$ 40,000	\$ 30,000	\$ -	\$ -
Sunny Mesa																
200,000 Gal Tank (1 ea)	\$ 250,000	1985	75	36	39	\$ 6,410.26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
#1 Well pump (250 feet)-60 HP(needs casing repair)	\$ 25,000	2018	25	3	22	\$ 1,136.36	\$ 15,000									
#2 Well Pump - 25 HP	\$ 15,000	2019	30	2	28	\$ 535.71										
Booster Pump Bldg (96 sf)	\$ 5,000	1986	40	35	5	\$ 1,000.00										
2 Booster Pumps - 15 hp	\$ 10,000	2004	25	17	8	\$ 1,250.00										
1 Booster Pumps - 50 hp	\$ 10,000	2012	25	9	16	\$ 625.00										
480V Pump Control Panel and Elec. (2 ea.)	\$ 25,000	1985	50	36	14	\$ 1,785.71										
Chlorine Building	\$ 2,500	2015	40	6	34	\$ 73.53										
Chlorine Equip.	\$ 2,500	2018	10	3	7	\$ 357.14										
Sunny Mesa Subtotal						\$ 13,173.72	\$ 15,000	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ 5,000
Vista Verde																
Vista Verde Well Pump (30 hp, 420 ft)	\$ 30,000	2018	25	3	22	\$ 1,363.64	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chlorine Building	\$ 2,500	2015	40	6	34	\$ 73.53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chlorine Equip.	\$ 2,500	2018	10	3	7	\$ 357.14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -
Vista Verde Tank (65,000 gal)	\$ 100,000	2004	75	17	58	\$ 1,724.14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vista Verde Electrical Bldg. (100 SF)	\$ 25,000	2004	40	17	23	\$ 1,086.96	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vista Verde Generator (80 kW)	\$ 30,000	2004	30	17	13	\$ 2,307.69	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vista Verde Pump Control Panel and Elec.	\$ 50,000	2004	30	17	13	\$ 3,846.15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
10 YEAR CAPITAL IMPROVEMENT PLAN

DESCRIPTION	EST. REPLACEMENT VALUE	YEAR CONSTR.	USEFUL LIFE	YEARS IN USE 2022	ANNUAL RESERVE	LIFE LEFT	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Well Pump	\$ 8,000	2013	25	8	17 \$ 470.59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Well Pump Motor - 25 HP	\$ 8,000	2013	25	8	17 \$ 470.59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Tank (95,000 gal)	\$ 100,000	2010	75	11	64 \$ 1,562.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Pump Bldg. (260 sf)	\$ 50,000	2015	40	6	34 \$ 1,470.59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Booster Pumps (2ea. @ 60 hp)	\$ 50,000	2010	30	11	19 \$ 2,631.58	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Hydro Pneumatic Tank (6,000 gal)	\$ 25,000	2010	40	11	29 \$ 862.07	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Generator (100kW)	\$ 30,000	2010	25	11	14 \$ 2,142.86	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Oakleaf Pump Control Panel and Elec.	\$ 25,000	2010	25	11	14 \$ 1,785.71	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Karl Lane Tank (51,100 gal)	\$ 75,000	2010	75	11	64 \$ 1,171.88	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Karl Lane 5 hp booster pump and press tanks	\$ 5,000	2018	20	3	17 \$ 284.12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marlin Pump Bldg. (260 sf)	\$ 50,000	2010	25	11	14 \$ 3,571.43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marlin Booster Pumps (2 @ 40 hp)	\$ 45,000	2010	30	11	19 \$ 2,368.42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marlin Generator (60kW)(not valid for use)	\$ 20,000	2010	40	11	29 \$ 689.66	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Marlin Pump Control Panel and Elec.	\$ 50,000	2010	25	11	14 \$ 3,571.43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Andreas Tank (126,000 gal)	\$ 150,000	2010	75	11	64 \$ 2,343.75	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Andreas booster pump and tanks	\$ 20,000	2017	15	4	11 \$ 1,818.18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1 HP pump and Electrical	\$ 5,000	2013	20	8	12 \$ 416.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4 pressure Tanks	\$ 5,000	2013	20	8	12 \$ 416.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vega Subtotal					\$ 38,817.92	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -
Blackie #18																
15,000 Gal Tank (2 ea) Re-Habillate	\$ 30,000	1981	35	40	-5 \$ -			\$ 35,000								
7.5 HP Well Pump (378 ft)	\$ 10,000	2018	35	3	32 \$ 312.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5 HP Vertical Turbine Pump	\$ 2,500	2017	15	4	11 \$ 227.27	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3 HP Vertical Turbine Pump (upsize to 5hp)	\$ 2,500	2010	15	11	4 \$ 625.00			\$ 2,500								
500 Gal Hydro pneumatic Tank - (Replace with Bladder Tanks- VFD Motors)	\$ 25,000	1981	35	40	-5 \$ -			\$ 25,000								
Pump Control Panel and Elec.	\$ 2,500	1981	50	40	10 \$ 250.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Blackie #18 Subtotal					\$ 1,414.77	\$ -	\$ -	\$ 60,000	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
10 YEAR CAPITAL IMPROVEMENT PLAN

DESCRIPTION	LAST REPLACEMENT VALUE	YEARS CONSTR.	USEFUL LIFE	1983 LIFE IN USE 2021	ANNUAL RESERVE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Langley /Valle Pacifico - Tank Site															
15,000 Gal Tank (2 ea)	\$ 225,000	1984	50	37	13 \$ 17,307.69	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20 HP Booster Pump (2 ea)	\$ 15,000	2009	25	12	13 \$ 1,155.85	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1000 Gal Hydro Pneumatic Tank	\$ 25,000	1984	40	37	3 \$ 8,333.33	\$ -	\$ -	\$ 25,000							
Pump Control Panel and Elec.	\$ 2,500	1984	50	37	13 \$ 192.31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Langley /VP-Joshua, Well Site															
96 SF Building	\$ 10,000	1980	75	41	34 \$ 294.12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chemical System (2 ea)	\$ 5,000	2017	10	4	6 \$ 833.33	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -
2 Greensand Tanks	\$ 14,000	2013	40	8	32 \$ 437.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,000	\$ -	\$ -
2 Arsenic Tanks	\$ 26,000	2013	40	8	32 \$ 812.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,000	\$ -	\$ -
1 HP Recir pump	\$ 1,000	2017	10	4	6 \$ 166.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ -
Recir pump control panel	\$ 2,500	2013	25	8	17 \$ 147.06	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2500 Poly tank	\$ 1,600	2013	40	8	32 \$ 50.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5 HP Well Pump (250 ft)	\$ 3,200	2011	25	10	15 \$ 213.33	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Control Panel and Elec.	\$ 2,500	2012	50	9	41 \$ 60.98	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15,000 Gal Fire Tank (2 ea)	\$ 80,000	2013	40	8	32 \$ 2,500.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Langley/Valle Pacifico - Well Abandonment (2 ea.)						\$ -		\$ 20,000	\$ -						
Langley /Valle Pacifico -Subtotal						\$ 32,502.66	\$ -	\$ 45,000	\$ -	\$ -	\$ 6,000	\$ -	\$ 40,000	\$ 225,000	\$ -
Moss Landing - Well site															
64 SF Building	\$ 12,800	2000	75	21	54 \$ 237.04	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50 HP VT Well Pump (750 ft) - Pump	\$ 10,000	1999	30	22	8 \$ 1,250.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
50 HP VT Well Pump - Motor	\$ 5,000	2011	25	10	15 \$ 333.33	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000
120v Pump Control Panel and Elec.	\$ 2,500	2000	30	21	9 \$ 277.78	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500
480v Well Panel	\$ 25,000	1999	20	22	-2 \$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,000
50 HP well and Pump Control Panel (2013)	\$ 25,000	2013	25	8	17 \$ 1,470.59	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
144 SF Building	\$ 3,500	2013	40	8	32 \$ 109.38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chlorine Equip.	\$ 5,000	2018	10	3	7 \$ 714.29	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
10 YEAR CAPITAL IMPROVEMENT PLAN

DESCRIPTION	EST. REPLACEMENT VALUE	YEAR CONSTR.	USEFUL LIFE	YEARS IN USE	LIFE LEFT	ANNUAL RESERVE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Moss Landing - Tank Site																
352 SF Building	\$ 20,000	1998	75	23	52	\$ 384.62	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
59,000 Gal Conc Tank (3 ea)	\$ 270,000	1998	75	23	52	\$ 5,192.31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
175 kW Generator	\$ 110,000	1998	30	23	7	\$ 15,714.29	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,000	\$ -	\$ -	\$ 110,000
40 HP Booster Pump (20 ft) (2 ea)	\$ 40,000	1998	25	23	2	\$ 20,000.00	\$ -	\$ -	\$ 40,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,000
15 HP Booster Pump (20 ft)	\$ 7,500	2012	15	9	6	\$ 1,250.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,500	\$ -	\$ -	\$ -	\$ 7,500
Bladder Tanks (4 ea)	\$ 2,000	2012	20	9	11	\$ 181.82	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
480v Pump Control Panel and Elec.	\$ 65,000	2012	50	9	41	\$ 1,585.37	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Moss Landing Subtotal							\$ 48,700.79	\$ -	\$ 40,000	\$ -	\$ -	\$ 7,500	\$ 115,000	\$ 10,000	\$ 2,500	\$ 197,500
Springfield Subtotal							\$ 2,324.18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NORMCO - Berts Canyon																
200 SF Building	\$ 20,000	1995	75	26	49	\$ 408.16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
120,000 Gal Tank (WS)	\$ 185,000	2010	75	11	64	\$ 2,890.63	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
120,000 Gal Tank (BS) (needs repair)	\$ 185,000	1980	75	41	34	\$ 5,441.18	\$ 35,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5 HP Pump	\$ 1,800	2013	25	8	17	\$ 105.88	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5 HP Pump	\$ 1,800	2020	25	1	24	\$ 75.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1000 Hydro Pneumatic w/ comp.	\$ 25,000	1995	40	26	14	\$ 1,785.71	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Control Panel and Elec.	\$ 5,000	2011	50	10	40	\$ 125.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NORMCO - Manzanita Well																
450 SF Building	\$ 30,000	1994	75	27	48	\$ 625.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150 HP Well Pump (360 ft)	\$ 40,000	2017	25	4	21	\$ 1,904.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1000 Hydro Pneumatic w/ comp. (Replace w/ VFD)	\$ 25,000	1980	40	41	-1	\$ -	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ -
Corrosion Control Treatment Equip.	\$ 100,000	2015	25	6	19	\$ 5,263.16	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chlorine Equip.	\$ 5,000	2015	10	6	4	\$ 1,250.00	\$ -	\$ -	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Control Panel and Elec.	\$ 5,000	2013	50	8	42	\$ 119.05	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,000	\$ -	\$ -

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
10 YEAR CAPITAL IMPROVEMENT PLAN

DESCRIPTION	EST. REPLACEMENT VALUE	YEAR CONSTR.	USEFUL LIFE	YEARS IN USE	LIFE LEFT	ANNUAL RESERVE	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
NORMCO - Beta Well																
352 SF Building	\$ 25,000	1980	75	41	34	\$ 735.29	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30 HP Well Pump (320 ft)	\$ 15,000	2012	25	9	16	\$ 937.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chlorine Equip.	\$ 2,500	2017	10	4	6	\$ 416.67					\$ 2,500					\$ 3,500
Pump Control Panel and Elec.	\$ 10,000	1980	50	41	9	\$ 1,111.11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
NORMCO Beta Ridge PRV																
	\$ 15,000	2013	50	8	42	\$ 357.14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NORMCO - Colter Road																
7.5 HP Well Pump (280 ft)	\$ 10,000	1992	25	29	4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Control Panel	\$ 2,500	1992	40	29	11	\$ 227.27	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Normco Subtotal							\$ 23,778.52	\$ 35,000	\$ 25,000	\$ -	\$ 5,000	\$ -	\$ 2,500	\$ -	\$ 5,000	\$ 13,500
Vierra Estates - Matterhorn Tank Site																
15,000 Gal Tank (2 ea) Re-Habilitate	30,000	1985	40	36	4	\$ 7,500.00			\$ -	\$ 30,000			\$ -			\$ -
1 HP Pump and Bladder Tank	2000	1985	35	36	-1	\$ -		\$ -	\$ -	\$ -			\$ -	\$ 2,000	\$ -	\$ -
Vierra Estates - Matterhorn Well Site																
2500 Gal Sedimentation Tank	\$ 2,000	2012	40	9	31	\$ 64.52	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1 HP booster pump	\$ 2,500	2012	10	9	1	\$ 2,500.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -	\$ -
Chlorination Equipment	\$ 2,500	2017	10	4	6	\$ 416.67	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 Greensand Tanks	\$ 14,000	2012	40	9	31	\$ 451.61	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pump Control Panel	\$ 10,000	2012	40	9	31	\$ 322.58	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Via Gulsseppe - Booster Site																
5 HP Booster Pump	\$ 1,800	2018	25	3	22	\$ 81.82	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
119 Gal Bladder Tank (4 ea)	\$ 2,000	2013	20	8	12	\$ 166.67	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage Tanks(off-line, need to be removed)							\$ 20,000									
Vierra Estates - Plainview/Arrowhead Tank Site																
Demo Wells 1 and 2									\$ 20,000							
15,000 Gal Tank (2 ea)	225000	1975	40	46	-6	\$ -	\$ 225,000					\$ -	\$ -	\$ -	\$ -	\$ -
Vierra Subtotal							\$ 11,503.86	\$ 20,000	\$ 225,000	\$ 20,000	\$ 32,500	\$ -	\$ 2,500	\$ -	\$ 2,000	\$ -
TOTALS (RESERVE TARGET)																
(2022-2031 Capital expenditures)							\$ 221,001.10	\$ 116,750	\$ 266,750	\$ 181,750	\$ 66,750	\$ 16,750	\$ 43,500	\$ 157,500	\$ 97,000	\$ 262,500
																\$ 216,000

APPENDIX B 2021-22 FINAL BUDGET

**2021-2022
Final Budget**

Income			2021-2022
4001	Route 1	Pajaro	321,000
4002	Route 2	Pajaro	315,000
4003	Route 3	Commercial (Pajaro)	292,000
4004	Route 4	Trailer Park (Pajaro)	16,000
4005	Route 5	San Juan Apts	13,500
4006	Route 6	Sunny Mesa	160,000
4007	Route 7	C.S.A. 73 Hillcrest/Bay Farms	173,000
4008	Route 8	Vega/Vista Verde	182,000
4010	Route 10	Springfield	10,200
4011	Route 11	Moss Landing	310,000
4012	Route 12	Blackie Road	40,200
4013	Route 13	Normco	391,000
4014	Route 14	Vierra Estates	60,700
4015	Route 15	Langley/Valle Pacifico	37,500
		Water Services SubTotal	2,322,100
4100		Late Payment Penalties	5,000
4101		Billing Adjustments	200
4110		Hydrant Sales	10,000
4115		Test Fees (Cross Conn-Yearly-Pajaro)	7,500
4140		Connection Fees/Capacity Fees	7,400
4141		Application Fees	550
4146		Other Fees	400
4200		Street Maintenance Reimbursement	63,800
			289,000
4280		Pro Rata Tax Collection	25,000
4285		PVWMA Collection Fee	29,000
4300		Collection Previous w/o account	250
4305		Miscellaneous Revenue	1,000
4340		Utility Reimbursement	28,000
4341		Lighting Admin Reimbursement	12,000
4345		Customer Reimbursements	
4346		District 25% Overhead Fee	500
4350		Interest Revenue	150
4355		Audit/Bookkeeping Re-imbursement	700
4360		Legal Counsel Reimbursement	400
5794		Pajaro Water Bond	40,500
		Other Subtotal	521,350
		Total Income	2,843,450

Final Budget

Expenses INDIRECT			2020-2021
5000		Salaries and Wages	830,000
5005		Administrative Fees	6,000
5010		Contract Labor	-
5030		Payroll Tax Expense	16,000
5040		Workers Comp Insurance	20,000
5050		Employee Health Insurance	190,000
5070		Employee Retirement	120,000
5090		Other Employee Expense	3,000
5120		Property Taxes	1,500
5130		Utilities - Office	4,000
5140		Building Repair & Maintenance	7,500
5145		District Wide Repair & Maint	12,000
5150		Garbage Service	4,200
5160		Office Equipment Rental	10,000
5165		Computer Software	10,000
5170		Office Equipment Repair & Maint	3,600
5175		Small Tools - Repair & Maint.	1,000
5180		Casualty Insurance/Liability Insurance	33,000
5200		Billing Supplies	3,700
5240		Office Supplies	3,800
5245		Postage	8,500
5250		Legal Expenses	20,000
5255		Interest Expense Re Org Loan	11,300
5256		Interest Exp-Financed Items	4,000
5260		Accounting & Bookkeeping	38,500
5266		Engineering Expense District Wide	38,500
5270		Automotive - Repair & Maint	10,000
5280		Seminars & Conferences	500
5290		Travel Expenses	500
5300		Books & Subscriptions	1,500
5305		Water Conservation Program	3,000
5320		Membership Fees & Dues	20,000
5326		Licenses and Certifications	2,000
5330		Telephone	17,000
5340		Burglar Alarm Monitoring	800
5350		Cash Over/Short	
5370		Fuel - Trucks	26,000
5390		Bank Charges	300
5391		Credit Card Transaction Fees	8,000
5400		Miscellaneous Expense	200
6560		Payroll Processing Expenses	-
6577		COPIES Service - Invoices	75,400
Total Expenses INDIRECT			1,565,300

**2021-2022
Final Budget**

Expenses DIRECT			2021-2022
5190		Soil and Water Tests	37,500
5220		Water System - Repair & Maint	225,000
5225		Street Maintenance	32,650
5230		Parks - Repair & Maintenance	1,000
5265		Engineering Expenses	1,000
5310		Utilities - Well Site	170,000
5315		Utilities - Street Lighting	28,000
5325		Permits	30,000
5360		Fuel - Generator	3,000
			6,000
5425		COP Bond Expense	3,500
5433		Water Bond Expense - Interest	10,600
5660		Freight & Delivery	
			137,000
Total Expenses DIRECT			685,250
Total Expenses INDIRECT			1,565,300
Total Expenses			2,250,550
Total Income			2,843,450
Total Expenses			2,250,550
Gross Net			592,900
Debt Service			
		Auto Loan	12,500
		2016 COP (Principal only)	70,000
		Re-Organization Loan (Principal only)	30,000
			145,000
		Meeting Stipend (donated to Pajaro Park)	6,000
		Water Bond (Principal only)	31,000
		Bond Payment- Generators	97,000
		Total	391,500
Gross Net			592,900
Debt Service			391,500
Reserve Fund			150,000
Surplus (Remains in operating fund)			51,400
Debt Service Fund \$23,650 per month=\$283,800/year			
Capital Reserve Fund \$12,500 per month=\$150,000/year			
Transfer from Reserve 0			-
Capital Outlay-Planned \$116,750.			

