PRELIMINARY OFFICIAL STATEMENT DATED ___________, 2015

NEW ISSUE - FULL BOOK-ENTRY **RATING: S&P: "__"**
See "RATING."

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS."

$___________*

Pajaro Valley Water Management Agency
2015 Water Revenue Refunding Bonds
(Santa Cruz and Monterey Counties, California)

Dated: Date of Delivery **Due: March 1, as shown on inside cover**

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the Pajaro Valley Water Management Agency (the "Agency") pursuant to resolutions adopted by the board of directors of the Agency on February 18, 2015 and March 18, 2015, and an Indenture of Trust dated as of April 1, 2015 (the "Indenture"), by and between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Under this authority, the Bonds may be issued in a principal amount not to exceed $_________. See "THE BONDS – Authority for Issuance."

Use of Proceeds. The Bonds are being issued to provide funds to (i) prepay the Agency's outstanding obligations under (a) an installment sale agreement and (b) two existing loan agreements with the California State Water Resources Control Board the ("SWRCB") (ii) fund a debt service reserve fund for the Bonds and (iii) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Security for the Bonds. The Bonds are payable from and secured by a pledge of "Net Revenues" (as defined in this Official Statement) of the Agency's enterprise for the integrated management of the ground and surface water resources within the Pajaro Basin (the "Water Enterprise"). See "SECURITY FOR THE BONDS."

Rate Covenant. In the Indenture, the Agency is obligated under a rate covenant to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise during each fiscal year sufficient to pay certain costs of expenses, including debt service on the Bonds and parity obligations. See "SECURITY FOR THE BONDS – Rate Covenant."

Additional Debt of the Agency. Following the issuance of the Bonds, the Agency will have certain outstanding debt payable on a parity with the Bonds and on a subordinate basis to the bonds. See "WATER ENTERPRISE FINANCIAL INFORMATION – Outstanding Debt." The Agency may issue or incur additional obligations in the future on parity with or subordinate to the Bonds if the conditions set forth in the Indenture are met. See "SECURITY FOR THE BONDS – Issuance by Agency of Additional Debt."

Bond Terms. The Bonds will bear interest at the rates shown on the inside cover page of this Official Statement, payable semiannually on March 1 and September 1 of each year (each, an "Interest Payment Date"), commencing on September 1, 2015, and will be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. With respect to any Interest Payment Date, the "Record Date" is the 15th calendar day of the preceding month.

Book-Entry Only. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General Provisions - Bond Terms."

Redemption. The Bonds are subject to optional redemption and mandatory sinking payment redemption before maturity. See "THE BONDS – Redemption."

[Application Made for Bond Insurance. Application has been made for bond insurance to guarantee the scheduled payment of principal of and interest on the Bonds covered. The Agency's decision whether or not to obtain a policy will be made at or about the time of the pricing of the Bonds and will be based on, among other things, market conditions at that time. No assurance can be given as to whether the Agency will obtain a policy, and, if so, whether the policy will cover all or less than all the Bonds.]

The Bonds may not be appropriate investments for certain individuals. See "BOND OWNERS' RISKS" for a discussion of certain risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds constitute limited obligations of the Agency and are not secured by a pledge of the taxing power of the Agency. The Agency has no taxing power. None of the Bonds or the obligation of the Agency to pay principal thereof or interest thereon constitutes either a debt or a liability of the Agency, the State of California or any of their respective political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the Agency.

MATURITY SCHEDULE
(see inside cover)

This cover page contains certain information for quick reference only and is not a summary of information about the Bonds. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision relating to the purchase of any Bonds. See also "BOND OWNERS' RISKS."

The following firm served as financial advisor to the Agency on this financing:

NHA | ADVISORS
Strategy. Innovation. Solutions.

The Bonds are offered when, as and if issued and received by the Underwriter and subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel. Certain legal matters will also be passed upon for the Agency by Jones Hall, A Professional Law Corporation, as Disclosure Counsel, and for the Underwriter by Schiff Hardin LLP, San Francisco, California. It is anticipated that the Bonds will be delivered in book-entry only form through the facilities of DTC on or about ________, 2015.

Southwest Securities, Inc.