**APPENDIX C FORM OF TRUST AGREEMENT WITH
ATTACHED LEGAL OPINION OF
SPECIAL COUNSEL**

TRUST AGREEMENT

THIS TRUST AGREEMENT, made and entered into as of ____, 2021 (the "Agreement"), by and between U.S. BANK GLOBAL CORPORATE TRUST, as trustee (the "Trustee"), a national banking association duly organized and existing under the laws of the United States of America and PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT, a community services district duly organized and existing under the laws of the State of California (the "District");

WITNESSETH:

In consideration of the mutual covenants herein contained and for other valuable consideration, the parties hereto do hereby agree as follows:

ARTICLE I DEFINITIONS; RULES OF CONSTRUCTION; CONTENTS OF BONDS AND OPINIONS; RECITALS

SECTION 1.1. DEFINITIONS

Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Agreement. The term "Agreement" means this Trust Agreement, as originally executed or as it may from time to time be amended or supplemented as provided for herein.

Bond Payment Fund. The term "Bond Payment Fund" means the fund by that name established in Section 5.02 hereof.

Code. The term "Code" means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations in effect with respect thereto.

Contracts. The term "contracts" mean indebtedness represented by a loan, Certificates of Participation or other debt instrument to be paid from Net Water Revenues.

Delivery Cost Fund. The term "Delivery Cost Fund" means the fund by that name established in Section 3.04 hereof.

Delivery Costs. The term "Delivery Costs" means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, execution, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original execution and delivery of the Bonds.

Depository or DTC. The term "Depository" or "DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Bonds.

District. The term "District" means the Pajaro/Sunny Mesa Community Services District, a public agency.

Event of Default. The term "Event of Default" means with respect to this Trust Agreement, any of the events in Section 7.3.

Fiscal Year. The term "Fiscal Year" means that period commencing on July 1, of any year and ending June 30 of the next year.

Independent Certified Accountant. The term "Independent Certified Accountant" means any accountant or firm of such accountants duly licensed or registered or entitled to practice and practicing as such under the laws of the State, appointed by or acceptable to the District, and who, or each of whom: (a) is in fact independent and not under domination of the District; (b) does not have any substantial interest, direct or indirect, with the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

Independent Municipal Consultant. The term "Independent Municipal Consultant" means any consultant or firm of such consultants appointed by or acceptable to the District and who, or each of whom: (a) is judged by the District to have experience in matters relating to the financing of projects; (b) is in fact independent and not under domination of the District; and (c) is not connected with the District as an officer or employee of the District, but who may be regularly retained to make reports to the District.

Information Services. The term "Information Services" means the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

Interest Fund. The term "Interest Fund" means the fund by that name established in Section 5.02 hereof.

Investment Agreement. The term "Investment Agreement" means an investment agreement supported by appropriate opinions of counsel; provided the provider or the guarantor is rated at least "AA" by S&P.

Letter of Representations. The term "Letter of Representations" means the letter of the District and the Trustee delivered to and accepted by the Depository on or prior to delivery of the Bonds as book-entry Bonds setting forth the basis on which the Depository serves as depository for such book-entry Bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the District and the Trustee delivered to and accepted by the Depository.

Net Water Revenues. The term "Net Water Revenues" means, for any Fiscal Year, the Water Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Nominee. The term "Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.10 hereof.

Operation and Maintenance Costs. The term "Operation and Maintenance Costs" means:

(1) Costs spent or incurred for maintenance and operation of the District's Water Enterprise System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the District Water Enterprise System in good repair and working order, and including administrative costs of the District, including but not limited to salaries and wages of employees, payments to retirement or pension plans, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and

(2) All other reasonable and necessary administrative or similar costs of the District or charges (other than debt service payments) required to be paid by it to comply with the terms of the Bonds or any Contract or of any resolution or Trust Agreement authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and costs of water purchases.

Outstanding. The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.4) all Bonds except: (1) Bonds canceled by the Trustee or delivered to the Trustee for cancellation; (2) Bonds paid or deemed to have been paid within the meaning of Section 10.01; and (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed and delivered by the Trustee pursuant to Section 2.10.

Owner. The term "Owner" or "Bond Owner" or "Owner of Bonds" or any similar term, when used with respect to the Bonds, means any person who shall be the registered owner of any Outstanding Bond.

Participants. The term "Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry Bonds as securities depository.

Payment Dates. The term "Payment Dates" means _____ 1 and _____ 1 in each year commencing _____ 1, 2021 and any date on which the unpaid Water Revenue Payments are declared to be due and payable immediately and provided such declaration is not rescinded or annulled.

Permitted Investments. The term "Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

a) for all purposes, including but not limited to defeasance investments in escrow accounts: (1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below), or (2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America; and

b) for all purposes other than defeasance investments in escrow accounts: (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export - Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration;

Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHA's); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated "AAA" and "Aaa" by the applicable rating agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, Bonds of deposit, federal funds and bankers acceptances with domestic commercial banks (including the Trustee) which are either insured by the Federal Deposit Insurance Corporation or have a rating on their short term Bonds of deposit on the date of purchase of "A-I" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including such funds for which the Trustee or an affiliate acts as investment advisor or provides other services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P and Moody's or any successor thereto; (7) any Investment Agreement; and (8) the Local Agency Investment Fund.

Prepayment Price. The term "Prepayment Price" means the principal amount with respect to any Bond (or portion thereof) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Bond and this Agreement.

Principal and Interest Payment Dates. The term "Principal Payment Date" or "Interest Payment Date" means each date on which Water Revenue Payments of Principal and/or Interest are scheduled to be paid by the District from Water Revenue pursuant to the Trust Agreement.

Principal Corporate Trust Office. The term "Principal Corporate Trust Office" means the principal corporate trust office of the Trustee in San Francisco, California, provided that for purposes of payment, prepayment, exchange, transfer, surrender and cancellation of Bonds such term means the principal corporate trust office of the Trustee in Los Angeles, California or such other office as the Trustee may from time to time designate in writing to the District and the Owners.

Principal Fund. The term "Principal Fund" means the fund by that name established in Section 5.02 hereof.

Rebate Fund. The term "Rebate Fund" means the fund by that name established in Section 5.06 hereof.

Record Date. The term "Record Date" means, with respect to any Payment Date for a Bond, the fifteenth day of the calendar month prior to such Payment Date.

Reserve Fund. The term "Reserve Fund" means the fund by that name established in Section 5.04 hereof.

Reserve Requirement. The term "Reserve Requirement" means the lesser of (i) 10% of the proceeds of the Bonds, (ii) the maximum annual debt service, or (iii) 125% of the average annual debt service on the Bonds.

Securities Depositories. The term "Securities Depositories" means: The Depository Trust Company, 55 Water Street, New York, New York 10041, Attn: Redemption Area, Fax-(212) 855-7232 or 7233; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses as such depositories may specify and/or such other securities depositories as the District may designate in a Written Request of the District delivered to the Trustee.

Special Counsel. The term "Special Counsel" means any attorney at law or firm of attorneys selected by the District, of nationally-recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

State. The term "State" means the State of California.

Statement of the District. The term "Statement of the District" means a statement signed by or on behalf of the District by the President and by the Secretary or by any two persons (whether or not members of the Board of Directors) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf. If and to the extent required by the provisions of Section 1.03, each Statement of the District shall include the statements provided for in Section 1.03.

Tax Certificate. The term "Tax Certificate" means the Tax Certificate dated _____1, 2021, concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by and delivered to the District on the date of execution and delivery of the Bonds, including any and all exhibits attached thereto.

Trustee. The term "Trustee" means U.S. Bank Global Corporate Trust, a national banking association duly organized and existing under and by virtue of the laws of the United States of America having a principal corporate trust office in San Francisco, California, or such other office as the Trustee may from time to time designate in writing to the District, the Owners, or its successor as Trustee hereunder.

Water Revenue Fund. The term "Water Revenue Fund" means the fund by that name established and maintained pursuant to Section 5.01 (b).

Water Revenues- The term "Water Revenues" means all income, rents, rates, fees, charges and other moneys collected or received by the District pertaining to the sale and delivery of water, including, without limiting the generality of the foregoing:

(1) all income, rents, rates, fees, charges, or other moneys derived by the District from the sale, furnishing and supplying of the water or other services, facilities, and commodities sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the District; plus

(2) the proceeds of the District's replenishment assessment, additional replenishment assessment and general assessment, including moneys provided to the District by a redevelopment agency in lieu of such general assessment or the tax described above; plus

(3) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, or other moneys, including District reserves; plus

(4) amounts received from the sale of water by the District, including but not limited to an amount equal to the amount a retail water agency within the District pays for supplemental water under a District in lieu program.

Water Revenue Payment. The term "Water Revenue Payments" means Net Water Revenues of the District transferred to the Trustee for the deposit into the Principal Fund and Interest Fund.

Written Consent of the District, Written Order of the District, Written Request of the District, and Written Requisition of the District. The terms "Written Consent of or District," "Written Order of or District," "Written Request of the District," and "Written Requisition of the District" mean, respectively, a written consent, order, request or requisition signed by or on behalf of (i) the District by the President or General Manager or by the Secretary or by any two persons (whether or not members of the Board of Directors) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

SECTION 1.2. RULES OF CONSTRUCTION

Words of any gender shall be deemed and construed to include all genders, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa

1.3. CONTENT STATEMENTS AND OPINIONS

Every statement or opinion with respect to compliance with a condition or covenant provided for in this Agreement, including each Statement of shall include (a) a statement that the person or persons making or giving such statement or opinion have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such statement or opinion are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

ARTICLE II BONDS; TERMS AND PROVISIONS

SECTION 2.1. PREPARATION OF BONDS

The Trustee is hereby authorized to authenticate and deliver Bonds, to be denominated "2021 Water Revenue Bonds" (the "Bonds") in an aggregate principal amount of \$_____ evidencing undivided interests in Water Revenue Payments to be paid by the District from Water Revenue under the Trust Agreement.

SECTION 2.2. DENOMINATIONS; MEDIUM AND PLACE OF PAYMENT; DATING

The Bonds shall be delivered in the form of fully registered Bonds and in the denomination of \$5,000 each or any integral multiple thereof; provided that no Bond shall have principal represented thereby maturing in more than one year.

The principal and Prepayment Price with respect to the Bonds shall be payable in lawful money of the United States of America upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee. Interest with respect to the Bonds shall be payable by check or draft of the Trustee mailed by first class mail on each Payment Date of the Bonds to the respective Bond Owners of record thereof as of the close of business on the Record Date at the addresses shown on the books required to be kept pursuant to Section 2.8 or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of the Bonds, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date.

The Bonds shall be dated as of the date of initial delivery thereof. Interest with respect to the Bonds shall be payable from the Payment Date preceding their date of execution, unless such date shall be after a Record Date and on or before the succeeding Payment Date, in which case interest shall be payable from such Payment Date or unless such date shall be on or before the first Record Date, in which case interest shall be payable as of the date of initial delivery thereof provided, however, that if, as shown by the records of the Trustee, interest represented by the Bonds shall be in default, Bonds executed in exchange for Bonds surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to the Bonds, or, if no interest has been paid or duly provided for with respect to the Bonds, as of the date of initial delivery thereof.

2.3. PAYMENT PRINCIPAL AND INTEREST WITH RESPECT TO BONDS

(a) The Bonds shall become payable on _____ 1 in the years and in the amounts and with an interest component as provided in subsection (b) below at the rates, as follows:

Bond Payment Date	Principal	Interest
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Principal or Prepayment Price due with respect to the Bonds at maturity or prepayment thereof shall, to the extent of the aggregate principal amount stated upon the Bonds, represent the sum of those portions of the Payments designated as principal coming due on the Payment Dates immediately preceding _____ 1 in each year.

(b) Interest with respect to the Bonds shall be payable on each Interest Payment Date to and including the date of maturity or prior prepayment. Said interest shall represent the sum of those portions of the Interest Payments designated as interest coming due on the Interest Payment Dates, at the rates set forth in subsection (a) above. Interest with respect to the Bond will be computed on the basis of a 360-day year of twelve thirty-day months.

SECTION 2.4. FORM OF BONDS

The Bonds and the form of assignment to appear thereon shall be in substantially the form set forth in Exhibit A hereto with necessary or appropriate variations, omissions and insertions as permitted or required by this Agreement.

SECTION 2.5. AUTHENTICATION

The Bonds shall be executed by and in the name of the Trustee, as trustee under this Agreement, by the manual signature of an authorized officer or signatory of the Trustee.

SECTION 2.6. TRANSFER OF BONDS

Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.8, by the person in whose name it is registered, in person or by such person's duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Trustee shall execute and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount and of authorized denomination or denominations. The Trustee may charge a sum for each new Bond executed and delivered upon any transfer. The Trustee may require the payment by any Bond Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of Bonds the Trustee shall cancel and destroy the Bonds it has received.

2.7. EXCHANGE BONDS

Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Trustee may charge a sum for each new Bond executed and delivered upon any exchange except in the case of any exchange of temporary Bonds for definitive Bonds. The Trustee may require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of Bonds the Trustee shall cancel and destroy the Bonds it has received.

The Trustee shall not be required to register the exchange, or transfer pursuant to 2.6 hereof, of any Bond (i) within 15 days preceding selection of Bonds for prepayment or (ii) selected for prepayment.

SECTION 2.8. BOND REGISTRATION BOOKS

The Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall upon reasonable prior notice and at all reasonable times be open to inspection by the District; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

The person in whose name any Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest with respect to and principal of, and

Prepayment Price represented by such Bond shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such Bond to the extent of the sum or sums so paid.

SECTION 2.9. BONDS MUTILATED, LOST, DESTROYED OR STOLEN

If any Bond shall become mutilated, the Trustee shall execute and deliver a new Bond of like tenor, maturity and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated.

Every mutilated Bond so surrendered to the Trustee shall be canceled by it and destroyed. All Bonds acquired by the District, whether by purchase or gift or otherwise shall be surrendered to the Trustee for cancellation. Whenever in this Trust Agreement provision is made for the cancellation by the Trustee of any Bonds, the Trustee shall destroy such Bonds and deliver a certificate of such destruction to the District. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given indemnifying the Trustee, the District, and the Trustee, at the expense of the Bond Owner, shall execute and deliver a new Bond of like tenor and maturity, and numbered as the Trustee shall determine, in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond executed under this Section and of the expenses which may be incurred by the Trustee under this Section. Any Bond executed under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds secured by this Agreement. The Trustee shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be executed hereunder or for the purpose of determining any percentage of Bonds Outstanding hereunder, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond for a Bond which has been mutilated, lost, destroyed or stolen and which has matured or has been selected for prepayment, the Trustee may make payment of such Bond upon receipt of indemnity satisfactory to the Trustee.

2.10. BOOK-ENTRY SYSTEM

(a) Election of Book-Entry System. Prior to the execution and delivery of the Bonds, the District may provide that such Bonds shall be initially executed and delivered as book-entry Bonds. If the District shall elect to deliver any Bonds in book-entry form, then the District shall cause the delivery of a separate single fully registered Bond (which may be typewritten) for each maturity date of such Bonds in an authorized denomination corresponding to that total principal amount of the Bonds designated to mature on such date. Upon initial execution and delivery, the ownership of each such Bond shall be registered in the Bond registration books in the name of the Nominee, as nominee of the Depository and ownership of the Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.10 (e).

With respect to book-entry Bonds, the District and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book-entry Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book-entry Bonds, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond registration books, of any notice with respect to book-entry Bonds, including any notice of prepayment, (iii) the selection by the Depository and its Participants of the beneficial interests in book-entry Bonds to be prepaid in the event the District prepays the Bonds in part, or (iv) the payment by the Depository or any Participant or any other person, of any amount with respect to principal, premium, if any, or interest with respect to book-entry Bonds. The District and the Trustee may treat and consider the person in whose name each book-entry Bond is registered in the Bond registration books as the absolute Owner of such book-entry Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of prepayment and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal, premium, if any, and interest with respect to the Bonds only to or upon the order of the respective Owner, as shown in the Bond register, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest evidenced and represented by the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond registration books, shall receive a Bond evidencing the obligation to make payments of principal, premium, if any, and interest evidenced and represented by the Bonds. Upon delivery by the Depository to the Owner and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Trust Agreement shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book-entry Bonds for the Depository's book-entry system, the District and the Trustee shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book-entry Bonds other than the Owners, as shown on the Bond registration books. By executing a Letter of Representations, the Trustee shall agree to take all action necessary at all times so that the District will be in compliance with all representations of the District in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee shall take such other actions, not inconsistent with this Trust Agreement, as are reasonably necessary to qualify Book-Entry Bonds for the Depository's book-entry program.

(c) Selection of Depository. In the event (i) the Depository determines not to continue to act as securities depository for book-entry Bonds, or (ii) the District determines that continuation of the book-entry system is not in the best interest of the beneficial owners of the Bonds or the District, then the District will discontinue the book-entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Bond for each of the maturity dates of such book-entry Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) hereof. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be restricted to being registered in such Bond register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such Bonds shall designate, in accordance with the provisions of Sections 2.6 and 2.7 hereof.

(d) Payments to Depository. Notwithstanding any other provision of this Agreement to the contrary, so long as all Outstanding Bonds are held in book-entry form and registered in the name of the Nominee, all payments with respect to principal, prepayment premium, if any, and interest with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of Bonds to Substitute Depository.

(i) The Bonds shall be initially executed and delivered as provided in Section 2.1 hereof. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except:

a. to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.10(e) ("Substitute Depository"); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

b. to any Substitute Depository, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

c. to any person as provided below, upon (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository, or (2) a determination by the District that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.10(e), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the District to the Trustee designating the Substitute Depository, a single new Bond, which the District shall prepare or cause to be prepared, shall be executed and delivered for each maturity of Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the District. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.10(e), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the District to the Trustee, new Bonds, which the District shall prepare or cause to be prepared, shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such written request of the District, subject to the limitations of Section 2.1 hereof, provided that the Trustee shall not be required to deliver such new

Bonds within a period of less than sixty (60) days from the date of receipt of such written request from the District.

(iii) In the case of a partial prepayment or an advance of any Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations.

(iv) The District and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of this Trust Agreement and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the District nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Bonds.

SECTION 2.11. ADDITIONAL DISTRICT INDEBTEDNESS

General. The District covenants not to issue or incur any obligations payable from Net Water Revenues senior to the Bonds. The District may issue Contracts or Bonds payable from Net Water Revenues on parity with the Bonds in the future as described herein. This Agreement does not impose any limitation on the issuance of additional obligations payable from Net Water Revenues subordinate to the Bonds.

The District may execute any Contracts or issue any Bonds, as the case may be, payable from Net Water Revenues after payment of Operation and Maintenance Costs, on parity with the Bonds, provided that certain conditions are satisfied as provided below.

(a) The Net Water Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Contracts or Bonds, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant or an Independent Municipal Consultant on such calculation on file with the District, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the Debt Service on any outstanding Parity debt for such Fiscal Year; and

(b) The Net Water Revenues for the most recent audited Fiscal Year preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Contracts or Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year to increases or decreases in rates and charges for the Water Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, shall have produced a sum equal to at least one hundred fifteen percent (115%) of the Debt Service on any outstanding Parity debt for such Fiscal Year.

ARTICLE III DELIVERY OF BONDS; ESTABLISHMENT OF VARIOUS FUNDS

SECTION 3.1. DELIVERY OF BONDS

The District shall execute and the Trustee is hereby authorized to authenticate and deliver Bonds in an aggregate principal amount of \$_____ upon the Written Order of the District.

SECTION 3.2. APPLICATION OF PROCEEDS OF BONDS

The proceeds received from the sale of the Bonds shall be deposited with the Trustee, who shall deposit the sum of \$_____ into the Delivery Cost Fund, deposit the sum of \$_____ in the Construction Fund and deposit the sum of \$_____ (the amount of the initial Reserve Requirement) into the Reserve Fund.

SECTION 3.3. VALIDITY OF BONDS

The validity of the execution and delivery of the Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the District or the Trustee with respect to or in connection with the Trust Agreement. The recital contained in the Bonds that all acts, conditions and things required by the Constitution and statutes of the State of California and this Agreement to exist, to have happened and to have been performed precedent to and in the delivery thereof do exist, have happened and have been performed in due time, form and manner as required by law shall be conclusive evidence of their validity and of compliance with the provisions of law in their delivery.

SECTION 3.4. DELIVERY COST FUND

There is hereby established with the Trustee the Delivery Cost Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it. The moneys in the Delivery Cost Fund shall be used and withdrawn by the Trustee to pay Delivery Costs upon submission of Written Requisitions of the District substantially in the form of Exhibit B attached hereto stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is a proper charge against said fund and that payment for such charge has not previously been made. On the six-month anniversary of the date of this Agreement, or upon the earlier Written Request of the District, all amounts remaining in the Delivery Cost Fund shall be transferred by the Trustee for deposit in the Bond Payment Fund.

SECTION 3.5. PRINCIPAL FUND

There is hereby established with the Trustee the Principal Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it in accordance with the terms of Section 5.2(b) hereof.

SECTION 3.6. INTEREST FUND

There is hereby established with the Trustee the Interest Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it in accordance with the terms of Section 5.2(a) hereof.

SECTION 3.7. RESERVE FUND

There is hereby established with the Trustee the Reserve Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it in accordance with the terms of Section 5.4 hereof.

SECTION 3.8. CONSTRUCTION FUND

There is hereby established with the Trustee the Construction Fund which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it.

ARTICLE IV PREPAYMENT OF BONDS

SECTION 4.1. OPTIONAL PREPAYMENT

The Bonds shall be subject to prepayment prior to their respective stated maturities, as a whole or in part on any Interest Payment Date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days prior to such date and by lot within each maturity in integral multiples of \$5,000, — on or after _____ 1, 20 from amounts prepaid by the District pursuant to the Trust Agreement at a Prepayment Price below equal to the principal amount of such Bonds to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment:

Prepayment Dates (Inclusive)	Prepayment Price
_____ 1 - _____ 1, 20__	%
_____ 1 - _____ 1, 20__	%
_____ 1 - _____ 1, 20__, and thereafter	%

SECTION 4.2. MANDATORY SINKING FUND PREPAYMENT

The Bonds maturing on _____ 1, 20__ and _____ 1, 20__ (the "Term Bonds") are subject to mandatory prepayment in part, by lot, on _____ 1 in each of the following years commencing _____ 1, 20__ and _____ 1, 20__ from principal and interest payments made by the District to the Trustee pursuant to the Trust Agreement, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts, and on _____ 1 in the respective years as set forth in the following tables; provided, however, that if some, but not all, of such Term Bonds have been prepaid pursuant to the terms of the Trust Agreement, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Term Bonds so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as determined by the District and specified in writing to the Trustee.

20__ TERM BOND

Sinking Fund Prepayment Date	Principal Amount of Term Bond to be Prepaid
_____	_____

SECTION 4.3. SELECTION OF BONDS FOR PREPAYMENT

Whenever less than all of the Bonds are called for prepayment, the Trustee shall select the Bonds or portions thereof to be prepaid from the Outstanding Bonds in accordance with Section 4.1 hereof. The Trustee shall promptly notify the District in writing of the numbers of the Bonds or portions thereof so selected for prepayment.

SECTION 4.4. NOTICE OF PREPAYMENT

The District shall deliver notice of prepayment under Section 4.1 to the Trustee not less than 40 days prior to the proposed prepayment date. Notice of prepayment shall be sent to the respective Owners of any Bonds designated for prepayment at their addresses appearing on the Bond registration books and to the Information Services and to the Securities Depositories at least 20 days but not more than 30 days prior to the prepayment date.

Each notice of prepayment shall state the date of notice, the prepayment date, the place or places of prepayment and the Prepayment Price, shall designate the maturities, CUSIP numbers, if any, and, if less than all Bonds of any such maturity are to be prepaid, the serial numbers of the Bonds of such maturity to be prepaid by giving the individual number of each Bond or by stating that all Bonds between two stated numbers, both inclusive, have been called for prepayment and, in the case of Bonds to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Prepayment Price thereof or of said specified portion of the principal represented thereby in the case of a Bond to be prepaid in part only, together with interest accrued with respect thereto to the prepayment date, and that (provided that moneys for prepayment have been deposited with the Trustee) from and after such prepayment date interest with respect thereto shall cease to accrue, and shall require that such Bonds be then surrendered to the Trustee. Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of any Bond.

Notice of prepayment of Bonds shall be given by the Trustee on behalf of and at the expense of the District.

SECTION 4.5. PARTIAL PREPAYMENT OF BOND

Upon surrender of any Bond prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Bond surrendered and of the same maturity.

SECTION 4.6. EFFECT OF PREPAYMENT

When notice of prepayment has been duly given as aforesaid, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date with respect to, the Bonds (or portions thereof so called for prepayment are held by the Trustee, the Bonds (or portions thereof) so called for prepayment shall, on the prepayment date designated in such notice, become due and payable at the Prepayment Price specified in such notice and interest accrued thereon to the prepayment date; and from and after the prepayment date interest represented by the Bonds so called for prepayment shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under this Agreement, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest.

All Bonds prepaid pursuant to the provisions of this Article shall be canceled upon surrender thereof and destroyed by the Trustee.

ARTICLE V WATER REVENUE PAYMENTS

SECTION 5.1. PLEDGE AND DEPOSIT OF WATER REVENUES

(a) All of the Water Revenues, all amounts held in the Water Revenue Fund described in subsection (b) below and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Trust Agreement (except the Rebate Fund) are hereby irrevocably pledged to secure the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with their terms and the provisions of the Trust Agreement, subject however to the pledge thereon securing parity debt, and the Water Revenues shall not be used for any other purpose while the Bonds remain Outstanding; provided that out of the Water Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. Said pledge, together with the pledge created for the benefit of other Bonds and Contracts, shall constitute a first lien on and security interest on Water Revenues and, subject to application of Water Revenue Fund and all amounts on deposit therein as permitted herein, the Water Revenue Fund and other funds and accounts created hereunder for the payment of the principal of and interest, and the premium, if any, on the Bonds in accordance with the terms hereof, and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act and shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice hereof.

(b) In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to receive all Water Revenues in trust hereunder and shall be deposited when and as received in a special fund designated as the "Water Revenue Fund," which fund has been previously established by the District and is hereby continued and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as the Bonds remain unpaid. Moneys in the Water Revenue Fund shall be used and applied by the District as provided herein. All moneys in the Water Revenue Fund shall be held in trust and shall be applied, used and withdrawn for the purposes set forth in this Section.

(c) The District shall, from the moneys in the Water Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter all remaining moneys in the Water Revenue Fund shall be applied by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(d) Not later than the first business day preceding each date on which principal of or interest on the Bonds becomes due and payable, the District shall transfer from the Water Revenue Fund to the Trustee for deposit in the Bond Payment Fund funds sufficient for payment of principal and interest due and for Bond redemption, if applicable.

All amounts designated by the District as interest, shall be applied by the Trustee solely in the Interest Fund of the Bond Payment Fund for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Trust Agreement).

All amounts designated by the District as principal shall be deposited by the Trustee in the Principal Fund of the Bond Payment Fund for the purpose of paying principal on the Bonds at their respective maturity dates.

(e) All amounts designated by the Trustee as redemption funds shall be applied by the Trustee solely for the purpose of paying the principal of and interest on the Bonds to be redeemed; provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest), as shall be directed pursuant to a Written Certificate of the District, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds. The Trustee shall establish and maintain a Delivery Costs Fund in accordance with Section 3.4 hereof.

(f) All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (a) paying interest on or principal of the Bonds, when due and payable to the extent that moneys deposited in the Interest Fund or Principal Fund, respectively, are not sufficient for such purpose, and (b) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired hereunder or provision made therefor, all moneys then on deposit in the Reserve Fund shall be withdrawn by the Trustee and paid to the District as a refund of Principal or Interest Payments. In the event of any deficiency in the Reserve Fund (whether due to a payment therefrom or due to the fluctuation in market value of securities credited thereto, or otherwise) as of the fifteenth (15th) day of the month preceding any Interest Payment Date, the Trustee shall promptly notify the District in writing of the amount of such deficiency and the District shall fund such deficiency from Net Revenues. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement shall be transferred to the Water Revenue Payment Fund.

The Reserve Fund may be maintained in the form of one or more separate subaccounts, which are established for the purpose of holding the proceeds of separate issues of the Bonds in conformity with applicable provisions of the Tax Code.

SECTION 5.2. BOND PAYMENT FUND

There is hereby established with the Trustee the Bond Payment Fund of which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any Water Revenue Payments remain unpaid. All moneys on deposit in the Bond Payment Fund (including income or profit from investments) shall be retained therein except as expressly provided herein.

The Trustee shall transfer from the Bond Payment Fund the following amounts at the times and in the manner hereinafter provided, and shall deposit such amounts in one or more of the following respective funds, each of which the Trustee shall establish and maintain and hold in trust separate and apart from other funds held by it, and each of which shall be disbursed and applied only as hereinafter authorized. Such amounts shall be so transferred to and deposited in the following respective funds in the following order of priority, the requirements of each such fund at the time of deposit to be satisfied before any transfer is made to any fund subsequent in priority:

(a) Interest Fund. The Trustee, on the last business day before each Interest Payment Date (commencing on the last business day before ____1, 20__), shall deposit in the Interest Fund from Water Revenues an amount representing interest coming due with respect to the Bonds on the next succeeding ____1 or ____1, as the case may be. No deposit need be made into the Interest Fund so long as there shall be in such fund moneys sufficient to pay the interest portion of Bonds then Outstanding due, if any, on the next ____1 or ____1, as the case may be.

Except as hereinafter provided, moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest with respect to the Bonds when due and payable (including accrued interest on any Bonds prepaid prior to maturity pursuant to this Agreement).

(b) Principal Fund. The Trustee, on the last business day before each ____ 1 (commencing on the last business day before ____ 1, 20 __), shall deposit in the Principal Fund from Water Revenues an amount equal to the principal coming due with respect to the Bonds on the next succeeding ____ 1. No deposit need be made into the Principal Fund so long as there shall be in such fund moneys sufficient to pay the portion of all Bonds then Outstanding designated as principal and coming due on the next succeeding ____ 1.

Except as hereinafter provided, moneys in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal with respect to the Bonds when due and payable.

SECTION 5.3. INVESTMENT OF MONEYS IN SPECIAL FUNDS

Any moneys in the Delivery Cost Fund, the Bond Payment Fund, the Interest Fund, the Principal Fund and the Reserve Fund shall be invested by the District or, upon the Written Request of the District, by the Trustee, in Permitted Investments which will mature on or before the dates when such moneys are scheduled to be needed for payment from such fund. Securities acquired as an investment of moneys in a fund shall be credited to such fund.

In the absence of written investment direction from the District, the Trustee shall invest moneys held by it solely in Permitted Investments specified in clause (5) of subsection (b) the definition thereof and the District will execute and deliver such documents as the Trustee shall reasonably request prior to such investment being effected. Except as otherwise expressly provided herein, investments shall be valued by the Trustee as frequently as reasonably deemed necessary, but not less often than annually, at the market value thereof, exclusive of accrued interest. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored by the District no later than the succeeding annual valuation date. The Trustee shall also value investments hereunder in connection with the or prepayment of the Bonds as directed in a Written Request of the District.

Any interest, profit or other income on such investments will be deposited when received by the Trustee in the Reserve Fund to the extent the amount available and contained therein is less than the Reserve Requirement and thereafter in the Bond Payment Fund established hereunder.

Subject to the further provisions of Section 6.3 hereof, the Trustee may sell or present for prepayment any obligations so purchased at the direction of the District whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment and shall be entitled to its customary fee therefor. The Trustee may commingle any of the funds or accounts established pursuant to this Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling.

SECTION 5.4. REBATE FUND

(a) Establishment. The Trustee shall establish, when required, a separate account for the Bonds designated the "Rebate Fund." Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the Bonds will not be adversely affected, the District shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Bonds shall be governed by this Section and the Tax Certificate for the Bonds, unless and to the extent that the District delivers to the Trustee an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of interest with respect to the Bonds will not be adversely affected if such requirements are not satisfied. The Trustee shall be deemed

conclusively to have complied with the provisions of this Section and the Tax Certificate if the Trustee follows the directions of the District and the Trustee shall have no independent responsibility to or liability resulting from failure of the Trustee to enforce compliance by the District with the Tax Certificate or the provisions of this Section.

(b) Annual Computation. Within 55 days of the end of each Bond Year (as such term is defined in the Tax Certificate), the District shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (e.g., the temporary investments exceptions of Section (B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(c) Annual Transfer. Within 55 days of the end of each Bond Year, upon the written Request of the District, an amount shall be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the District in the aforesaid written Request), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with (i) of this Subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon written Request of the District, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Revenue Fund.

(d) Payment to the Treasury. The Trustee shall pay, as directed by Request of the District, to the United States Treasury, out of amounts in the Rebate Account,

(i) not later than 60 days after the end of (X) the fifth Bond Year, and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(ii) not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(e) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds and the payments described in Subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(f) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the Bonds.

ARTICLE VI COVENANTS

SECTION 6.1. PERFORMANCE UNDER TRUST AGREEMENT

The District covenants and agrees with the Owners of the Bonds to perform all obligations and duties imposed on them under the Trust Agreement and, together with the Trustee, to enforce such Trust Agreement in accordance with its terms.

The District will in all respects promptly and faithfully keep, perform and comply with all the terms, provisions, covenants, conditions and agreements of the Trust Agreement to be kept, performed and complied with by it.

The District agrees not to do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Trust Agreement.

SECTION 6.2. RATE COVENANT

This Agreement will require the District to the fullest extent permitted by law, to fix, prescribe and collect rates and charges for the Water Service provided by the Water System which will be at least sufficient to yield during each Fiscal Year Water System Net Water Revenues equal to one hundred fifteen percent (115%) of Debt Service for such Fiscal Year allocable to the Bonds, including any parity obligations.

The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Water System Net Water Revenues from such reduced rates and charges will at all times be sufficient to meet the covenant described in the prior paragraph.

SECTION 6.3. BUDGETS

On or prior to the fifteenth day of each Fiscal Year, the District shall certify to the Trustee that the amounts budgeted for payment of Water Revenue Payments from Water Revenues are fully adequate for the payment of all Water Revenue Payments due under the Trust Agreement for such Fiscal Year. If the amounts so budgeted are not adequate for the payment of Water Revenue Payments due under the Trust Agreement, the District will take such action as may be necessary to cause such annual budget to be amended, corrected or augmented so as to include therein the amounts required to be raised by the District from Water Revenues in the then ensuing Fiscal Year for the payment of Water Revenue Payments due under the Trust Agreement and will notify the Trustee of the proceedings then taken or proposed to be taken by the District.

SECTION 6.4. TAX COVENANTS

Notwithstanding any other provision of this Agreement, absent an opinion of Special Counsel that the exclusion from gross income of interest with respect to the Bonds will not be adversely affected for

federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will not take or omit to take any action or make any use of the proceeds of the Bonds or of any other moneys or property which would cause the Bonds to be "private activity bonds" within the meaning of Section 141 of the Code.

(b) Arbitrage. The District will make no use of the proceeds of the Bonds or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The District will make no use of the proceeds of the Bonds or take or omit to take any action that would cause the Bonds to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(e) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds to be considered "hedge bonds" within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes.

(f) Miscellaneous. The District will take no action, or omit to take any action, inconsistent with its expectations stated in any Tax Certificate executed with respect to the Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the District from executing and delivering, Bonds the interest with respect to which has been determined by Special Counsel to be subject to federal income taxation.

SECTION 6.5. ACCOUNTING RECORDS AND REPORTS

The Trustee shall keep or cause to be kept proper books of record and account in which complete and correct entries shall be made of all transactions made by it relating to the receipts, disbursements, allocation and application of the Water Revenue Payments, and such books shall be available upon reasonable prior notice for inspection by the District and by any Owner of Bonds, or his agent or representative, at reasonable hours and under reasonable conditions. The Trustee shall furnish the District monthly cash transaction statements which include detail for all receipts, disbursements, allocation and application of amounts on deposit in the funds and accounts created hereunder and all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

SECTION 6.6. COMPLIANCE WITH TRUST AGREEMENT

The Trustee will not execute, or permit to be executed, any Bonds in any manner other than in accordance with the provisions of this Agreement, and the District will not suffer or permit any default by it to occur under this Agreement, but will faithfully observe and perform all the covenants, conditions and requirements hereof.

SECTION 6.7. OBSERVANCE OF LAWS AND REGULATIONS

To the extent necessary to assure their performance hereunder, the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

SECTION 6.8. COMPLIANCE WITH CONTRACTS

The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the 2021 Water Revenue Bonds by the District, and all other contracts and agreements affecting or involving the 2021 Water Revenue Bonds to the extent that the District is a party thereto.

SECTION 6.9. PROSECUTION AND DEFENSE OF SUITS

The District shall promptly, upon request of the Trustee or any Bond Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee (including all of its employees, officers and directors) and every Bond Owner harmless from all loss, cost, damage and expense, including attorneys' fees; which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District shall defend against every suit, action or proceeding at any time brought against the Trustee (including all of its employees, officers and directors) upon any claim arising out of the receipt, application or disbursement of any of the Water Revenue Payments or involving the rights of the Trustee under this Agreement; provided that the Trustee at such party's election may appear in and defend any such suit, action or proceeding. The District shall indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement, and shall indemnify and hold harmless the Trustee against any attorneys' fees or other expenses which the Trustee may incur in connection with any litigation (including pre-litigation activities) to which it may become a party by reason of serving as Trustee under this Agreement. The District shall promptly reimburse Trustee in the full amount of any attorneys' fees or other expenses which the Trustee may incur in litigation or otherwise in order to enforce such party's rights under this Agreement or the Bonds, provided that such litigation shall be concluded favorably to such party's contentions therein.

SECTION 6.10. RECORDATION AND FILING

The Trustee, upon written direction of the District, shall record, register, file, renew, refile and rerecord all such documents, including financing statements, as may be required by law in order to maintain a security interest in this Agreement all in such manner, at such times and in such places as may be required by, and to the extent permitted by, law in order fully to preserve, protect and perfect the security of the Bond Owners and the rights and security interests of the Trustee. The Trustee, upon written direction of the District, shall (subject to Section 8.5) do whatever else may be necessary or be reasonably required in order to perfect and continue the lien of this Agreement.

Notwithstanding anything to the contrary above, the Trustee shall have no duty or liability whatsoever to monitor or notify any party with respect to the timeliness, sufficiency or validity of any such recording, re-recording, filing, filing of continuation statements and the like with respect to. this Agreement; it being expressly understood and agreed that the Trustee's duties under this Section shall be exclusively limited to following the express written filing or recording instructions of the District, from time to time with respect to the above described actions so long as the District shall supply said recording or filing instruments.

SECTION 6.11. EMINENT DOMAIN

If all or any part of the project financed by the 2010 Certificates of Participation shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain), the Net Proceeds therefrom shall be applied in the manner specified in Section 10.2(a) of this Agreement .

SECTION 6.12. FURTHER ASSURANCES

Whenever and so often as requested so to do by the Trustee or any Bond Owner, the District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Bond Owners all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Agreement.