The date of this Official Statement is ______________, 2015.

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* Preliminary; subject to change.

MATURITY SCHEDULE

$ ________________ Serial Bonds
(Base CUSIP†: ______)

Maturity (March 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP†

$ ___ __% Term Bond due March 1, 20__, Price: __% CUSIP† No. ______

[REGIONAL LOCATION MAP]

Pajaro Valley Water Management Agency

Board of Directors

Rosemarie Imazio, *Chair*
Amy Newell, *Vice Chair*
Dwight Lynn, *Treasurer*
Rich Persoff, *Member*
Javier Zamora, *Member*
David Cavanaugh, *Member*
Paul Faurot, *Member*

Agency Staff

Mary Bannister, *General Manager*
Teresa Delfino, *Administrative Services Manager*

Financial Advisor

NHA Advisors, LLC
San Rafael, California

Bond Counsel and Disclosure Counsel

Jones Hall, A Professional Law Corporation
San Francisco, California

Underwriter's Counsel

Schiff Hardin LLP
San Francisco, California

Escrow Agent

U.S. Bank, National Association
San Francisco, California

Trustee

The Bank of New York Mellon Trust Company, N.A.,
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part for any other purpose. This Official Statement is not a contract between any Owner of the Bonds and the Agency or the Underwriter. For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"), this Preliminary Official Statement constitutes an "official statement" of the Agency with respect to the Bonds that has been deemed "final" by the Agency as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Agency, in any press release and in any oral statement made with the approval of an authorized officer of the Agency, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Agency or any other parties described in this Official Statement since the date hereof.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Agency or Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there should be no sale of the Bonds by a person in any jurisdiction in which it is unlawful for that person to make any offer, solicitation or sale.

Limited Scope of Information. The Agency has obtained certain information set forth herein from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions 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 Agency or any other parties described in this Official Statement since the date hereof. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used herein, unless noted otherwise, have the meanings given in the Indenture.

Involvement of the Underwriter. 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 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 the information.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. That stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices contained on the inside cover page of this Official Statement. The public offering prices may be changed from time to time by the Underwriter.

No Registration. **The Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on an exemption contained in Section 3(a)(2) of the Securities Act. Also, they have not been registered or qualified under the securities laws of any state.**

Website Information Not Incorporated. The Agency maintains an Internet website, but the information that it contains is not incorporated into this Official Statement.

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OFFICIAL STATEMENT

$___________*
Pajaro Valley Water Management Agency
2015 Water Revenue Refunding Bonds
(Santa Cruz and Monterey Counties, California)

INTRODUCTION

This Official Statement, including its cover page, inside cover page and appendices, is provided to furnish information in connection with the sale by the Pajaro Valley Water Management Agency (the "**Agency**") of the revenue bonds captioned above (the "**Bonds**").

The information contained in this section is an introduction to, but not a summary of, this Official Statement. The introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including its cover page and appendices. A full review should be made of the entire Official Statement, pursuant to which the offering of the Bonds to potential investors is exclusively made.

No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions. Capitalized terms used but not defined in this Official Statement have the meanings given in Appendix A. All statements in this Official Statement are qualified in their entirety by reference to those documents.

The Agency. The Agency was created pursuant to Sections 124-1 to 124-1108 of Chapter 24 of the California Water Code Appendix. See "THE AGENCY."

Authority for Issuance. The Agency is issuing the Bonds under the following:

(a) the provisions of Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53570 (the "**Bond Law**");

(b) Resolution No. 2015-03 adopted by the Agency's board of directors (the "**Board**") on February 18, 2015 and Resolution No. 2015-__ adopted by the Board on March 18, 2015 (together, the "**Resolutions**"); and

(c) an Indenture of Trust dated as of April 1, 2015 (the "**Indenture**"), by and between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**").

* Preliminary; subject to change.

The Water Enterprise. The Agency operates an enterprise for the integrated management of the ground and surface water resources within the Pajaro Basin (the "**Water Enterprise**"). The Agency is a state-chartered water management district, formed to efficiently and economically manage existing and supplemental water supplies in order to prevent increase in, and to accomplish continuing reduction of, long-term overdraft. The Agency also works to provide and ensure sufficient water supplies for present and future anticipated needs within its boundaries, the greater coastal Pajaro Valley. See "THE AGENCY" and "THE WATER ENTERPRISE."

Purpose of the Bonds. The Bonds are being issued to provide funds to:

(i) prepay the Agency's outstanding obligations under (a) an installment sale agreement and (b) two existing loan agreements with the California State Water Resources Control Board the ("**SWRCB**");

(ii) fund a debt service reserve fund for the Bonds; and

(iii) pay the costs of issuing the Bonds.

See "FINANCING PLAN."

Security for the Bonds. Under the Indenture, the Bonds are payable from and secured by "**Net Revenues**" of the Water Enterprise (as defined in this Official Statement; see "SECURITY FOR THE BONDS").

Rate Covenant. In the Indenture, the Agency is obligated under a rate covenant to fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise during each fiscal year sufficient to pay certain costs of expenses, including debt service on the Bonds and parity obligations. See "SECURITY FOR THE BONDS – Rate Covenant."

Debt Service Reserve Fund. As further security for the Bonds, the Agency will deposit a portion of the proceeds of the Bonds into a debt service reserve fund to be held by the Trustee under the Indenture, and used if there are insufficient Revenues available to pay debt service on the Bonds when due. See "SECURITY FOR THE BONDS – Reserve Fund."

Additional Debt of the Agency. Following the issuance of the Bonds, the Agency will have certain outstanding debt payable on a parity with the Bonds and on a subordinate basis to the bonds. See "WATER ENTERPRISE FINANCIAL INFORMATION – Outstanding Debt."

The Agency may issue or incur additional obligations in the future on parity with or subordinate to the Bonds if the conditions set forth in the Indenture are met. See "SECURITY FOR THE BONDS – Issuance by Agency of Additional Debt."

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption before maturity. See "THE BONDS – Redemption."

Form of Bonds; Book-Entry Only**.** The Bonds will be issued in fully registered form, registered in the name of The Depository Trust Company, New York, New York ("**DTC**"), or its nominee, which will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds that are purchased. See "THE BONDS – General Provisions - Bond Terms" and "APPENDIX F – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Risks of Investment. An investment in the Bonds involves risk. The debt service payments are payable from and secured primarily by the Net Revenues of the Water Enterprise. Investors should read this entire Official Statement to obtain information essential to the making of an informed investment decision relating to the purchase of any Bonds. For a discussion of some of the risks associated with the purchase of the Bonds, see "BOND OWNERS' RISKS."

Continuing Disclosure. The Agency will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Agency and the Water Enterprise by not later than nine months following the end of the Agency's fiscal year (currently March 31 based on the Agency's fiscal year ending June 30), commencing March 31, 2016, with the report for the fiscal year ending June 30, 2015, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended. See "CONTINUING DISCLOSURE" and "APPENDIX C - Form of Continuing Disclosure Certificate."

[Application Made for Bond Insurance. Application has been made for bond insurance to guarantee the scheduled payment of principal of and interest on the Bonds covered. The Agency's decision whether or not to obtain a policy will be made at or about the time of the pricing of the Bonds and will be based on, among other things, market conditions at that time. No assurance can be given as to whether the Agency will obtain a policy, and, if so, whether the policy will cover all or less than all the Bonds.]

Limited Obligations. **The Bonds constitute limited obligations of the Agency and are not secured by a pledge of the taxing power of the Agency. The Agency has no taxing power. None of the Bonds or the obligation of the Agency to pay principal thereof or interest thereon constitutes either a debt or a liability of the Agency, State of California or any of their respective political subdivisions within the meaning of any Constitutional limitation on indebtedness, or a pledge of the full faith and credit of the Agency.**

FINANCING PLAN

Prepayment of 1999 Installment Sale Agreement

A portion of the Bond proceeds will be used to prepay the Agency's obligations under an Installment Purchase Agreement dated as of August 1, 1999 (the "**1999 Installment Purchase Agreemen**t"), between the Agency and the Pajaro Valley Water Management Agency Financing Corporation (the "**Corporation**"), under which the Agency is obligated to pay certain installment payments (the "**1999 Installment Payments**") which are evidenced and represented by Revenue Certificates of Participation, Series 1999A, (the "**1999 Certificates**"), which were executed and delivered in the original principal amount of $19,725,000 under a Trust Agreement dated as of dated as of August 1, 1999 (the "**1999 Trust Agreement**"), among the Agency, the Corporation and U.S. Bank National Association (formerly U.S. Bank Trust National Association), as trustee (the "**1999 Trustee**") The 1999 Installment Sale Agreement is secured by a lien on Net Revenues and has an outstanding principal balance of $_________ as of _________, 2015.