ARTICLE VII

THE ENTERPRISE; DEFAULT AND LIMITATION OF LIABILITY

SECTION 7.1. THE ENTERPRISE

"Enterprise" means any and all water facilities, properties and improvements at any time owned, controlled or operated by the District for the distribution of water, including water treatment plants, water mains, laterals, pumping stations, pipes, valves, machinery, and all other appurtenances necessary, useful or convenient for the distribution of water, and any necessary lands, rights or way and other real or personal property useful in connection therewith.

The Enterprise is estimated to have a value at least equal to the principal amount of the Bonds, although no current independent appraisal of the Enterprise has been obtained. The Bonds are not secured by the Enterprise and the Enterprise is not subject to sale, lease or other disposition in the event of default. The Bonds are secured by the Net Water Revenues and the amounts in certain funds and accounts as

described herein. The Water Revenue Payments are not subject to abatement in the event of loss of use or enjoyment of the Enterprise or the Project.

SECTION 7.2. NOTICE OF NON-PAYMENT

In the event of delinquency in the payment of any Water Revenue Payments due by the District pursuant to the Trust Agreement, the Trustee shall, after one business day following the date upon which such delinquent Installment Payment was due, as soon as practicable give written notice of the delinquency and the amount of the delinquency to the District.

SECTION 7.3. EVENTS OF DEFAULT; ACTION ON DEFAULT OR TERMINATION

The following shall constitute "Event Of Default" hereunder:

- (a) If payment of interest on the Bonds shall not be made when due; or
- (b) If payment of any Water Revenue Payments shall not be made when due and payable; or
- (c) If the District shall fail to observe or perform in any material way any other agreement, condition, covenant or term contained herein on its part to be observed or performed, and such failure shall continue for thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the District by the Trustee or by the Owners of not less than fifty per cent (50%) in aggregate principal amount of the Bonds, provided, that if such default be such that it cannot be corrected within the applicable period, it shall not constitute an Even of Default if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

If an Event of Default has occurred hereunder and is continuing, the Trustee, may, and, if requested in writing by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding the Trustee shall, (a) declare the principal of the Bonds, together with the accrued interest thereon, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything in this Trust Agreement or in the Bonds to the contrary notwithstanding, and (b) subject to the provisions of Article VIII hereof, exercise any other remedies available to the Trustee and the Bond owners in law or at equity.

Upon declaration of the entire principal amount of the unpaid Water Revenue Payments and the accrued interest thereon to be due and payable immediately and provided such declaration is not rescinded or annulled, all in accordance with this Agreement, the Trustee shall apply all moneys received as Water Revenue Payments and all moneys held in any fund or account hereunder (except the Rebate Fund) to the payment of the entire principal amount of the Bonds and the accrued interest with respect thereto, with interest on the overdue Bonds at the rate or rates of interest or yields-to-maturity applicable to the Bonds if paid in accordance with their terms.

All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Trust Agreement and all sums in the funds and accounts established and held by the Trustee hereunder upon the date of the declaration of acceleration as provided herein, and all sums thereafter received by the Trustee hereunder, shall be applied by the Trustee in the following order upon presentation of the Bonds, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in exercising the rights and remedies set forth herein, including reasonable compensation to its agents, attorneys (including the allocated costs and disbursements of its in-house counsel to the extent such services are not redundant with those provided by outside counsel) and counsel and any outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for principal and interest, as applicable, with interest on the overdue principal, and installments of interest at the net effective rate then borne by the Outstanding Bonds (to the extent that such interest on overdue installments of principal and interest shall have been collected), and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such principal and interest without preference or priority, ratably to the aggregate of such principal and interest.

SECTION 7.4. OTHER REMEDIES OF THE TRUSTEE

The Trustee may

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the District or any board member, officer or employee thereof, and to compel the District or any such board member, officer or employee to perform or carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained herein;
- (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or
- (c) by suit in equity upon the happening of any default hereunder to require the District and its directors, officers and employees to account as the trustee of an express trust.

SECTION 7.5. NON-WAIVER

A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned, the Trustee and the District shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

SECTION 7.6. REMEDIES NOT EXCLUSIVE

No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

SECTION 7.7. NO OBLIGATION BY THE DISTRICT TO OWNERS

Except for the payment of Water Revenue Payments when due in accordance with this Agreement and the performance of the other covenants and agreements of the District contained in this Agreement and herein, the District shall have no obligation or liability to the Owners of the Bonds with respect to this Agreement or the execution, delivery or transfer of the Bonds, or the disbursement of Water Revenue Payments to the Owners by the Trustee; provided however that nothing contained in this Section shall affect the rights, duties or obligations of the Trustee expressly set forth herein.

SECTION 7.8. TRUSTEE APPOINTED AGENT FOR BOND OWNERS; DIRECTION OF PROCEEDINGS

The Trustee is hereby appointed the agent and attorney of the Owners of all Bonds outstanding hereunder for the purpose of filing any claims relating to the Bonds. The Owners of a majority in aggregate principal amount of the Bonds Outstanding hereunder shall, upon tender to the Trustee of reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such direction, have the right to direct the method and place of conducting all remedial proceedings by the Trustee, provided such direction shall be in accordance with law and the provisions of this Trust Agreement and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond-Owners not parties to such a direction.

SECTION 7.9. POWER OF TRUSTEE TO CONTROL PROCEEDINGS

In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding pursuant to Section 7.7 hereof, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default hereunder, discontinue, withdraw, compromise or settle, or otherwise dispose of, any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Bonds Outstanding hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

SECTION 7.10. LIMITATION ON BOND OWNERS' RIGHT TO SUE

No Owner of any Bond executed and delivered hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default hereunder; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender or indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder; it

being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Agreement, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Agreement shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of (and premium, if any) and interest with respect to such Bond, as herein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding the foregoing provisions of this Section or Section 7.10 or any other provision of this Agreement.

SECTION 7.11. NO OBLIGATION WITH RESPECT TO PERFORMANCE BY TRUSTEE

The District shall not have any obligation or liability to any of the Owners of the Bonds with respect to the performance by the Trustee of any duty imposed upon it under this Agreement.

SECTION 7.12. NO LIABILITY TO OWNERS FOR PAYMENT

Except as provided in this Agreement, the Trustee shall not have any obligation or liability to the Owners of the Bonds with respect to the payment of the Water Revenue Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the this Agreement or herein.

SECTION 7.13. NO RESPONSIBILITY FOR SUFFICIENCY

The Trustee shall not be responsible for the sufficiency of this Agreement to receive Water Revenue Payments pursuant to the Trust Agreement. The Trustee shall not be responsible or liable for selection or liquidation of investments or any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with this Agreement.

SECTION 7.14. INDEMNIFICATION OF TRUSTEE

The District shall to the extent permitted by law, indemnify the Trustee (including all of its employees, officers and directors) and hold it harmless against any loss, liability, expenses or advances, including but not limited to fees and expenses of counsel and other experts, incurred or made without negligence or willful misconduct on the part of the Trustee, (i) in the exercise and performance of any of the powers and duties hereunder by the Trustee or (ii) arising out of or relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Bonds, including the costs and expenses of defending itself against any claim of liability arising under this Agreement. Such indemnity shall survive payment of the Bonds and discharge of this Agreement or resignation or removal of the Trustee.

ARTICLE VIII THE TRUSTEE

SECTION 8.1. EMPLOYMENT OF TRUSTEE

In consideration of the recitals hereinabove set forth and for other valuable consideration, the District hereby agrees to employ the Trustee to receive, hold, invest and disburse the moneys received pursuant to This Agreement for credit to the various funds and accounts established by this Agreement; to execute, deliver and transfer the Bonds; and to apply and disburse the Water Revenue Payments received

from the District to the Owners of Bonds; and to perform certain other functions; all as herein provided and subject to the terms and conditions of this Agreement.

SECTION 8.2. ACCEPTANCE OF EMPLOYMENT

In consideration of the compensation herein provided for, the Trustee accepts the employment above referred to subject to the terms and conditions of this Agreement.

SECTION 8.3. TRUSTEE: DUTIES, REMOVAL AND RESIGNATION

By executing and delivering this Agreement, the Trustee accepts the duties and obligations of the Trustee provided in this Agreement, but only upon the terms and conditions set forth in this Agreement.

The District may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee; provided, however, that if the District is in default under this Agreement the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by written request to the Trustee, remove the Trustee and appoint a successor Trustee. Any such successor shall be a bank or trust company doing business and having a corporate trust office in California, which has (or the parent holding company of which has) a combined capital (exclusive of borrowed capital) and surplus of at least _____ million dollars (\$ _____) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice to the District and by giving to the Bond Owners notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may at the expense of the District petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon written acceptance of appointment by the successor Trustee.

SECTION 8.4. COMPENSATION OF THE TRUSTEE

The District shall from time to time, subject to any agreement in effect with the Trustee, pay to the Trustee reasonable compensation for its services and shall reimburse the Trustee (including all of its employees, officers and directors) for all its advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties hereunder. Such compensation and reimbursement shall be paid by the District; provided, however, that the Trustee shall not otherwise have any claims, except in accordance with Section 7.13 hereof or lien for payment of compensation for its services against any other moneys held by it in the funds or accounts established hereunder but may take whatever legal actions are lawfully available to it directly against the District. The obligations of the District under this Section shall survive resignation or removal of the Trustee and payment of the Bonds and discharge of this Agreement.

SECTION 8.5. PROTECTION OF THE TRUSTEE

The Trustee shall be protected and shall incur no liability whatsoever in acting or refraining from acting or proceeding in good faith upon any resolution, notice, telegram, request, consent, waiver, Bond,

statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of this Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at the request of any such person unless such Bond shall be deposited with the Trustee or satisfactory evidence of the ownership of such Bond shall be furnished to the Trustee. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith in accordance therewith.

Whenever in the administration of its duties under this Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) shall be deemed to be conclusively proved and established by a certificate of the District and such Bond shall be full warranty to the Trustee for any action taken or suffered under the provisions of this Agreement upon the faith thereof, but in its discretion the Trustee may (but shall have no duty), in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds provided pursuant to this Agreement, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to this Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the District, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or of obligations of the District as freely as if it were not Trustee hereunder.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duties hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent or receiver selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Agreement or in the performance of its duties hereunder or for anything whatever in connection with the funds and accounts established hereunder, except only for its own willful misconduct or negligence.

The recitals, statements and representations by the District contained in this Agreement or in the Bonds shall be taken and construed as made by and on the part of the District and not by the Trustee and the Trustee does not assume, and shall not have, any responsibility or obligations for the correctness of any thereof.

The Trustee undertakes to perform such duties, and only such duties as are specifically set forth in this Agreement and no implied duties or obligations shall be read into this Agreement against the Trustee.

No provision in this Agreement shall require the Trustee to risk or expend its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not assured to it.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners and the District having any claim against the Trustee arising from this Agreement shall look only to the funds and accounts held

by the Trustee hereunder for payment except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

The Trustee shall not be deemed to have knowledge of any Event of Default hereunder or under this Agreement unless and until it shall have actual knowledge thereof or have received notice thereof at its corporate trust office at the address set forth in Section 11.11 hereof. The Trustee shall, during the existence of any Event of Default (which has not been cured) use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his/her own affairs.

The Trustee shall not be accountable for the use or application by the District, or any other party of any funds which the Trustee has released in accordance with the terms of this Agreement.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in the Trustee by this Agreement at the request, order or direction of any of the Owners pursuant to the provisions of this Agreement unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

SECTION 8.6. MERGER OR CONSOLIDATION

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business (provided such company is eligible under Section 8.3 hereof), shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

ARTICLE IX AMENDMENT OF TRUST AGREEMENT

SECTION 9.1. AMENDMENTS PERMITTED

a) This Agreement and the rights and obligations of the District and of the Owners of the Bonds and of the Trustee may be modified or amended at any time by an amendment hereto which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 11.4 hereof, shall have been filed, provided, however, that no such modification or amendment shall (1) extend the stated maturities of the Bonds, or reduce the rate of interest or yields-to-maturity, as the case may be, represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners of Bonds whose consent is required for the execution of any amendment or modification of this Agreement, or (3) modify any of the rights or obligations of the Trustee or without its written consent thereto.

b) This Agreement and the rights and obligations of the District and of the Owners of the Bonds may also be modified or amended at any time by an amendment hereto which shall become binding upon adoption, without the consent of the Owners of any Bonds, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the District contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the District, and which shall not adversely affect the interests of the Owners of the Bonds;

(ii) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the District may deem necessary or desirable and which shall not adversely affect the interests of the Owners of the Bonds; and

(iii) subject to the Trustee's judgment, to make such other amendments or modifications as may be in the best interests of the Owners of the Bonds.

SECTION 9.2. ENDORSEMENT OR REPLACEMENT OF BONDS AFTER AMENDMENT OR SUPPLEMENT

After the effective date of any action taken as hereinabove provided, the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Trustee to the Owner of any Outstanding Bond and presentation of such Owner's Certificate for such purpose at the principal corporate trust office of the Trustee a suitable notation as to such action shall be made on such Owners Certificate. If the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee shall be necessary to conform to such action shall be prepared, and in that case upon demand of the Trustee to the Owner of any Outstanding Bonds such new Bonds shall be exchanged at the principal corporate trust office of the Trustee without cost to each Owner for Bonds then Outstanding upon surrender of such Outstanding Bonds.

SECTION 9.3. AMENDMENT OF PARTICULAR BONDS

The provisions of this Article shall not prevent any Owner from accepting any amendments to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

ARTICLE X DEFEASANCE

SECTION 10.1. DISCHARGE OF TRUST AGREEMENT

When the obligations of the District under this Agreement shall cease pursuant to Article X of the Trust Agreement (except for the right of the Trustee and the obligation of the District to have the money and Permitted Investments mentioned therein applied to the payment of Water Revenue Payments as therein set forth and the obligation to apply moneys on deposit in the Rebate Fund as provided in Section 5.6 herein), then and in that case the obligations created by this Agreement shall thereupon cease, terminate and become void except for the obligation of the District to direct the Trustee to apply money on deposit in the Rebate Fund as provided herein which shall continue until such moneys are so applied and the right of the Owners to have applied and the obligation of the Trustee to apply such moneys and Permitted Investments to the payment of the Bonds as herein set forth, and subject to application of moneys on deposit in the Rebate Fund as provided in Section 5.6, the Trustee shall turn over to the District, after provision for payment of amounts due the Trustee hereunder, as an overpayment of Water Revenue Payments, any surplus in the Bond Payment Fund and all balances remaining in any other funds or accounts other than moneys and Permitted Investments held for the payment of the Bonds at maturity or on prepayment, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the benefit of the Owners and shall be applied by the Trustee to the payment, when due, of the principal or interest and premium, if any, represented by the Bonds, and after such payment, this Agreement shall become void.

If moneys or securities described in clause (a) of the definition of Permitted Investments are deposited with and held by the Trustee as hereinabove provided, the Trustee shall within thirty (30) days after such moneys or Permitted Investments shall have been deposited with it, mail a notice, first class

postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to Section 2.8, setting forth (a) the date fixed for prepayment of the Bonds, (b) a description of the moneys or securities described in clause (a) of the definition of Permitted Investments so held by it, and (c) that this Agreement has been released in accordance with the provisions of this Section.

SECTION 10.2. DEPOSIT OF MONEY OR SECURITIES WITH TRUSTEE

Whenever in this Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Bonds, the money or securities to be so deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to this Agreement and shall be —

(a) lawful money of the United States of America in an amount equal to the principal amount represented by such Bonds and all unpaid interest represented thereby to maturity, except that, in the case of Bonds which are to be prepaid prior to maturity and in respect of which notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price and all unpaid interest to such date of prepayment if any, represented by such Bonds; or

(b) non-callable securities described in clause (a) of the definition of Permitted Investments which will provide money sufficient to pay the principal at maturity or upon prepayment plus all accrued interest to maturity or to the prepayment date, as the case may be, represented by the Bonds to be paid or prepaid, as such amounts become due, plus premium, if any, provided that, in the case of Bonds which are to be prepaid prior to the maturity thereof, notice of such prepayment shall have been given as in Article IV provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of this Agreement or by Written Request of the District) to apply such money or securities to the payment of such principal or Prepayment Price and interest represented by such Bonds.

SECTION 10.3. UNCLAIMED MONEYS

Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest, principal or Prepayment Price represented by any of the Bonds which remain unclaimed for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest, principal or Prepayment Price represented by such Bonds have become payable, shall at the Written Request of the District be repaid by the Trustee to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of the interest and principal or Prepayment Price represented by such Bonds; provided, however, that before being required to make any such payment to the District, the Trustee shall, at the written request and expense of the District, first mail a notice to the owners of the Bonds so payable that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the mailing of such notice, the balance of such moneys then unclaimed will be returned to the District.

ARTICLE XI MISCELLANEOUS

SECTION 11.1. BENEFITS OF TRUST AGREEMENT LIMITED TO PARTIES

Nothing contained herein, expressed or implied, is intended to give to any person other than the District, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any

agreement, condition, covenant or term required herein to be observed or performed by or on behalf of the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

SECTION 11.2. SUCCESSOR DEEMED INCLUDED IN ALL REFERENCES TO PREDECESSOR

Whenever either the District or the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the District or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 11.3. EXECUTION OF DOCUMENTS BY OWNERS

Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or such Owner's, attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the Bond of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bonds and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of Section 2.8.

Any declaration, request or other instrument in writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the District or the Trustee in good faith and in accordance therewith.

SECTION 11.4. DISQUALIFIED BONDS

Bonds owned or held by or for the account of the District (but excluding Bonds held in any pension or retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in this Agreement, and shall not be entitled to consent to or take any other action provided for in this Agreement.

The Trustee may adopt appropriate regulations to require each Owner of Bonds, before his consent provided for in this Agreement shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this Section.

SECTION 11.5. WAIVER OF PERSONAL LIABILITY

No director, officer or employee of the District shall be individually or personally liable for the payment of the interest, principal or the prepayment premiums, if any, represented by the Bonds, but nothing contained herein shall relieve any director, officer or employee of the District or from the performance of any official duty provided by any applicable provisions of law or by this Agreement.

SECTION 11.6. ACQUISITION OF BONDS BY THE DISTRICT; DESTRUCTION OF BONDS.

All Bonds acquired by the District, whether by purchase or gift or otherwise shall be surrendered to the Trustee for cancellation. Whenever in this Agreement provision is made for the cancellation by the

Trustee of any Bonds, the Trustee shall destroy such Bonds and upon written request deliver a Certificate of such destruction to the District.

SECTION 11.7. HEADINGS

Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Agreement or affect its meaning, construction or effect.

All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; and the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

SECTION 11.8. FUNDS AND ACCOUNTS

Any fund required by this Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds shall at all times be maintained in accordance with sound industry practices and with due regard for the protection of the security of the Bonds and the rights of every Owner thereof.

SECTION 11.9. PARTIAL INVALIDITY

If any one or more of the agreements, conditions, covenants or terms required herein to be observed or performed by or on the part of the District or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The District and the Trustee hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the execution and delivery of the Bonds pursuant hereto irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstances may be held to be unconstitutional, unenforceable or invalid.

SECTION 11.10. CALIFORNIA LAW

This agreement shall be construed and governed in accordance with the laws of the state of California.

SECTION 11.11. NOTICES

All written notices to be given under this Agreement to the parties hereto shall be given by mail, facsimile transmission or personal delivery to the party entitled thereto at its address set forth below, or at such address as the party may provide to the other parties in writing from time to time.