On the delivery date of the Bonds, the Agency will deliver a portion of their proceeds to the Trustee. The Trustee will transfer those proceeds into an escrow fund (the "**Escrow Fund**"), to be established under an Escrow Agreement (the "**Escrow Agreement**") between the Agency and U.S. Bank National Association, as escrow agent ("**Escrow Agent**"). The Escrow Agent will hold the amounts on deposit in the Escrow Fund uninvested.

The 1999 Installment Sale Agreement will be prepaid in full on _______, 2015 (the "**Prepayment Date**").

As a result of the deposit into the Escrow Fund, all liability of the Agency with respect to the 1999 Installment Sale Agreement will be discharged as of the date of issuance of the Bonds.

Amounts on deposit in the Escrow Fund are to be pledged solely to the payment of the 1999 Installment Sale Agreement and will not be available to pay debt service on the Bonds.

Prepayment of SWRCB Loan Agreements

A portion of the Bond proceeds will also be used to prepay

(i) a loan agreement between the Agency and the California State Water Resources Control Board (the "**SWRCB**") (Agreement No. 01-704-550-0) dated December 24, 1999 (the "**1999 SWRCB Loan Agreement**"), under the Seawater Intrusion Control Loan Program for a loan in the maximum principal amount of $11,650,000 (the "**1999 SWRCB Loan**"), with an outstanding principal balance of $_________ as of _________, 2015, and

(ii) a loan agreement between the Agency and the SWCRB (Agreement No. 01-708-550-0) dated February 1, 2002 (the "**2002 SWRCB Loan Agreement**"), under the Seawater Intrusion Control Loan Program for a loan in the maximum principal amount of $6,420,000 (the "**2002 SWRCB Loan**" and together with the 1999 SWRCB Loan, the "**SWRCB Loans**"), with an outstanding principal balance of $_______ as of ______, 2015.

On the delivery date of the Bonds, the Agency will deliver a portion of the Bond proceeds to the Trustee for deposit into a prepayment fund (the "**Prepayment Fund**"), to be established under the Indenture. The Trustee will hold the amounts on deposit in the Prepayment Fund uninvested.

The SWRCB Loans will be prepaid in full on _______, 2015.

As a result of the deposit into the Prepayment Fund, all liability of the Agency with respect to the SWRCB Loans will be discharged as of the date of issuance of the Bonds.

Amounts on deposit in the Prepayment Fund are to be pledged solely to the payment of the SWRCB Loans and will not be available to pay debt service on the Bonds.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds relating to the Bonds are as follows:

Sources:	
Principal Amount of Bonds	$
Plus/Less: Original Issue Premium/Discount	
TOTAL ESTIMATED SOURCES	$
Uses:	
Deposit to Escrow Fund	$
Deposit to Prepayment Fund	
Deposit to Costs of Issuance Fund [1]	
Deposit to Reserve Fund [2]	
Underwriter's Discount	
TOTAL ESTIMATED USES	$

____

[1] Represents funds to be used to pay costs of issuance, which include fees of Bond Counsel, Disclosure Counsel, Financial Advisor, Trustee, Escrow Agent, [Insurer] and rating agency; printing costs; and other miscellaneous expenses.

[2] Equal to the Reserve Requirement as of the Closing Date. See "SECURITY FOR THE BONDS – Reserve Fund."

Debt Service Schedule

Scheduled debt service on the Bonds is shown in the following table, assuming no optional redemption occurs prior to their maturity.

Debt Service Schedule

Date (March 1)	Principal	Interest	Total Debt Service
Total	**$**		

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of Indenture" for a more complete summary of the Indenture.

Authority for Issuance

The Bonds are being issued under the Bond Law, the Resolutions and the Indenture. Under this authority, the Bonds may be issued in a principal amount not to exceed $________.

General Provisions

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of $5,000 or any integral multiple of $5,000. The Bonds will mature in the amounts and on the dates, and bear interest at the annual rates, set forth on the inside cover page of this Official Statement.

The Bonds will be issued as fully registered bonds in book-entry only form, registered in the name of Cede & Co. as nominee of DTC, and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple of $5,000, under the book-entry system maintained by DTC. While the Bonds are subject to the book-entry system, the principal and interest with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds. Purchasers of the Bonds will not receive certificates representing their interests therein, which will be held at DTC.

See "APPENDIX F – DTC and the Book-Entry Only System" for further information regarding DTC and the book-entry system.

***Payments of Principal and Interest*.** Principal of the Bonds will be payable in accordance with the maturity schedule shown on the inside of the front cover of this Official Statement, subject to any optional or mandatory sinking fund redemptions prior to maturity (see "- Redemption" below). Interest on the Bonds will be payable on March 1 and September 1 in each year, commencing on September 1, 2015 (each an "**Interest Payment Date**").

While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See "–Bond Terms" and "APPENDIX F – DTC and the Book-Entry Only System."

Interest is payable on each Interest Payment Date to the persons in whose names the ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date.

At the written request of the Owner of Bonds in an aggregate principal amount of at least $1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written request will remain in effect until rescinded in writing by the Owner.

The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Calculation of Interest. Interest on the Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

(a) a Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,

(b) a Bond is authenticated on or before the first Record Date, in which event interest thereon will be payable from the Closing Date, or

(c) interest on any Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

"**Record Date**" means, with respect to any Interest Payment Date, the 15th calendar day of the month preceding such Interest Payment Date.

Redemption*

Optional Redemption from any Source of Available Funds. The Bonds maturing on or before March 1, 20__, are not subject to optional redemption prior to their respective stated maturity dates.

The Bonds maturing on or after March 1, 20__24, are subject to redemption in whole, or in part among maturities on such basis as set forth in a Certificate of the Agency filed with the Trustee, and in any event by lot within a maturity, at the option of the Agency, from any available source of funds, on any date on or after March 1, 20__, at a redemption price equal to 100% of the principal amount thereof to be redeemed together with accrued interest to the redemption date, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on March 1, 20__ (the "**Term Bonds**") are also subject to redemption, in part by lot, on March 1 in each of the years as set forth in the following table, from sinking payments made for such purpose under the Indenture, at a redemption price equal to the principal amount thereof to be redeemed together

* Preliminary; subject to change.

with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts set forth in the following table.

Term Bonds Maturing March 1, 20__

Sinking Fund Redemption Date (March 1)	Principal Amount To Be Redeemed
20__ (Maturity)	

In lieu of optional redemption or mandatory sinking fund redemption as described above, moneys in the Bond Fund or other funds provided by the Agency may be used and withdrawn by the Trustee for purchase of Outstanding Bonds, upon the filing with the Trustee of an Certificate of the Agency requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Certificate of the Agency may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase and any premium that would otherwise be due if such Bonds were to be redeemed in accordance with this Indenture. Any Bonds purchased pursuant to this subsection will be treated as outstanding Bonds under this Indenture, except to the extent otherwise directed by the General Manager of the Agency.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Agency will direct the Trustee regarding the Bonds to be redeemed, and if not so directed, the Trustee will select the Bonds to be redeemed pro rata among maturities and by lot within a single maturity, and in the case of mandatory sinking fund redemption, by lot within the maturity being called for redemption. For purposes of such selection, all Bonds will be deemed to be comprised of separate $5,000 denominations and such separate denominations will be treated as separate Bonds that may be separately redeemed.

Notice of Redemption. The Trustee on behalf and at the expense of the Agency will mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Municipal Securities Rulemaking Board and to the Securities Depositories, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however,* that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon.

Such notice will state the date of the notice, the redemption date, the redemption place and the redemption price and must designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and must require that such Bonds be then surrendered at the Office of the Trustee identified in such notice for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

Rescission of Redemption Notice. The Agency has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The Agency and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will cause notice of such rescission to be mailed, first class mail, postage prepaid, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depositories..