If to the District: Pajaro/Sunny Mesa Community Services District
136 San Juan Road
Watsonville, CA 95076
Attention: General Manager
Facsimile: 831-722-2137

If to the Trustee: U.S. Bank Global Corporate Trust
1 California Street, Suite 1000
San Francisco, CA 94111
(415) 677-3781
Email:

SECTION 11.12. EXECUTION IN COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

SECTION 11.13. BUSINESS DAY

When any action is provided for herein to be done on a day named or within a specified time period, and the day or the last day of the period falls on a day other than a Business Day, such action may be performed on the next ensuing Business Day with the same effect as though performed on the appointed day or within the specified period with no interest accruing for the period after such nominal date.

IN WITNESS WHEREOF*, the parties have executed and attested this Agreement by their officers hereunto duly authorized as of the date and year first written above.

U.S. BANK GLOBAL CORPORATE TRUST, as Trustee

By:

Authorized Officer

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

By:

President

ATTEST:

Secretary

**EXHIBIT A
FORM OF BOND**

**United States of America
State of California
County of Monterey**

Registered
Number R-_____

\$_____.00

**PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
2021 WATER REVENUE BOND**

Evidencing an Interest of the Owner Hereof in Water
Revenue Water Revenue Payments to be Made by the
PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

INTEREST RATE: BOND PAYMENT DATE DATED DATE CUSIP

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS
(Bank Qualified)

THIS IS TO CERTIFY that the Registered Owner (specified above) of this 2021 Water Revenue Bond (herein called the "Bond") is the owner of an undivided interest in the right to receive certain Water Revenue Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under the Trust Agreement (the "Trust Agreement"), dated as of _____ 1, 2021, by and between U.S. Bank Global Corporate Trust, (the "Trustee") and the Pajaro/Sunny Mesa Community Services District (the "District"). The Water Revenue Payments to be made thereunder will be paid to U.S. Bank Global Corporate Trust, as trustee (the "Trustee"), having a corporate trust office in Los Angeles, California. The Trustee has authenticated and delivered \$_____ aggregate principal amount of Bonds.

The Registered Owner of this Bond is entitled to receive, subject to the terms of the Trust Agreement, dated as of June 1, 2021, by and between the Trustee and the District (the "Trust Agreement") on the Bond Payment Date (specified above) the Principal Amount (specified above) representing a portion of the Water Revenue Payments designated as principal coming due on the Bond Payment Date, and to receive an interest component on such principal component at the interest rate per annum specified above, from the Interest Payment Date (as hereinafter defined) preceding the date of execution hereof by the Trustee, unless such date of execution is after a Record Date (as hereinafter defined) and on or before the succeeding Interest Payment Date, in which case interest shall be payable from such Interest Payment Date, or unless such date of execution is on or before the first Record Date, in which case interest shall be payable from the Dated Date; provided,

FORM OF BOND

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however, that if, as shown by the records of the Trustee, interest represented by this Bond is in default, Bonds executed in exchange for this Bond surrendered for transfer or exchange shall represent interest from the last date to which interest has been paid in full or duly provided for with respect to this Bond, or, if no interest has been paid or duly provided for with respect to this Bond, from the Dated Date.

Interest with respect to this Bond shall be paid on _____ 1 and _____ 1 in each year, commencing _____ 1, 2021 (each, an "Interest Payment Date"), and continuing to and including the Bond Payment Date or the date of prior prepayment hereof, whichever is earlier. Interest with respect to this Bond shall be calculated on the basis of a 360-day year of twelve 30-day months. The principal with respect hereto and prepayment premiums, if any, are payable in lawful money of the United States of America upon presentation and surrender at the principal corporate trust office of the Trustee in Los Angeles, California or such other office as the Trustee may from time to time designate in writing to the District and the registered owners (the "Principal Corporate Trust Office"). Interest with respect hereto is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof as of the close of business on the fifteenth day of the calendar month prior to such Interest Payment Date (the "Record Dates") at the address shown on the books maintained by the Trustee or, upon the written request received by the Trustee of an Owner of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer of immediately available funds to an account in the United States designated by such Owner prior to the applicable Record Date, except, in each case that, if and to the extent that there is a default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the owner in whose name this Bond is registered at the close of business on a special record date as determined by the Trustee.

The Bond has been executed by the District pursuant to the terms of the Trust Agreement. Copies of the Trust Agreement are on file at the corporate trust office of the Trustee in Los Angeles, California, and reference is made to the Trust Agreement and any and all amendments thereto for a description of the pledges and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the registered owners of the Bonds with respect thereto and the other terms and conditions upon which the Bonds are delivered thereunder.

The Bonds are payable from Water Revenue Payments payable by the District and other amounts on deposit in certain funds and accounts held under the Trust Agreement, including but not limited to the Reserve Fund, all in accordance therewith. All Revenues and all amounts on deposit in the Revenue Fund (as such terms are defined in the Trust Agreement) are irrevocably pledged to the payment of the Water Revenue Payments and the Revenues shall not be used for any other purpose while any of the Water Revenue Payments remain unpaid; provided that out of Revenues there may be apportioned such sums for such purposes as are expressly permitted in the Trust Agreement. This pledge, together with all other Contracts and Bonds (as such terms are defined in the Trust Agreement) constitutes a lien on Revenues, subject to application of Revenues and all amounts on deposit in the Revenue Fund as permitted in the Trust Agreement, and the Revenue Fund for the payment of the Water Revenue Payments and all other Contracts and Bonds in accordance with the terms of the Trust Agreement. The obligation of the District to make Water Revenue Payments is a special obligation of the District payable solely from Net Revenues (as defined in the Trust Agreement) and other funds described therein and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. The District may at any time execute any Contract, the Water Revenue Payments under which, or issue any Bonds (as such terms are defined in the Trust Agreement), the payments of which are on a parity with the Water Revenue Payments and which are secured by a pledge of and lien on the Revenues in accordance with the Trust Agreement.

The Bonds are authorized to be executed and delivered in the form of fully registered Bonds in the denomination of \$5,000 each or any integral multiple thereof; provided that no Bond shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges provided in the Trust Agreement, Bonds may be exchanged for a like aggregate principal amount of Bonds of the same Bond Payment Date of other authorized denominations at the Principal Corporate Trust Office of the Trustee.

This Bond is transferable by the Registered Owner hereof, in person or by such person's duly authorized attorney, but only in the manner, subject to the limitations and conditions and upon payment of the taxes and governmental charges provided in the Trust Agreement, and upon surrender of this Bond for cancellation at the Principal Corporate Trust Office of the Trustee, accompanied by delivery of a duly executed written instrument of transfer, in a form approved by the Trustee. Upon such transfer a new Bond or Bonds of the same Bond Payment Date and of authorized denomination or denominations, for a like aggregate principal amount will be delivered to the transferee in exchange therefor.

The Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Trustee shall not be affected by any notice to the contrary.

The Trustee shall not be required to register the transfer or exchange of any Bond (i) within 15 days preceding selection of Bonds for prepayment or (ii) selected for prepayment.

The Bonds shall be subject to prepayment prior to their respective stated maturities, as a whole or in part on any Interest Payment Date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 60 days prior to such date and by lot within each maturity in integral multiples of \$5,000, on or after ____ 1, 20__ from amounts prepaid by the District pursuant to the Trust Agreement at a Prepayment Price below equal to the principal amount of such Bonds to be prepaid plus accrued interest evidenced and represented thereby to the date fixed for prepayment.

Prepayment Dates
(Inclusive)

Prepayment
Price

The Bonds maturing on ____ 1, 20__ and ____ 1, 20__ (collectively, the "Term Bonds") are subject to mandatory prepayment in part, by lot, on May 1 in each of the following years commencing ____ 1, 20__ and ____ 1, 20__ from Water Revenue Payments made by the District to the Trustee pursuant to the Trust Agreement, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts, and on May 1 in the respective years as set forth in the following tables; provided, however, that if some, but not all, of such Term Bonds have been prepaid pursuant to the terms of the Trust Agreement, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Term Bonds so prepaid, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000, as determined by the District and specified in writing to the Trustee.

_____ TERM BONDS

Sinking Fund Prepayment Date	Principal Amount of Term bonds to be Prepaid
---------------------------------	--

_____ TERM BONDS

Sinking Fund Prepayment Date	Principal Amount of Term bonds to be Prepaid
---------------------------------	--

The Bonds shall be subject to extraordinary prepayment from insurance and condemnation proceeds prior to their respective stated maturities, as a whole or in part on any date in the order of maturity as directed by the District in a Written Request provided to the Trustee at least 30 days prior to such date and by lot within each maturity in integral multiples of \$5,000 from prepaid Water Revenue Payments made by the District from Net Proceeds, upon the terms and conditions of, and as provided for in the Trust Agreement, at a Prepayment Price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

The Bonds are subject to prepayment on any Bond Payment Date occurring on or after the receipt by the Trustee of a Certificate of the District certifying that the Redemption has been completed within three (3) years after the Closing Date, at the par amount thereof, without premium, from excess proceeds of the Bonds transferred to the Bond Payment Fund from the funds held by the Trustee pursuant to Section 3.2 of the Trust Agreement.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, not less than 20 days nor more than 30 days prior to the prepayment date, to the Registered Owner of this Bond at the address thereof appearing on the Bond registration books. If this Bond is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, interest represented hereby shall cease to accrue from and after the date fixed for prepayment Any defect in the notice or the mailing thereof will not affect the validity of the prepayment of this Bond.

The District has designated the Bonds "Bank Qualified" for purposes of paragraph (3) of Section 265(b) of the Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Code, except qualified 501(c)(3) bonds defined in Section 145 of the Code and (ii) current obligations to the extent the amount of the obligation does not exceed the outstanding amount of the refunded obligation), including these Bonds, has been or will be issued by the District, including all subordinate entities of the District, during calendar year 2021.

To the extent and in the manner permitted by the terms of the Trust Agreement, as the case may be, the Trust Agreement and the rights and obligations of the District and of the registered owners of the Bonds and of the Trustee may be modified or amended with the written consents of the registered owners of a majority in aggregate principal amount of the Bonds (as such terms is defined in the Trust Agreement) then outstanding, provided, however, that no such modification or amendment shall (1) extend the stated maturities of the Bonds, or reduce the rate of interest or yield-to-maturity represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the registered owner of each Bond so affected, or (2) reduce the percentage of registered owners of Bonds whose consent is required for the execution of any amendment or modification of the Trust Agreement, or (3) modify any of the rights or obligations of the Trustee without its written consent thereto.

Upon acceleration, the Water Revenue Payments and the Bonds shall become due and payable immediately from the sources described in the Trust Agreement.

The Trustee has no obligation or liability to the registered owners of the Bonds for the payment of interest, principal or prepayment premium, if any, with respect to the Bonds out of the Trustee's own funds; the Trustee's sole obligations are those described in the Trust Agreement. The recitals of facts herein shall be taken as statements of the District and the Trustee does not have any responsibility for the accuracy thereof.

The District has certified that all acts, conditions and things required by the Constitution and statutes of the State of California and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the delivery of this Bond, do exist, have happened and have been performed in due time, form and manner as required by law.

IN WITNESS WHEREOF, this Bond has been executed by the manual signature of the President of the Board of Directors of the District whose signature has been attested by the District Secretary and authenticated by the authorized signatory of the Trustee, all as of the date set forth below.

Execution Date: _____, 2021

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

ATTEST: _____
District Secretary

By: _____
President of the Board of Directors

BOND AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Trust Agreement
Dated _____ 2021 U.S. BANK GLOBAL CORPORATE TRUST, as Trustee

By: _____
Authorized Signatory

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) _____
attorney, to transfer the same on the Bond Register of the Trustee with full power of substitution in
the premises.

Dated: _____

Signature Guaranteed:

*Note: Signature(s) must be guaranteed by
an eligible guarantor.*

change

*Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the
face of the within Bond in every particular,
without alteration or enlargement or any
whatsoever*

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM as tenants in common	UNIF GIFT MIN ACT _____ Custodian
TEN ENT as tenants by the Entireties	(Cust) _____ (Minor) _____ under
JT TEN as joint tenants with right of survivorship and not as tenants in common	Uniform Gifts to Minors Act _____ (State)

ADDITIONAL ABBREVIATIONS MAY ALSO BE USED THOUGH NOT IN THE LIST ABOVE

Additional abbreviations may also be used though not in the above list unless this Bond is presented by an authorized representative of DTC, to the Issuer or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co., or to such other entity as is requested by an authorized representative of DTC) ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Legal opinion
Law Office of
ROBERT M. HAIGHT
ATTORNEY AT LAW

Municipal Bond Counsel
120 Jewell St, Santa Cruz, Ca, 95060

_____ 2021

\$ _____

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
2021 WATER REVENUE BONDS

Pajaro/Sunny Mesa Community Services District
136 San Juan Road
Watsonville, California 95076

Members of the Board of Directors:

We have acted as Special Counsel to the Pajaro/Sunny Mesa Community Services District (the "District") in connection with the execution and delivery of \$_____ aggregate principal amount of 2021 Water Revenue Bonds, dated the date hereof (the "Bonds"), each evidencing and representing an interest of the registered owner thereof in the right to receive Water Revenue Payments (as that term is defined in the Trust Agreement hereinafter mentioned). The Bonds have been executed by the District and authenticated and delivered by the Trustee pursuant to the terms of the Trust Agreement, dated as of _____ 1, 2021 (the "Trust Agreement"), by and between the District and the Trustee.

In connection with our representation we have examined a certified copy of the proceedings relating to the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

Based upon the foregoing and after examination of such questions of law as we have deemed relevant in the circumstances, but subject to the limitations set forth herein, we are of the opinion that:

1. The proceedings show lawful authority for the execution and delivery by the District of the Trust Agreement under the laws of the State of California now in force, and the Trust Agreement have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the Trustee, as appropriate, are valid and binding obligations of the District enforceable against the District in accordance with their respective terms.

2. The Bonds, assuming due authentication and delivery by the Trustee, are entitled to the benefits of the Trust Agreement.

3. The obligation of the District to make the Water Revenue Payments from Net Revenues (as defined in the Trust Agreement) is an enforceable obligation of the District and does not constitute a debt of the District, or of the State of California or of any political subdivision

thereof in contravention of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation.

4. Under existing statutes, regulations, rulings and judicial decisions, the portion of each

Installment Payment constituting interest is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations.

5. The portion of each Water Revenue Payment constituting interest is exempt from State of California personal income tax.

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated prepayment price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Owner's basis in the applicable Bond. Original issue discount that accrues to the Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

7. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

8. The District has designated the Bonds "Bank Qualified" for purposes of paragraph (3) of Section 265(b) of the Internal Revenue Code.

The opinions expressed herein as to the exclusion from gross income of the portion of each Installment Payment constituting interest (and original issue discount) are based upon certain representations of fact and certifications made by the District and others and are subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Bonds to assure that such portion of each Water Revenue Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of each Water Revenue Payment constituting interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreement and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the

exclusion from gross income of the portion of each Water Revenue Payment constituting interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than ourselves. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Trust Agreement and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

ROBERT M. HAIGHT

EXHIBIT B
FORM OF REQUISITION FOR DISBURSEMENT

REQUISITION NO. _____ FOR
DISBURSEMENT FROM DELIVERY COST FUND

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT 2021
WATER REVENUE BONDS

The undersigned hereby states and certifies:

(i) that, he is the duly appointed, qualified and acting General Manager of the Pajaro/Sunny Mesa Community Services District, a political subdivision organized and existing under the laws of the State of California (the "District"), and as such, is familiar with the facts herein certified and is authorized to certify the same;

(ii) that, pursuant to Section 3.4 of that certain Trust Agreement dated as of _____ 1, 2021 (the "Trust Agreement"), by and between the District and U.S. Bank Global Corporate Trust, the undersigned hereby requests the Trustee to disburse this date the following amounts from the Delivery Cost Fund established under the Trust Agreement, to the payees designated on the attached Exhibit A;

(iii) that, each obligation mentioned herein has been incurred by the District and is a proper charge against the Delivery Cost Fund;

(iv) that, all payments shall be made by check or wire transfer in accordance with payment instructions contained in Exhibit A and the Trustee shall have no duty or obligation to authenticate such payment instructions or the authorization thereof.

(v) that, there has not been filed with or served upon the District notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the payees named on the attached Exhibit A, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law.

PAJARO/SUNNY MESA
COMMUNITY SERVICES DISTRICT

By: _____

General Manager

EXHIBIT A
DELIVERY COST FUND DISBURSEMENTS

<i>Item Number</i>	<i>Payee Name and Address</i>	<i>Purpose of Obligation</i>	<i>Amount</i>
_____			_____
_____			_____
_____			_____
_____			_____

Robert Haight

From: Robert Haight [rmhaight@rmhaightlaw.com]
Sent: Tuesday, June 15, 2021 2:23 PM
To: 'Don Rosa'; 'Lonnie Odom'; 'Maravilla, Alan T'
Subject: 13 Form of Bond
Attachments: 13 Form of Bond.pdf

To everyone: Attached please find the Exhibit A to the Trust Agreement.

Robert Haight

From: Robert Haight [rmhaight@rmhaightlaw.com]
Sent: Tuesday, June 15, 2021 10:32 AM
To: 'Don Rosa'; 'Lonnie Odom'
Subject: 4 Trust Agreement
Attachments: 4 Trust Agreement.pdf

Don and Lonnie: For agenda of June 24, 2021. The form of Bond (Exhibit A) and the Exhibit B will be sent separately. I haven't sent this document to U.S. Bank until I know who is the responsible party at the Bank.

APPENDIX D INFORMATION CONCERNING DTC

APPENDIX D

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value, if any, and interest with respect to the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each issue of the Bonds, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities 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 Bonds. 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 the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to

whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Prepayment proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District 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 PTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of Prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District 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.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bond by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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

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

APPENDIX E FORM OF CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

by and among

NBS GOVERNMENT FINANCE GROUP

and

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

Relating to

\$ _____

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

2021 WATER REVENUE BONDS

Dated as of _____, 2021

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of this 1st day of _____, 2021, is executed and delivered by the Pajaro/Sunny Mesa Community Services District (the "Issuer"), acting on behalf of the 2021 Water Revenue Bonds and NBS GOVERNMENT FINANCE GROUP (the "Dissemination Agent"), in connection with the execution and delivery of the 2021 Water Revenue Bonds of the Pajaro/Sunny Mesa Community Services District (the "Bonds"), acting hereunder in its capacity as Dissemination Agent. The Bonds are being issued pursuant to Trust Agreement approved by the Board of Directors of the Pajaro/Sunny Mesa Community Services District on _____, 2021 (the "Agreement"). The Issuer and the Dissemination Agent covenant and agree as follow:

SECTION 1. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement, unless otherwise defined in this Section 1, the following capitalized terms shall have the following meanings when used in this Disclosure Agreement:

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

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

"Dissemination Agent" shall mean NBS Government Finance Group or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. In the absence of such a designation, the District shall act as the Dissemination Agent.

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

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

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Owner" or "Bond Owner," when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered.

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

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 3. Provision of Annual Reports

(a) **Delivery of Annual Report.** The District shall, or shall cause the Dissemination Agent to, not later than seven months after the end of the District's fiscal year (which currently ends on June 30), commencing with the report for the 2021-22 Fiscal Year, which is due not later than January 31, 2022, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) **Change of Fiscal Year.** If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than seven months after the end of such new fiscal year end.