Effect of Redemption. From and after the date fixed for redemption, if notice of redemption has been duly mailed and funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption have been duly provided, such Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Transfer and Exchange

Transfer. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by a duly authorized attorney of such person, upon surrender of such Bond to the Trustee at its Office for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. The Trustee will collect any tax or other governmental charge on the transfer of any Bonds described in this paragraph. Whenever any Bond or Bonds is surrendered for transfer, the Agency will execute, and the Trustee will authenticate and deliver to the transferee, a new Bond or Bonds of like series, interest rate, maturity and aggregate principal amount. The Agency shall pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer of Bonds.

Exchange. The Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of the same series, interest rate and maturity. The Trustee will collect any tax or other governmental charge on the exchange of any Bonds described in this paragraph. The Agency will pay the cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange of Bonds.

Limitations. The Trustee may refuse to transfer or exchange, under the provisions of on the Indenture described above, any Bonds selected by the Trustee for redemption or any Bonds during the period established by the Trustee for the selection of Bonds for redemption.

SECURITY FOR THE BONDS

This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of Indenture" for a more complete summary of the Indenture.

Net Revenues; Pledge of Net Revenues

Pledge of Net Revenues and Other Amounts. Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Net Revenues and all amounts held in any fund or account established under the Indenture are pledged to secure the payment of the principal of and interest and premium (if any) on the Bonds on a parity with the pledge that secures the all outstanding Parity Obligations and in accordance with their terms and the provisions of the Indenture.

This pledge constitutes a lien on and security interest in the Net Revenues and such amounts held under the Indenture, and will attach, be perfected and be valid and binding from and after the Closing Date, without the need for any physical delivery thereof or further act.

"**Net Revenues**" means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Operation and Maintenance Costs becoming payable during such period.

"**Gross Revenues**" means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the Agency from, the ownership and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to

(a) all in lieu charges and groundwater augmentation charges collected by or on behalf of the Agency,

(b) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the Agency from the sale, furnishing and supplying of the water, drainage 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 Water Enterprise,

(c) any amounts transferred to the Water Fund from a Rate Stabilization Fund, and

(d) investment earnings on amounts held in the Water Fund or in any other fund established with respect to the Water Enterprise.

Gross Revenues *do not* include (i) customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the Agency, (ii) the proceeds of any ad valorem property taxes received by the Agency, (iii) the proceeds of any special assessments or special taxes levied upon real property received by the Agency the application of which is restricted by law, and (iv) the proceeds of any grants.

"**Operation and Maintenance Costs**" means the reasonable and necessary costs and expenses paid by the Agency for maintaining and operating the Water Enterprise, including but not limited to

(a) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order and

(b) the reasonable administrative costs of the Agency attributable to the operation and maintenance of the Water Enterprise;

but in all cases excluding (i) interest expense relating to subordinate obligations and unsecured obligations of the Agency, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Deposit and Transfer of Net Revenues

Flow of Funds. The Agency has previously established the Water Fund, which it will continue to hold and maintain for the purposes and uses set forth herein.

The Agency shall deposit all Gross Revenues in the Water Fund promptly upon the receipt thereof, and shall apply amounts in the Water Fund solely for the uses and purposes set forth herein and purposes set forth in the Parity Obligation Documents.

In addition to withdrawals required to pay principal of and interest on the outstanding Parity Obligations when due, the Agency shall withdraw amounts on deposit in the Water Fund and apply such amounts at the times and for the purposes, and in the priority, as follows:

(a) Bond Fund. On or before the 3rd Business Day of the month preceding each Interest Payment Date, so long as any Bonds remain Outstanding hereunder, the Agency shall withdraw from the Water Fund and pay to the Trustee for deposit into the Bond Fund (which the Trustee shall establish and hold in trust hereunder) an amount which, together with other available amounts then on deposit in the Bond Fund, is at least equal to the aggregate amount of principal (including sinking fund payments) of and interest coming due and payable on the Bonds on such Interest Payment Date.

The Trustee shall apply amounts in the Bond Fund solely for the purpose of (i) paying the interest on the Outstanding Bonds when due and payable (including accrued interest on any Bonds purchased or redeemed hereunder), and (ii) paying the principal (including sinking fund payments) of the Bonds at the maturity thereof.

If amounts in the Bond Fund are insufficient for the purpose set forth in the preceding paragraphs with respect to any Interest Payment Date, the Trustee shall withdraw from the Reserve Fund, in accordance with the Indenture, to the extent of any funds or Permitted Investments therein, amounts to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to pay the principal (including sinking fund payments) of, and interest and any premium, due and payable on such Interest Payment Date on the Bonds, the Trustee shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking fund payments, if any, and then to payment of principal due on the Bonds by reason of sinking fund payments.

Upon the payment of all Outstanding Bonds and Parity Obligations, the Trustee shall transfer any moneys remaining in the Bond Fund to the Agency for deposit into the Water Fund.

(b) Redemption Fund. If the Agency elects to redeem Outstanding Bonds pursuant to the Indenture, the Agency shall transfer to the Trustee for deposit into the Redemption Fund (which the Trustee shall thereupon establish and hold in trust hereunder) an amount at least equal to the redemption price of the Bonds, excluding accrued interest, which is payable from the Bond Fund. Amounts in the Redemption Fund shall be applied by the Trustee solely for the purpose of paying the redemption price of Bonds to be redeemed under the Indenture. Following any such redemption of the Bonds, any moneys remaining in the Redemption Fund shall be transferred by the Trustee to the Agency for deposit into the Water Fund.

(c) Reserve Fund. On each Interest Payment Date, the Agency shall withdraw from the Water Fund and pay to the Trustee for deposit into the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement.

Other Uses of Water Fund. The Agency shall manage, conserve and apply moneys in the Water Fund in such a manner that all deposits required to be made under the Indenture and under any agreement, indenture of trust, resolution or other instrument authorizing the issuance of Parity Obligations ("**Parity Obligations Documents**"; see "- Issuance by Agency of Additional Debt " below) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing, the Agency may at any time use and apply moneys in the Water Fund for any one or more of the following purposes:

(i) the payment of the Operation and Maintenance Costs of the Water Enterprise,

(ii) the acquisition and construction of extensions and betterments to the Water Enterprise;

(iii) the redemption of any of the Bonds or Parity Obligations that are then subject to redemption or the purchase thereof from time to time in the open market, at prices and in such manner, either at public or private sale, or otherwise, as the Agency in its discretion may determine; or

(iv) any other lawful purpose of the Agency relating to the Water Enterprise.

All moneys in the Water Fund may be invested by the Agency from time to time in any securities in which the Agency may legally invest funds subject to its control.

Reserve Fund

Establishment and Deposits. The Indenture establishes a Reserve Fund, which will be held by the Trustee for the benefit of the Owners as a reserve for the payment of the principal of, and interest and any premium on, the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

Reserve Requirement. The Reserve Fund will be established and maintained in an amount equal to the Reserve Requirement (as defined below), which as of the closing date is $___________.* See "FINANCING PLAN." Thereafter, additional deposits may be made to the Reserve Fund from time to time.

The "**Reserve Requirement**" is defined in the Indenture to mean that amount as of any date of calculation equal to the least of:

(a) Maximum Annual Debt Service on the Outstanding Bonds,

(b) 125% of average Annual Debt Service on the Outstanding Bonds and

(c) 10% of the original principal amount of the Bonds.

Disbursements. Except as otherwise provided in the Indenture, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal (including sinking fund payments) of, and interest and any premium on, the Bonds or, in accordance with the provisions of this Section, for the purpose of redeeming Bonds from the Bond Fund. Whenever a transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Trustee shall provide written notice thereof to the Agency specifying the amount withdrawn.

See APPENDIX A for a complete description of the timing, purpose and manner of disbursements from the Reserve Fund.

Rate Stabilization Fund

The Agency has the right (but not the obligation) at any time to establish a fund to be held by it and administered in accordance with the Indenture for the purpose of stabilizing the rates and charges imposed by the Agency with respect to the Water Enterprise. From time to time the Agency may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues which are released from the pledge and lien which secures the Bonds and any Parity Obligations, as the Agency may determine.