(c) **Delivery of Annual Report to Dissemination Agent.** Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) **Report of Non-Compliance.** If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b) of this Section 3, the District shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) **Annual Compliance Certification.** The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Agreement, stating the date it was so provided and filed.

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

(a) **Financial Statements.** Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available,

(b) **Other Annual Information.** To the extent not included in the audited final statements of the District, the Annual Report shall also include financial and operating data with respect to the District for the preceding fiscal year, substantially similar to that provided in the tables in the official statement for the Bonds under the heading "TABLE 6-HISTORIC WATER REVENUE" and "TABLE 7-PROJECTED WATER REVENUE."

(c) Cross References. Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference. If the document included by reference is a final official statement, it must be available from EMMA.

(d) Further Information. In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

SECTION 5. Reporting of Listed Events.

(a) Reportable Events. The District shall, or shall cause the Dissemination (if not the District) to, give notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Defeasances;
- (6) Rating changes;
- (7) Tender offers;
- (8) Bankruptcy, insolvency, receivership or similar event of the obligated person; and
- (9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

NOTE: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, trustee or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Material Reportable Events. The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Non-payment related defaults;
- (2) Modifications to rights of security holders;
- (3) Bond calls;
- (4) The release, substitution, or sale of property securing repayment of the securities;
- (5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person,

other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and

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

(c) Time to Disclose. Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Trust Agreement.

SECTION 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Agreement shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent.

(a) Appointment of Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Agreement. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Agreement and have no liability to any person, including any Owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) Compensation of Dissemination Agent. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) Responsibilities of Dissemination Agent. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that all of the following conditions are satisfied:

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

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

(c) Consent of Owners; Non-impairment Opinion. The amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Agreement for amendments to the Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners.

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

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication or including any other information in any Annual Report or notice of

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

SECTION 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance,

SECTION 12. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Dissemination Agent:	NBS Government Finance Group 32605 Temecula Parkway, STE 100 Temecula California 92592 1 (800) 676-7516 Email: disclosure@nbsgov.com
District:	Pajaro/Sunny Mesa CSD 136 San Juan Road, Watsonville California 95076 Main: (831) 722-1389 Fax: (831) 722-0137

Dated: _____, 2021

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

Don Rosa, General Manager

NBS GOVERNMENT FINANCE GROUP.

Director

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL
REPORT

Name of Obligor: PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

Name of Obligation: 2021 WATER REVENUE BONDS

Date of Execution and Delivery: _____, 2021

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above named Bonds as required by the Continuing Disclosure Agreement approved pursuant to a Resolution adopted by the Board of Directors of the District on _____, 2021. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

By _____
PAJARO/SUNNY MESA
COMMUNITY SERVICES DISTRICT

Robert Haight

From: Robert Haight [rmhaight@rmhaightlaw.com]
Sent: Monday, June 21, 2021 6:30 AM
To: 'Don Rosa'; 'NBS Consulting'; 'Lonnie Odom'
Subject: 6 Continuing Disclosure Agreement , as Revised
Attachments: 6 Continuing Disclosure Agreement (2).pdf

To all: Attached is the revised Continuing Disclosure Agreement with minor font changes and corrections for the agenda of June 24, 2021.

APPENDIX F 2021 RATE SCHEDULE

Effective Date July 1, 2021

EXHIBIT "A"

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
RATE SCHEDULE

I. MINIMUM CHARGES

A. PAJARO, SUNNY MESA, BLACKIE ROAD #18, LANGLEY/VALLE PACIFICO, NORMCO WATER, VIERRA ESTATES, MOSS LANDING DIVISION, VEGA AND SPRINGFIELD WATER

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The areas served by the Pajaro/Sunny Mesa Community Services District currently known as Pajaro, Sunny Mesa, Bay Farms/Hillcrest, Vega/Vista Verde, Moss Landing and North Monterey County Prunedale Areas.

RATES

<u>Quantity Rates Uniform Single Tier:</u>	<u>Per Meter Per Month</u>
Inside District - Domestic	
Per 100 cu. ft. (748 gallons).....	\$ 4.81
Bulk or Construction water	
Per 100 cu. ft. (748 gallons).....	\$ 66.54
Agricultural water	
Per acre foot per month	\$ 476.50

Pajaro, Sunny Mesa, and Vega Systems only:

Pajaro Valley Water Management Agency Established Rates shall be collected by the District from the customer and be refunded to PVWMA at required intervals. The District shall establish a collection fee annually and add on to the established water charge.

Pajaro Valley Water Management Agency \$ 246.00 per acre ft. (325,829 gallons)
Pajaro/Sunny Mesa C. S. D. Collection Fee 25% per acre ft. (43,560 cubic feet)

PVWMA per cubic foot	0.56 per 100 cubic feet
P/SMCSD collection fee	0.14 per 100 cubic feet
Total	0.70 per 100 cubic feet

Service Availability Charge Per Month <u>Meter Size</u>	Inside District <u>\$ Per Month Year 1</u>
5/8" – 3/4"	\$ 28.02
3/4"	\$ 28.02
1"	\$ 59.84
1.5"	\$ 112.88
2"	\$ 176.52
3"	\$ 378.06
4"	\$ 675.06
6"	\$ 1,385.74
8"	\$ 2,976.82
Hydrant Meter	\$ 378.06

PAJARO, SUNNY MESA, BAYFARMS/HILLCREST
BLACKIE ROAD #18, LANGLEY/VALLE PACIFICO,
NORMCO WATER, VIERRA ESTATES
MOSS LANDING DIVISION, VEGA AND SPRINGFIELD

- (1) Service Availability is a fixed monthly charge and includes NO minimum amount of water.
- (2) Charges shown are for one service connection served by a single water meter. For each additional connection to a single meter located inside the District, an additional fee of \$9.67 per month shall be added to the charge shown.
- (3) Charges shown are for one service connection served by a single water meter. For each additional connection to a single meter located outside the District, an additional fee of \$12.86 per month shall be added to the charge shown.
- (4) Multiple dwellings, such as duplexes, triplexes, apartment houses and the like, in addition to the minimum rate, shall pay a monthly service charge of \$9.67 for each unit in excess of one whether occupied or not.
- (5) Hotels, motels, auto courts, in addition to the minimum rate, shall pay a monthly service charge of \$9.67 for each room therein not equipped with complete living facilities, and \$15.00 for each room therein that is so equipped with complete living facilities. Complete living facilities shall mean provisions for storage, preservation and preparation of food.
- (6) Trailer parks, in addition to the minimum rate, shall pay a monthly service charge of \$4.32 for each space whether rented or available to rent.
- (7) Dwelling units combined with commercial units, in addition to minimum rate, shall pay a monthly service charge of \$9.67 if water is serving the business unit.
- (8) The owner of any property that consists of two (2) or more dwellings or residential units which are served water through a single meter shall be solely responsible for all monthly water service payments to the District.

Vega Only

Meter Hook-up Fee Per Schedule in Force at Time of Hook-up (see pages 13 & 14)	
Installation of Meter and Service Line	\$ 4,779.00 per meter or line
Charge Per Acre (prorata if less than full acre)	\$ 958.00
Connection Charge	\$ 32,245.00 per connection

Water Service Construction Charges

All new water customers will be charged a construction charge whenever a new connection to the main or a new service lateral is required. That charge shall be actual cost plus 25%. A deposit shall be made in accordance with the following schedule:

<u>Meter Size</u>	<u>Inside District</u> <u>Construction Charge Deposit</u>	<u>Outside District</u> <u>Construction Charge</u>
<u>Deposit</u>		
5/8".....	\$ 7,062.00	\$ 8,470.00
1".....	\$ 8,470.00.....	\$ 10,004.00
1.5".....	\$ 10,005.00.....	\$ 11,292.00
2".....	\$ 11,292.00.....	\$ 12,947.00
3".....	(1)	(2)
4"	(1)	(2)
6"	(1)	(2)
8"	(1)	(2)
10"	(1)	(2)

(1)..... Larger than 2": inside District: actual cost plus 25%

(2) Larger than 2": outside District: actual cost plus 50%

- (1) (2) Construction deposit shall be made in the amount estimated by Engineer.
Applicant shall receive refund if actual cost is less than estimate or pay the excess if actual cost is greater than estimate.

A. Connection Fees

All new regular water service connections, increases in meter sizes, and the connection of additional dwelling units to existing services require the payment of a connection fee in accordance with the following schedule:

Residential Uses

Residential uses shall include single-family dwellings, condominiums, apartments, mobile homes, and trailer spaces.

Residential Connection Fee

Meter size	
5/8"-3/4"	\$ 2,152.00.....per dwelling unit
3/4"	\$ 2,152.00.....per dwelling unit
1"	\$ 5,380.00.....per dwelling unit
1 1/2"	\$ 10,760.00.....per dwelling unit
2"	\$ 17,217.00.....per dwelling unit
3"	\$ 37,661.00.....per dwelling unit
4"	\$ 67,790.00.....per dwelling unit
6"	\$ 139,885.00.....per dwelling unit
8"	\$ 301,291.00.....per dwelling unit

Non-Residential Uses

Non-residential uses include office buildings, stores, motels (without kitchens), hospitals, rest homes, parks, laundromats, schools, restaurants, and other miscellaneous non-residential uses.

Non-Residential Connection Fee

<u>Meter Size</u> <u>District</u>	<u>Commercial</u> <u>Inside</u>	<u>Industrial</u> <u>Inside</u>	<u>Commercial</u> <u>Outside</u>	<u>Industrial</u> <u>Outside</u>
5/8" – 3/4"	\$ 6,732.00	\$ 12,241.00	\$ 9,063.00	\$ 16,478.00
1"	\$ 9,321.00	\$ 16,949.00	\$ 12,048.00	\$ 21,186.00
1.5"	\$ 15,147.00	\$ 27,541.00	\$ 16,831.00	\$ 30,602.00
2"	\$ 25,246.00	\$ 45,507.00	\$ 28,843.00	\$ 51,788.00
3"	\$ 50,493.00	\$ 91,806.00	\$ 55,672.00	\$ 101,222.00
4"	\$ 67,065.00	\$ 121,937.00	\$ 69,914.00	\$ 127,116.00
6"	\$ 134,001.00	\$ 243,639.00	\$ 155,364.00	\$ 282,480.00
8"	\$ 268,261.00	\$ 487,748.00	\$ 310,728.00	\$ 564,960.00

Connection Charge: Annexed Area (Sunny Mesa, Hillcrest/Bay Farms Areas)

The owner or owners of lands within areas hereafter annexed to the District shall pay to the District, prior to the issuance of a permit to connect any portion of the property so annexed to the water system of the District, a fee computed at the rate of One Hundred Dollars (\$100.00) per real property parcel under said ownership per year for each year, or any part thereof, from and after January 1, 1969. Any future splits of these real property parcels will be subject to this same connection charge. This charge shall be in addition to all other charges of the District.

Meter Installation Charges:

The District will install meters on the basis of cost plus twenty-five percent (25%). The applicant shall deposit five thousand dollars (\$4,500.00) cash.

The District shall bill the applicant for any amount in excess of the deposit and refund all overages. Only duly authorized employees or agents of the District will be authorized to install meters. Application for installation of meters shall not be considered unless the service connection has already been effected and water is being sold to the applicant and/or being paid for. Applicants who have never paid for water services of the District under such Application must make the application and deposits as heretofore set forth in District ordinance.

Main Extension Charges:

Inside District:	actual cost plus 25%
Outside District:	actual cost plus 50%

Construction deposit shall be made in the amount estimated by the Engineer. Applicant shall receive refund if actual cost is less than estimate or pay excess if actual cost is greater than estimate.

Other Charges:

Application Fee:.....	\$ 275.00
Right-Of-Way Deed Checking Fee:	\$ 330.00

3. FIRE SERVICES CUSTOMERS

The following schedule of fees and charges shall apply to all fire service customers, including fire Districts and private individuals or companies requesting water service for the sole purposes of fire protection.

<u>Type of Service</u>	<u>Service Availability (4) Fees Per Month</u>	<u>Connection Charges</u>	<u>Construction (1) Charges</u>	
Metered Services (Detector Checks)	Inside/Outside	Inside/Outside	Inside	Outside
1.5" or less	\$ 44.59	\$ 10,140.00	Actual	Actual
2 - 4"	\$ 97.93	\$ 14,751.00	Cost	Cost
6"	\$ 180.17	\$ 27,657.00	Plus	Plus
8"	\$ 263.20	\$ 45,766.00	25%	50%
10"	\$ 349.93	\$ 64,543.00	25%	50%

Fire Hydrants (Maintained by Water District)

4" Hydrant.. no charge.....	no charge	Actual	Actual
6" Hydrant.. no charge.....	no charge	Cost.....	Cost

Plus 25% Plus 50%

Fire Hydrants (Maintained by Private Sector) (4)

Commodity Rate: No charge if water is used for fire protection.

<u>Type of Service</u>	<u>Service Availability (4) Fees Per Month</u>	<u>Connection Charges</u>	<u>Construction (1) Charges</u>
Residential Fire Sprinklers	Inside/Outside	Inside/Outside	Inside/Outside
When fire and domestic water service is provided by a single meter.	Included in Section 1	Included in Section 2A	Included in Section 2

- (1) A construction deposit shall be made in the amount estimated by Engineer. Applicant shall receive refund if actual cost is less than estimate or pay the excess if actual cost is greater than estimate.
- (2) For purposes of this section, fire districts shall include the City of Watsonville Fire Department, Freedom Fire District, North County Fire District, Salsipuedes Fire District, Aromas Fire District, Santa Cruz County Service Area No. 4 and State Department of Forestry.
- (3) Fees and charges apply to all fire hydrants serving private property and not maintained by a fire district.
- (4) Service availability fees as shown unless charges are otherwise established by special agreement, to defray cost of providing fire service.

III. MISCELLANEOUS SERVICE CHARGES

- A. Deposits for Water Service. A cash deposit of twice the estimated maximum periodic billing shall be made for establishment of credit. In no case shall deposit be less than the following minimum, per meter size:

5/8", 3/4", 1"	\$ 150.00
1.5", 2:	\$ 450.00
3"	\$ 550.00
4" & over	\$ 1,500.00

- B. Warped Disc Replacement \$ 300.00

- C. Repair Shut-Off Valve..... \$ 300.00

- D. Turn-On and Turn-Off (except for emergencies):

Monday through Friday,..... \$ 200.00
8:00 a.m. to 5:00 p.m.

All other times..... \$ 275.00

There will be no turn-on charge for customers obtaining District water service for the first time on the premises.

- E. Fee for Water Meter Test:

5/8", 3/4", 1"	\$ 300.00
1.5", 2:	\$ 400.00
3"	\$ 600.00
4" & over	Engineer's Estimate

- F. Fire Hydrant Meter Deposit:

Initial deposit.....\$ 2,500.00

Refund upon return if\$ 2,500.00
meter is satisfactory

Rental fee for agricultural use\$ 600.00 per year

Charge for relocating meter.....\$ 300.00

Service Availability fees\$ 50.00 per month

Customers are liable for payment of all water used at established commodity rates for inside and outside District consumption.

- G. Fire Hydrant Spanner Wrench Deposit\$ 60.00

- H. Returned Checks.....\$ 50.00

- I. Penalty for unauthorized relocations or connections\$ 1,500.00, plus cost of water used at applicable commodity rate.

- J. Late Charges: All fees and charges shall be billed and collected simultaneously. Bills are payable upon presentation and ten percent (10%) penalty charge shall be added to the total bill if payment is made after the 25th day after the Post Office cancellation date of billing.

K. Well Permit Fees:

Filing Fee	\$ 400.00
Inspection Fee	\$ 500.00

L. Fire Flow Check.....\$ 600.00

M. Single Water Truck Fill.....\$ 600.00
(5,000 gallon maximum)N. Cross Connection Program
Testable Backflow Prevention Devices (Yearly)

5/8" - 1"	\$ 90.00
1.5" and Larger	\$ 160.00

O. Temporary Service – Construction Meter Deposit:
Refund upon return
(if meter is satisfactory)
Inside District: \$ 600.00 \$ 300.00
Outside District:..... \$ 800.00 \$ 500.00

Customers are liable for payment of all water used at established rates for inside and outside District consumption.

P. Water Plan Check:

Main extension built by others	\$ 500.00	per sheet
Recheck Fee	\$ 300.00	per sheet
Engineering and Inspection for main improvements extensions built by others		10% of estimate cost of improvements

Q. In addition to the connection fee listed in Section C, any parcel not assessed under Assessment District No. 84-1 shall be charged an assessment fee based on use as described in the Engineer's Report for Assessment District No. 84-1. Fees for each use are as follows:

Residential.....	\$ 3,200.00
Commercial	\$8,000.00
Industrial.....	\$ 15,000.00

Fees shall increase ten percent (10%) each year beginning on July 1, 1999.

The aforementioned established fees, rates and charges shall supersede any and all fees, rates and charges of the District inconsistent therewith and shall be effective upon adoption.

R. Beginning on January 1, 2004, monthly service availability charges, commodity rate charges, water service construction charges and connection fees may increase by ten percent (10%) annually.

**APPENDIX G FINANCIAL STATEMENT AND INDEPENDENT
AUDITOR'S REPORT FOR THE YEAR ENDED
JUNE 30, 2021**

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

LIST OF APPOINTED OFFICIALS

JUNE 30, 2020

CURRENT BOARD OF DIRECTORS

<u>Title</u>	<u>Director</u>	<u>Term Expires</u>
President	Harry Wiggins	November 2021
Vice-President	Sanford Coplin	November 2021
Treasurer	Michael Moore	November 2021
Secretary	Robert Moody	November 2023
Assistant Secretary	Darlene Lamboley	November 2023

MANAGEMENT

General Manager Donald Rosa

Pajaro/Sunny Mesa Community Service District
136 San Juan Road
Royal Oaks, California 95076
(831) 722-1389
www.pajarosunnymesa.com

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

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JUNE 30, 2020

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SALINAS OFFICE
450 LINCOLN AVENUE
SUITE 200
SALINAS, CA 93901
PHONE 831-757-5311
FAX 831-757-9529
BKPCPA.COM

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pajaro/Sunny Mesa Community Services District
Royal Oaks, California

We have audited the accompanying financial statements of the Pajaro/Sunny Mesa Community Services District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2020, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and California regulations governing Special Districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 29-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Robert H. Kasper
Salinas, California
January 11, 2021

BASIC FINANCIAL STATEMENTS

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2020

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CURRENT ASSETS					
Cash and cash equivalents - Note 2	\$ 1,192,901	\$ -	\$ -	\$ 152,642	\$ 1,345,543
Restricted cash - street maintenance - Note 2	-	297,359	-	-	297,359
Receivables, net - Note 3	245,019	3,591	2,767	-	251,377
Prepaid expenses	-	-	-	-	-
Grants receivable	1,252,725	-	-	-	1,252,725
Bond repayment assessments receivable, current	166,914	-	-	-	166,914
Due from other funds	107,931	24,104	50,531	105,117	287,683
TOTAL CURRENT ASSETS	2,965,490	325,054	53,298	257,759	3,601,601
OTHER ASSETS					
Restricted cash - bond reserve fund - Note 2	306,459	-	-	-	306,459
Bond repayment assessments receivable, net of current portion - Note 4	3,677,240	-	-	-	3,677,240
TOTAL OTHER ASSETS	3,983,699	-	-	-	3,983,699
CAPITAL ASSETS - net - Note 5	6,773,821	-	-	5,083,527	11,857,348
TOTAL ASSETS	13,723,010	325,054	53,298	5,341,286	19,442,648
DEFERRED OUTFLOW OF RESOURCES					
Deferred loss from debt refunding	151,573	-	-	-	151,573
	<u>\$ 13,874,583</u>	<u>\$ 325,054</u>	<u>\$ 53,298</u>	<u>\$ 5,341,286</u>	<u>\$ 19,594,221</u>
CURRENT LIABILITIES					
Cash overdraft - Note 2	\$ -	\$ 31,564	\$ 12,449	\$ -	\$ 44,013
Accounts payable	407,303	39	2,479	915	410,736
Accrued expenses	201,534	-	-	-	201,534
Deposits	77,902	-	-	-	77,902
Line of credit - Note 6	1,252,147	-	-	-	1,252,147
Notes payable, current portion - Note 7	40,281	-	-	-	40,281
Revenue refunding bond, current portion - Note 7	70,000	-	-	-	70,000
Special assessment bond, current portion - Note 7	166,000	-	-	-	166,000
Due to other funds	230,484	57,201	-	-	287,685
TOTAL CURRENT LIABILITIES	2,445,651	88,804	14,928	915	2,550,298
OTHER LIABILITIES					
Notes payable - net of current portion - Note 7	263,263	-	-	-	263,263
Revenue refunding bond - net of discount and current portion - Note 7	1,843,905	-	-	-	1,843,905
Special assessment refunding bond - net of discount and current portion - Note 7	3,683,385	-	-	-	3,683,385
TOTAL OTHER LIABILITIES	5,790,553	-	-	-	5,790,553
TOTAL LIABILITIES	8,236,204	88,804	14,928	915	8,340,851
NET POSITION					
Invested in capital assets - net of related debt	1,013,446	-	-	5,083,527	6,096,973
Restricted - Note 8	306,459	208,221	-	-	514,680
Unrestricted	4,318,474	28,029	38,370	256,844	4,641,717
TOTAL NET POSITION	5,638,379	236,250	38,370	5,340,371	11,253,370
	<u>\$ 13,874,583</u>	<u>\$ 325,054</u>	<u>\$ 53,298</u>	<u>\$ 5,341,286</u>	<u>\$ 19,594,221</u>

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2020

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
OPERATING REVENUES					
User service charges	\$ 1,972,885	\$ -	\$ -	\$ -	\$ 1,972,885
Street lights service charges	-	-	40,877	-	40,877
Street maintenance service charges	-	64,158	-	-	64,158
Connection fees	38,550	-	-	-	38,550
Reimbursements	1,633,047	-	-	-	1,633,047
Miscellaneous	2,806	-	-	-	2,806
Pajaro Park revenue	-	-	-	27,700	27,700
TOTAL OPERATING REVENUES	3,647,288	64,158	40,877	27,700	3,780,023
OPERATING EXPENSES					
Salaries and employee benefits	966,197	22,281	8,102	29,069	1,025,649
General, administrative and operating expenses	750,129	67,490	27,380	33,292	878,291
Depreciation and amortization	419,225	-	-	237,315	656,540
TOTAL OPERATING EXPENSES	2,135,551	89,771	35,482	299,676	2,560,480
OPERATING INCOME (LOSS)	1,511,737	(25,613)	5,395	(271,976)	1,219,543
NON-OPERATING REVENUES (EXPENSES)					
Property taxes	-	-	-	23,518	23,518
Assessments	176,341	-	-	-	176,341
Grant revenue	105,615	-	-	-	105,615
Other income	17,767	-	-	-	17,767
Income from investment	8,741	-	-	-	8,741
Interest expense	(293,213)	-	-	-	(293,213)
Other expense	-	-	-	-	-
Grant reimbursement expenses	(123,147)	-	-	-	(123,147)
NON-OPERATING REVENUES (EXPENSES)	(107,896)	-	-	23,518	(84,378)
INCREASE (DECREASE) IN NET POSITION	1,403,841	(25,613)	5,395	(248,458)	1,135,165
NET POSITION, BEGINNING OF YEAR	4,234,538	261,863	32,975	5,588,829	10,118,205
NET POSITION, END OF YEAR	\$ 5,638,379	\$ 236,250	\$ 38,370	\$ 5,340,371	\$ 11,263,370

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and others	\$ 3,623,709	\$ 61,255	\$ 40,630	\$ 27,700	\$ 3,753,294
Payments to suppliers and vendors	(428,210)	(67,575)	(26,912)	(35,594)	(558,291)
Payments to employees	(949,310)	(22,281)	(8,102)	(29,069)	(1,008,762)
Net cash provided by (used in) operating activities	<u>2,246,189</u>	<u>(28,601)</u>	<u>5,616</u>	<u>(36,963)</u>	<u>2,186,241</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Draws from line of credit	1,330,862	-	-	-	1,330,862
Acquisition and construction of capital assets	(1,819,341)	-	-	-	(1,819,341)
Principal payments on debt maturities	(552,006)	-	-	-	(552,006)
Interest payments	(295,927)	-	-	-	(295,927)
Collection of assessments	176,341	-	-	23,518	199,859
Grant income	(895,113)	-	-	-	(895,113)
Collection of property taxes	151,906	-	-	-	151,906
Miscellaneous revenue	17,767	-	-	-	17,767
Net cash provided by (used in) capital and related financing activities	<u>(1,885,511)</u>	<u>-</u>	<u>-</u>	<u>23,518</u>	<u>(1,861,993)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	8,741	-	-	-	8,741
Net cash provided by investing activities	<u>8,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,741</u>
Net increase (decrease) in cash and cash equivalents	<u>369,419</u>	<u>(28,601)</u>	<u>5,616</u>	<u>(13,445)</u>	<u>332,989</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,129,941</u>	<u>294,396</u>	<u>(18,065)</u>	<u>166,087</u>	<u>1,572,359</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,499,360</u>	<u>\$ 265,795</u>	<u>\$ (12,449)</u>	<u>\$ 152,642</u>	<u>\$ 1,905,348</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO STATEMENT OF NET POSITION					
Cash and cash equivalents	\$ 1,192,901	\$ -	\$ -	\$ 152,642	\$ 1,345,543
Cash overdraft	-	(31,564)	(12,449)	-	(44,013)
Restricted cash - street maintenance	-	297,359	-	-	297,359
Restricted cash - bond reserve fund	306,459	-	-	-	306,459
TOTAL CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	<u>\$ 1,499,360</u>	<u>\$ 265,795</u>	<u>\$ (12,449)</u>	<u>\$ 152,642</u>	<u>\$ 1,905,348</u>

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

	Water Enterprise	Street Maintenance Enterprise	Lighting Enterprise	Parks Enterprise	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)					
NET OPERATING ACTIVITIES					
Operating income (loss)	\$ 1,511,737	\$ (25,613)	\$ 5,395	\$ (271,976)	\$ 1,219,543
Adjustments to reconcile increase (decrease) in net position to net cash provided by (used in)					
operating activities:					
Depreciation and amortization	419,225	-	-	237,315	656,540
(Gain) loss on disposition of fixed assets	-	-	-	-	-
Increase (Decrease) in due from other funds	39,123	-	-	-	39,123
Increase in prepaids	507	-	-	-	507
Decrease (Increase) in receivables	(23,579)	(2,903)	(247)	-	(26,729)
Decrease in deposits	150	-	-	-	150
Decrease (Increase) in due to other funds	(39,123)	-	-	-	(39,123)
(Increase) decrease in accounts payable and accruals	338,149	(85)	468	(2,302)	336,230
Net cash provided by (used in) operating activities	<u>\$ 2,246,189</u>	<u>\$ (28,601)</u>	<u>\$ 5,616</u>	<u>\$ (36,963)</u>	<u>\$ 2,186,241</u>

The accompanying notes are an integral part of the financial statements.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****General Statement**

The Pajaro/Sunny Mesa Community Services District (District) is a Special District within Monterey County as defined by the State of California. The District is authorized to provide water, street maintenance, lighting and park services. The District owns and operates nine, individual, non-contiguous water systems. All water systems are within the District's sphere of influence, and are considered one District, with a common, uniform rate schedule.

The District's oversight is performed by a five-member board of directors (Board) who are appointed for four-year terms by the Monterey County Board of Supervisors. The Board along with the General Manager provides direction on the overall management of the District such as overseeing operating budgets, ongoing operations, capital planning and rate setting.

Financial Reporting Entity

The District's basic financial statements include the accounts of all District operations. The criteria for including other organizations as component units within the reporting entity (District) are set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Based on the criteria set forth by GASB, the District has no component units.

Basis of Presentation

The District's basic financial statements are presented on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable pronouncements, statements and interpretations of the Financial Accounting Standards Board issued on or after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized as enterprise funds. The activities of these funds are accounted for with separate sets of self-balancing accounts that comprise the District's assets, deferred outflows, liabilities, deferred inflows, net assets, revenues and expenses.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position.

Budgetary Controls

The District operates under a budget prepared and approved annually by the Board of Directors. The budget is prepared on a detailed line item basis. Revenues are budgeted by source, and expenses are budgeted by department or enterprise (water, street maintenance, lighting and parks) and use (salaries and employee benefits, services and supplies, other charges, fixed assets acquisitions and contingencies). Once approved, the Board of Directors may amend the adopted budget when unexpected modifications are required.

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that bond proceeds are treated as revenues, and bond principal payments and fixed assets acquisitions are treated as expenses. In addition, depreciation is generally not provided for in budgeted expenses.

Use of Estimates

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

Cash and Investments

For purposes of reporting cash flows, the District considers all highly liquid debt instruments, including those that are classified as restricted assets with an original maturity of three months or less when acquired, to be cash equivalents.

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Customer Receivables

The District utilizes the allowance method of accounting for uncollectible or doubtful accounts. Accounts receivable are valued at outstanding principal balance, reduced for any allowance. An allowance of \$9,135 has been recorded by management at June 30, 2020. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as income when received. Receivables over thirty (30) days past due are assessed penalties.

Special Assessment Receivable

Special assessments, levied to service debt for which the District is in some manner obligated or to reimburse a fund for advances made to finance capital improvement projects, are recognized as revenue at the time the individual assessments become due.

Capital Assets

Capital assets are carried at cost, which includes direct labor, outside services, materials and transportation, overhead and interest on funds borrowed to finance construction. Donated capital assets are recorded at estimated fair value at the date of donation. Gains or losses resulting from the sale or disposition of property and equipment are recognized in the period of disposition.

Repairs and maintenance including planned major maintenance activities, which are not considered betterments and do not extend the useful life of property, plant and equipment, are charged to expense as incurred.

Construction-in-process is not depreciated until it is placed into service.

The District recognizes depreciation using the straight-line method over the estimated useful lives as follows:

Buildings	20-50 Years
Water and sewer system	30-50 Years
Infrastructure	20-35 Years
Machinery and equipment	5-10 Years
Improvements	20 Years

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Deferred Outflows and Inflows of Resources**

The District reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until the applicable period. The District has one item that qualifies for reporting in this category. This item is a deferred loss on debt refunding. A deferred loss on debt refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is reported in the statement of net position and is deferred and amortized over the shorter of the life of the refunded (old) or refunding (new) debt.

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The District has no items that qualify for reporting in this category.

Bond Discounts and Issuance Costs

Bond discounts are deferred and amortized over the life of the bonds using a method which approximates the effective interest method. Bonds payable are reported net of the applicable bond discount. Debt issuance costs are recognized as an expense in the year in which the costs were incurred.

Compensated Absences

District employees accumulate vacation hours for subsequent use or payment upon termination, death or retirement. The employees accumulate up to 25 days of vacation per year. All accumulated vacation is recorded as an expense and a liability in the Water Enterprise Fund at the time the liability is accrued. Total unused vacation will be paid to the employee during January of the following year.

District employees accumulate sick leave hours for subsequent use or payment upon death or retirement. Sick leave is recorded as an expense and a liability in the Water Enterprise Fund to the extent it is earned during the year.

Employees hired prior to October 1, 2011, accumulate 12 days of sick leave per year to a maximum of 1,920 hours and one-third of unused accumulated sick leave will be paid upon death or retirement.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

Employees hired after October 1, 2011, may accumulate sick leave up to a maximum of 70 hours per year. At the beginning of each new calendar year, employee's sick leave account balances are credited with the hours necessary to restore the accounts to the maximum of 70 hours. Unused sick leave will be paid upon death or retirement.

Property Taxes

The County of Monterey is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions, including the District. Secured property taxes for each year ended June 30 are payable in equal installments, November 1 and February 1 and become delinquent on December 10 and April 10, respectively. The lien date is January 1 of each year. Property taxes are accounted for as collected and remitted by the County in the governmental funds. Property taxes on the unsecured roll are due on the January 1 lien date and become delinquent if unpaid by August 31.

Income Taxes

The District is a California local government unit which is exempt from both federal and state income taxes.

Net Position

Net position represents the difference between the District's assets and liabilities. Net position is classified in the following three components:

Invested in capital assets, net of related debt – This component of net position, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other borrowings that are attributable to the acquisition of those assets.

Restricted – This component of net position consists of constraints imposed by creditors (debt covenants on bonds), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of "restricted" or "investment in capital assets, net of related debt".

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Revenues and Expenses

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services in the form of assessments or water sales. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the District's policy to apply those expenses to restricted assets to the extent such are available and then to unrestricted assets.

General and Administrative Expense Allocation

General and administrative expenses are charged to each of the enterprises based upon estimated cost allocations derived from time studies approved by the Board.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency adopted Statement No. 95 - *"Postponement of the Effective Dates of Certain Authoritative Guidance"*. The requirements of this Statement are effective immediately.

Subsequent Events

Subsequent events were evaluated through January 11, 2021, the date the financial statements were available to be issued.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,192,901	\$ (31,564)	\$ (12,449)	\$ 152,642	\$ 1,301,530
Restricted cash, current	-	297,359	-	-	297,359
Restricted cash, non-current (bond fund)	<u>306,459</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>306,459</u>
	<u>\$ 1,499,360</u>	<u>\$ 265,795</u>	<u>\$ (12,449)</u>	<u>\$ 152,642</u>	<u>\$ 1,905,348</u>

Cash and cash equivalent and restricted cash as of June 30, 2020, consisted of the following:

	<u>Amount</u>
Cash on hand	\$ 400
Cash in the bank - checking	1,423,416
Cash in County Treasury	175,073
Cash held in trust account	<u>306,459</u>
Total cash and cash equivalents	<u>\$ 1,905,348</u>

Investments Authorized by the California Government Code and the District's Investment Policy

The California Government Code authorizes investments in U.S. Treasury obligations, U.S. District securities, municipal securities, negotiable certificates of deposits, commercial paper, bankers' acceptances, medium-term corporate bonds ("A" or better), asset-backed securities, repurchase agreements, money market funds and local government investment pools. The District currently invests its funds in the local government investment pool administered by Monterey County. As of June 30, 2020, the investment policy and the investments of the Monterey County pool are in compliance with the California Government Code.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (Continued)****Disclosure Relating to Interest Rate Risk**

Interest rate risk is the risk of changes in market interest rates adversely affecting the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2020, the weighted average maturity of the Monterey County investment portfolio is 307 days.

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Monterey County investment pool does not have a rating provided by a nationally recognized statistical rating organization. Approximately 84.7% of the investment portfolio is comprised of U.S. Treasuries, Federal District securities, Negotiable CDs and other liquid funds.

All of those assets have an investment grade rating. U.S. Treasuries are not specifically rated, but are considered the safest of all investments. The corporate debt (14.3%) is rated in the higher levels of investment grade. All Federal securities have AA ratings or are guaranteed by the U.S. Treasury.

Concentration of Credit Risk

The Monterey County or the District investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Monterey County pool does not include any investments by any one issuer (other than the State of California Local District Investment Fund and the California Asset Management Program – external governmental investment pools) that represents 10% or more of total investments.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

2. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH (Continued)

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits. The provisions require a financial institution to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository. Regulated pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure districts' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The District also maintains checking accounts with a financial institution and uses these accounts as operating accounts for the District. As of June 30, 2020, the District has \$1,087,980 on deposit with one bank. The District also has on deposit \$306,549 in restricted cash held in trust by another financial institution. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the amount of \$250,000 and the State regulation stipulated above fully insures all deposits as of June 30, 2020.

3. RECEIVABLES

Receivables consisted of the following at June 30, 2020:

	<u>Water Enterprise</u>	<u>Street Maintenance Enterprise</u>	<u>Lighting Enterprise</u>	<u>Parks Enterprise</u>	<u>Total</u>
Service charge					
receivables	\$ 253,897	\$ 688	\$ -	\$ -	\$ 254,585
Uncollectible allowance	(9,135)	-	-	-	(9,135)
Assessment receivables	-	2,903	1,907	-	4,810
Other receivables	257	-	860	-	1,117
	<u>\$ 245,019</u>	<u>\$ 3,591</u>	<u>\$ 2,767</u>	<u>\$ -</u>	<u>\$ 251,377</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

4. BOND REPAYMENT ASSESSMENT RECEIVABLES

Bond repayment assessment receivables consisted of the following at June 30, 2020:

Water bond receivables	\$ 207,352
Vega bond receivables	<u>3,636,802</u>
	3,844,154
Less current portion	<u>(166,914)</u>
Bond repayment assessment receivables, net of current portion	<u>\$ 3,677,240</u>

5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, consisted of the following:

	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2020</u>
Capital Assets				
Not Depreciated:				
Land	\$ 1,585,739	\$ 60,714	\$ -	\$ 1,646,453
Construction in process	<u>635,008</u>	<u>1,639,179</u>	<u>(85,144)</u>	<u>2,189,043</u>
	<u>2,220,747</u>	<u>1,699,893</u>	<u>(85,144)</u>	<u>3,835,496</u>
Capital Assets Being Depreciated:				
Utility plant	2,347,998	58,275	-	2,406,273
Buildings and improvements	505,245	15,431	-	520,676
Machinery and equipment	772,255	96,833	(42,734)	826,354
Vega plant improvements	4,590,074	29,928	-	4,620,002
Normco tank	296,975	-	-	296,975
Langley/VP	240,497	-	-	240,497
Vierra Estate	175,238	-	-	175,238
Moss Landing Water	297,669	4,124	-	301,793
Pajaro Park buildings and improvements	<u>5,513,510</u>	<u>-</u>	<u>-</u>	<u>5,513,510</u>
	<u>14,739,461</u>	<u>204,591</u>	<u>(42,734)</u>	<u>14,901,318</u>
Total Capital Assets	16,960,208	1,904,484	(127,878)	18,736,814
Less accumulated depreciation	<u>(6,276,280)</u>	<u>(645,920)</u>	<u>42,734</u>	<u>(6,879,466)</u>
	<u>\$ 10,683,928</u>	<u>\$ 1,258,564</u>	<u>\$ (85,144)</u>	<u>\$ 11,857,348</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****6. LINE OF CREDIT**

In March 2019, the District entered into a collateralized line of credit agreement with Santa Cruz County Bank to assist with the working capital requirements for the Pajaro Tank Project. The maximum amount available for borrowing is \$2,316,125 and the interest rate of Wall Street Journal Prime Rate plus 1.00% totaled 4.25% as of June 30, 2020. The maturity date of the agreement is March 28, 2021. The line of credit balance was \$1,252,147 as of June 30, 2020.

7. LONG-TERM DEBT**2015 Water Revenue Refunding Bonds**

In June 2015, the District issued \$2,275,000 in Water Revenue Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in escrow for the purpose of generating resources for full payment of the 2010 Certificates of Participation. As a result, the 2010 Certificates of Participation were considered to be defeased, and the liability was removed from the statement of net position in 2015.

The Water Revenue Refunding Bonds mature in installments ranging from \$60,000 to \$140,000 from May 1, 2016 through May 1, 2040, and bear interest at rates from 2.00% to 4.40%, payable annually on May 1 each year.

The Bonds are subject to optional prepayment prior to their respective stated maturities, as a whole or in part in order of maturity, on or after May 1, 2023. The amount of such optional prepayments is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 2% for May 1, 2023 through November 1, 2023, and 1% for prepayment dates May 1, 2024 through November 1, 2024. There are no premiums applicable to prepayments made on or after May 1, 2025.

The Bonds maturing on May 1, 2040, are subject to mandatory prepayments ranging from \$115,000 to \$140,000 beginning May 1, 2036 through May 1, 2040.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

7. LONG-TERM DEBT (Continued)

2015 Water Revenue Refunding Bonds (Continued)

A Reserve Fund, equal to the lesser of 10% of the proceeds of the Bonds, the maximum annual debt service, or 125% of the average annual debt service on the Certificates, is required. The balance in the Reserve Fund at June 30, 2020, was \$147,857 and is included in restricted cash in the statement of net position.

The District is obligated to make installment payments solely from the "Net Revenues" defined as the gross revenues during each fiscal year, less the maintenance and operation costs during each fiscal year.

Special Assessment Vega Water Bond

The District has an outstanding special assessment bond which was issued for the primary purpose of enabling the District to acquire and construct certain water storage and distribution improvements and appurtenances. The special assessment bond was issued under, and is subject to, the provisions of the Improvement Bond Act of 1915 and are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

At June 30, 2020, unpaid assessments receivable amounted to \$3,636,802 of which \$135,000 is current and \$3,501,802 is non-current. The assessments are billed to consumers through property tax rolls by the County of Monterey.

The Vega Special Assessment Bond was originally issued at \$4,715,000 with installment payments ranging from \$10,000 to \$420,000 paid serially from September 2, 2009 through September 2, 2038, and bear interest at rates 4% to 5%, payable semiannually on March 2 and September 2 of each year.

During fiscal year 2016, the District paid in full the outstanding payable balance of the 2007 Vega Special Assessment Bond via debt refunding. Refer to the section below for more details.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****7. LONG-TERM DEBT (Continued)****2015 Vega Mutual Water Refunding District Bonds**

In July 2015, the District issued \$4,135,000 in Vega Mutual Water Refunding Bonds to provide resources to purchase U.S. Government Securities that were placed in escrow for the purpose of generating resources for full payment of the original Vega Mutual Water Assessment District, Series 2007 Bonds.

The outstanding principal of the defeased bonds is \$4,204,800 at June 30, 2016. The reacquisition price exceeded the net carrying amount of the old debt by \$110,020. This amount is presented as deferred outflow of resources and is amortized over the life of the refunded debt, which is the same as the original debt. This advance refunding was undertaken to reduce total debt service payments over the next twenty-two years by approximately \$770,000 and resulted in an economic gain (difference between the present values of debt service payments on the old and new debt) of approximately \$550,000.

The Bonds are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

The Bonds mature in installments ranging from \$80,000 to \$275,000 from September 2, 2016 through September 2, 2037, and bear interest at rates from 3.50% to 4.25%, payable semiannually on March 2 and September 2 of each year.

The Bonds are subject to optional redemption prior to their respective stated maturities, as a whole or in part in order of maturity, on or after March 2, 2016.

The redemption price is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 3% for March 2, 2026 through September 2, 2025. There are no premiums applicable to redemptions made on or after March 2, 2026.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****7. LONG-TERM DEBT (Continued)****Special Assessment Water Improvement Bond**

The District has an outstanding special assessment bond which was issued for the purpose of enabling the District to acquire and make improvements to certain water treatment systems. The special assessment bond was issued under, and is subject to, the provisions of the Improvement Bond Act of 1915 and are collateralized by liens against properties within the District and repaid from assessments levied against the subject properties. The District is liable for delinquent unpaid assessments in excess of the amounts recoverable upon sale or redemption of the subject properties.

The Improvement Special Assessment Bond was originally issued at \$692,700 with installment payments ranging from \$1,000 to \$43,000 paid serially from September 2, 1987 through September 2, 2025, and bear interest at 6.375%, payable semiannually on March 2 and September 2 of each year.

At June 30, 2020, unpaid assessments receivable amounted to \$207,352 of which \$31,914 is current and \$175,438 is non-current. The assessments are billed to consumers through property tax rolls by the County of Monterey.

Reorganization Loan

The District obtained a loan in 2007 with an original principal amount of \$520,000 for the purpose of refinancing an existing loan with a financial institution and the construction of various District improvements. The loan constituted a first lien on all District net revenues. The principal payments range from \$20,000 to \$40,000 paid from September 14, 2007 through May 14, 2026, with an interest rate of 5.25%, paid semiannually on September 14 and May 14 of each year.

Vehicle Loan

The District obtained a \$33,500 loan from a financial institution on December 2, 2014, for the purchase of a District vehicle. The loan matured on December 16, 2019, and required monthly payments of \$609. The District obtained \$63,024 in loans from a financial institution on March 13, 2020, for the purchase of two District vehicles. These loans mature on September 11, 2025, and require total monthly payments of \$1,189.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

7. LONG-TERM DEBT (Continued)

Changes in long-term debt amounts for 2020 were as follows:

	<u>Balance 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2020</u>	<u>Due Within One Year</u>
<u>Long-term debt:</u>					
2015 Water Revenue Refunding Bonds	\$ 2,010,000	\$ -	\$ (65,000)	\$ 1,945,000	\$ 70,000
2015 Vega Refunding Bonds	3,762,900	-	(125,000)	3,637,900	135,000
Water Improvement Bond	253,000	-	(29,000)	224,000	31,000
Reorganization loan	275,000	-	(30,000)	245,000	30,000
Vehicle loan	3,608	63,024	(8,088)	58,544	10,281
Unamortized discount	(45,901)	-	2,291	(43,610)	-
Total long-term debt	6,258,607	<u>\$ 63,024</u>	<u>\$ (254,797)</u>	6,066,834	<u>\$ 276,281</u>
Less current portion	<u>(252,608)</u>			<u>(276,281)</u>	
Total long-term debt, net of current portion	<u>\$ 6,005,999</u>			<u>\$ 5,790,553</u>	

Future debt service requirements for the years ending June 30 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Current	\$ 276,281	\$ 251,480	\$ 527,761
2022	291,134	240,118	531,252
2023	303,755	227,691	531,446
2024-2027	1,311,374	772,298	2,083,672
2028-2032	1,490,000	691,833	2,181,833
2033-2037	1,820,000	360,197	2,180,197
Thereafter	<u>574,290</u>	<u>42,136</u>	<u>616,426</u>
	<u>\$ 6,066,834</u>	<u>\$ 2,585,753</u>	<u>\$ 8,652,587</u>

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****8. RESTRICTED NET POSITION**

Restricted assets consisted of the following at June 30, 2020:

	<u>Amount</u>
Water bond fund	\$ 306,459
Street maintenance reserve fund	<u>208,221</u>
	<u>\$ 514,680</u>

The District has established a water trust account at a financial institution to hold and separate proceeds received from the Vega Water Mutual Refunding Bond and Water Revenue Refunding Bonds. The funds are held in trust until at which time expenditures occur for the designated projects and payments are remitted. In addition, reserve trust accounts are maintained at a financial institution to hold funds for future debt service as in accordance with the bond agreement.

The District, through county tax rolls, assesses specific home associations for street maintenance and repairs. Included in the assessments are funds for future large street projects. The accumulation of these fees, although not actually segregated from other District assets, are legally segregated by accounting purposes and restricted for their intended use by enabling state legislation and District ordinances.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****9. POOLED ARRANGEMENTS**

The District is a member of the Association of California Water Agencies Joint Powers Insurance Authority (Authority).

The Authority is a risk-pooling, self insurance authority, created under provisions of California Government Code Sections 6500 et seq. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The Authority provides coverage to the District for property losses, auto and general liability, worker's compensation, public official's liability and underground tank storage losses. Members of the Authority share the costs of professional risk management, claims administration and excess insurance. The District establishes an amount which represents the District's deductible per occurrence and the Authority provides self-insured coverage up to established pool limits for the various type of insurance coverage. Settlements have not exceeded insurance coverage in each of the past three years.

Coverage limits are \$2 million per occurrence for general liability, automotive and public official's liability; replacement cost for property, subject to varying deductibles; \$100,000 for crime coverage; and statutory limits for worker's compensation.

10. RETIREMENT PLAN

The District's current defined contribution plan (Plan) administered by the Public District Retirement Services (PARS) provides retirement benefits to all full-time employees employed on or after January 1, 2010. The District is required to contribute an amount equal to fifteen percent (15%) of the permanent full-time employees' gross salaries. The contribution to the Plan was \$104,427 for the year ended June 30, 2020. Employees become 100% vested in the Plan upon completion of five years of service. If the age and years of service requirements are not met at termination of employment, the employee is entitled to one-half of all their accrued contributions. Any employee forfeitures are either returned to the District and used to offset future contributions or reallocated pro-rata among the remaining employees. The fair market value (and carrying value) of the Plan is determined by the current value of the Plan's investment portfolio in the open market.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

11. CONCENTRATION OF CREDIT RISK

The Pajaro/Sunny Mesa Community Services District serves the residents of specific geographic areas of North Monterey County and extends credit to substantially all of its customers and does not require security deposits for all of its customers.

12. COMMITMENTS AND CONTINGENCIES

The District is subject to various claims and legal actions relating to a range of matters that are incidental to the conduct of its operations. In management's opinion, the outcome of any such litigation will not materially affect the District's financial condition, and management intends to vigorously pursue their positions in these matters.

North County Water System Improvement Projects

On May 27, 2010, Certificates of Participation were executed for the purpose of improving systems in the area that have quantity and quality water issues. The project will include the construction of the water system to serve potable water and fire suppression flows to areas within the District which are presently out of compliance with county and state environmental health standards due to very high levels of arsenic and nitrate contaminations. As a result of the 2015 Water Revenue bond refunding, these Certificates of Participation were considered to be defeased in the year ended June 30, 2015. Refer to Note 7 for additional information.

13. PAJARO NEIGHBORHOOD PARK - DONATED CAPITAL ASSETS

On February 11, 2014, the District was given title to the property and improvements of the newly constructed Pajaro Neighborhood Park (Park). Funding for the construction of the Park was provided by a grant from the State Department of Parks and Recreation (Proposition 84) and the Redevelopment District of Monterey County. The total transfer project value was approximately \$6.3 million. As part of the property transfer agreement, the District is now responsible for the cost to operate and maintain the Park for a period of twenty years. Per grant conditions, the District is not allowed to charge a gate fee, or use fee for the general public. Reservation fees for special events are paid directly to a third party operator. The District does not generate revenue from the Pajaro Park.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS****JUNE 30, 2020****14. GRANTS**

The District has received financial assistance from various federal and state agencies in the form of grants. These programs are subject to audit by agents of the granting authority. Management does not believe that liabilities for reimbursements, if any, will have a materially adverse effect upon the financial condition of the District.

Grants from State Water Resources Control Board

On June 6, 2017, the District became eligible for funding of cleanup and abatement activities via a grant received from the State Water Board. The maximum amount payable under this agreement shall not exceed \$153,218, of which \$79,164 is budgeted for prior years with bottled distribution records to be completed by June 30, 2017. The additional funding of \$74,054 was given to continue the bottled water distribution. Under the grant agreement, the District may obtain funding for reasonable and necessary costs of clean up and abatement activities, including providing interim replacement drinking water to disadvantaged communities, incurred on or after September 5, 2014, with bottled distribution records to be completed by December 31, 2019. The District's funding for the same project for prior period (2013-2016) was amended and increased by \$50,000, with the final claim and disbursement date moved to May 1, 2019.

On October 1, 2019, the District received a grant from the California Water Boards for the purpose of purchasing and delivering bottled drinking water for three distinct project areas within Monterey County. The total grant of \$532,565 funds work completed by September 30, 2022, to provide five-gallon water bottles, totaling approximately 65 gallons to bottled drinking water to approximately 218 people.

In September 2016, the District entered into a grant agreement with the State Water Resources Control Board for the purpose of assisting in financing the cost of studies, planning and other preliminary activities associated with the construction of a new well, which will enable the District to meet safe drinking water standards. The State will provide grant funding to the District in an amount equal to \$500,000. In accordance with the agreement, the District is required to complete the project and submit a final planning report to the State Water Resources Control Board no later than February 15, 2020. The District had six months from completion to submit all invoices related to the project, and the project was closed on July 15, 2020.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

14. GRANTS (Continued)

Grant from California Department of Water Resources

On September 14, 2014, the District entered into a grant agreement with the San Benito County Water District for the construction of a new 600,000-gallon tank. The new tank will be constructed in the undeveloped area adjacent to the site of the existing water storage tank. The total cost of the project is estimated to be \$1.7 million. The funds for this project will be provided by the California Department of Water Resources. As of June 30, 2020, the project is still in progress.

15. WATER RATE INCREASES

In November 2015, the Board of Directors of the District approved water rate increases, which became effective on January 1, 2016, and in effect for five fiscal years.

The approved increases are as follows for the years ending June 30:

2016:	15%
2017:	8%
2018:	5%
2019:	5%
2020:	5%

REQUIRED SUPPLEMENTARY INFORMATION

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - WATER ENTERPRISE

FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES				
User service charges	\$ 2,028,700	\$ 2,028,700	\$ 1,972,885	\$ (55,815)
Reimbursements	27,500	27,500	1,633,047	1,605,547
Connection fees	15,800	15,800	38,550	22,750
Miscellaneous	1,950	1,950	2,806	856
TOTAL OPERATING REVENUES	2,073,950	2,073,950	3,647,288	1,573,338
OPERATING EXPENSES				
Salaries and employee benefits	1,002,800	1,002,800	966,197	36,603
Water system repairs and maintenance	275,000	275,000	293,035	(18,035)
Utilities - well site	168,000	168,000	137,591	30,409
Legal expenses	140,000	65,000	61,714	3,286
Other expenses	49,500	49,500	4,289	45,211
Accounting and bookkeeping	37,000	37,000	33,557	3,443
Office expenses	32,900	32,900	35,961	(3,061)
Soil and water tests	34,000	34,000	28,475	5,525
Casualty insurance	31,000	31,000	28,401	2,599
Fuel	25,500	25,500	36,405	(10,905)
Licenses and permits	25,000	25,000	29,614	(4,614)
Membership fees and dues	19,000	19,000	18,860	140
Telephone	17,000	17,000	16,952	48
Postage	8,500	8,500	8,000	500
Utilities - office	4,000	4,000	3,070	930
Bond administrative costs	3,500	3,500	11,471	(7,971)
Engineering expense	1,000	1,000	2,734	(1,734)
TOTAL OPERATING EXPENSES	1,873,700	1,798,700	1,716,326	82,374
OPERATING INCOME	200,250	275,250	1,930,962	1,655,712
NON-OPERATING REVENUES (EXPENSES)				
Assessments	312,750	312,750	176,341	(136,409)
Grant revenue	-	-	105,615	105,615
Income from investment	5,700	5,700	8,741	3,041
Other income	1,500	1,500	17,767	16,267
Bond principal payments and interest expense	(514,050)	(514,050)	(548,010)	(33,960)
Other non-operating expenses	-	-	-	-
Grant reimbursement expenses	-	-	(123,147)	(123,147)
NON-OPERATING REVENUES (EXPENSES) - NET	(194,100)	(194,100)	(362,693)	(168,593)
INCREASE IN NET POSITION - BUDGETARY BASIS	\$ 6,150	\$ 81,150	1,568,269	\$ 1,487,119
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:				
Depreciation and amortization expense			(419,225)	
Debt principal payments			254,797	
TOTAL CHANGE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			\$ 1,403,841	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - STREET MAINTENANCE ENTERPRISE

FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Street maintenance reimbursements	\$ 63,800	\$ 64,158	\$ 358
TOTAL OPERATING REVENUES	<u>63,800</u>	<u>64,158</u>	<u>358</u>
OPERATING EXPENSES			
Salaries and employee benefits	31,150	22,281	8,869
General, administrative and operating expenses	<u>32,650</u>	<u>67,490</u>	<u>(34,840)</u>
TOTAL OPERATING EXPENSES	<u>63,800</u>	<u>89,771</u>	<u>(25,971)</u>
OPERATING INCOME	<u>-</u>	<u>(25,613)</u>	<u>(25,613)</u>
DECREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	<u>(25,613)</u>	<u>\$ (25,613)</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:		<u>-</u>	
TOTAL DECREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ (25,613)</u>	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - LIGHTING ENTERPRISE

FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING REVENUES			
Street lights service charges	\$ 41,100	\$ 40,877	\$ (223)
TOTAL OPERATING REVENUES	<u>41,100</u>	<u>40,877</u>	<u>(223)</u>
OPERATING EXPENSES			
Salaries and employee benefits	12,000	8,102	3,898
General, administrative and operating expenses	29,100	27,380	1,720
TOTAL OPERATING EXPENSES	<u>41,100</u>	<u>35,482</u>	<u>5,618</u>
OPERATING INCOME	<u>-</u>	<u>5,395</u>	<u>5,395</u>
INCREASE IN NET POSITION - BUDGETARY BASIS	<u>\$ -</u>	<u>5,395</u>	<u>\$ 5,395</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:		<u>-</u>	
TOTAL INCREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ 5,395</u>	

The accompanying notes are an integral part of this supplementary information.

PAJARO/SUNNY MESA COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES AND EXPENSES,
BUDGET AND ACTUAL - PARKS ENTERPRISE

FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Pajaro Park revenue	\$ -	\$ 27,700	\$ 27,700
TOTAL OPERATING REVENUES	-	27,700	27,700
OPERATING EXPENSES			
Salaries and employee benefits	49,250	29,069	20,181
General, administrative and operating expenses	22,600	33,292	(10,692)
TOTAL OPERATING EXPENSES	71,850	62,361	9,489
OPERATING LOSS	(71,850)	(34,661)	37,189
NON-OPERATING REVENUES (EXPENSES)			
Property tax	20,000	23,518	3,518
Other income (expense)	-	-	-
NON-OPERATING REVENUES (EXPENSES)	20,000	23,518	3,518
INCREASE (DECREASE) IN NET POSITION - BUDGETARY BASIS	<u>\$ (51,850)</u>	<u>(11,143)</u>	<u>\$ 40,707</u>
DIFFERENCES BETWEEN BUDGETARY AND GAAP EXPENDITURES:			
Depreciation and amortization expense		(237,315)	
TOTAL DECREASE IN NET POSITION REPORTED ON THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		<u>\$ (248,458)</u>	

The accompanying notes are an integral part of this supplementary information.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



P-157
SALINAS OFFICE
450 LINCOLN AVENUE
SUITE 200
SALINAS, CA 93901
PHONE 831-757-5311
FAX 831-757-9529
BKPCPA.COM

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Pajaro/Sunny Mesa Community Services District
Royal Oaks, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pajaro/Sunny Mesa Community Services District (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 11, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Salinas, Karen ; Pope, RRP
Salinas, California
January 11, 2021