The Agency may, but is not be required to, withdraw from any amounts on deposit in the Rate Stabilization Fund and deposit such amounts in the Water Fund in any Fiscal Year for the

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* Preliminary; subject to change.

purpose of paying the principal (including sinking fund payments) of and interest on the Bonds or any Parity Obligations coming due and payable in such Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Water Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided herein), and will be applied for the purposes of the Water Fund. Amounts on deposit in the Rate Stabilization Fund are not pledged to and do not secure the Bonds or any Parity Obligations. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the Agency, be applied for any other lawful purposes. The Agency may at any time withdraw any or all amounts on deposit in the Rate Stabilization Fund and apply such amounts for any other lawful purposes of the Agency.

Rate Covenant

Covenant Regarding Gross Revenues. Under the Indenture, the Agency is required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

(i) all Operation and Maintenance Costs estimated by the Agency to become due and payable in the Fiscal Year;

(ii) The principal (including sinking fund payments) of and interest on all outstanding Bonds and Parity Obligations, as they become due and payable during the Fiscal Year, without preference or priority;

(iii) All amounts, if any, required to restore the balance in the Reserve Fund and any reserve funds established for any Parity Obligations to their required levels; and

(iv) All payments required to meet any other obligations of the Agency that are charges, liens, encumbrances upon, or that are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

Covenant Regarding Net Revenues. Under the Indenture, the Agency is also required to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water Enterprise during each Fiscal Year that are sufficient to yield Net Revenues (including any amounts transferred from a Rate Stabilization Fund) at least equal to 110% of the following:

(i) The principal (including sinking fund payments) of and interest on all outstanding Bonds and Parity Obligations, as they become due and payable during the Fiscal Year, without preference or priority; and

(ii) All payments required to meet any other obligations of the Agency that are charges, liens, encumbrances upon, or that are otherwise payable from, the Net Revenues during such Fiscal Year.

provided, however, that if the actual collection of Net Revenues based on such rates, fees and charges is insufficient to yield Net Revenues that meet such requirement, such event shall not constitute an Event of Default unless it has continued uncured for a period of at least 12 months.

Issuance by Agency of Additional Debt

Superior and Subordinate Obligations. Under the Indenture, the Agency may not issue or incur any additional bonds or other obligations having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Bonds.

Under the Indenture, the Agency may issue, enter into or incur:

(a) Parity Obligations, in accordance with the conditions described below, or

(b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established under the Indenture.

Conditions for Issuance of Parity Obligations. Under the Indenture, the Agency may issue additional Parity Obligations from time to time in such principal amount as it determines, subject to the following conditions precedent:

(a) No Event of Default (or no event with respect to which notice has been given and which, once all notice of grace periods have passed, would constitute an Event of Default) has occurred and is continuing.

(b) The amount of Net Revenues (excluding amounts derived from the Rate Stabilization Fund, if any) as shown by the books of the Agency for the most recent completed Fiscal Year for which audited financial statements of the Agency are available or for any more recent consecutive 12-month period selected by the Agency, in either case verified by an Independent Accountant or a Financial Consultant or shown in the audited financial statements of the Agency, plus at the option of the Agency any Additional Revenues, are at least equal to 110% of the amount of Maximum Annual Debt Service.

(c) The issuance of such Parity Obligations shall comply with all conditions to the issuance thereof as set forth in the applicable provisions of the respective Parity Obligation Documents.

(d) The Agency shall deliver to the Trustee a Certificate of the Agency certifying, and an opinion of Bond Counsel stating, that the conditions precedent to the issuance of such Parity Obligations set forth in the foregoing subsections (a), (b) and (c) of this Section have been satisfied.

"**Parity Obligations**" means (a) the 2005 DWR Loan, and (b) all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the Agency payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred on a parity with the Bonds pursuant to the Indenture.

"**Additional Revenues**" means, with respect to the issuance of any Parity Obligations, any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Water Enterprise to be made by the Agency during the 36 month period following the issuance of such Parity Obligations, in an amount equal to 100% of the estimated additional average annual Net Revenues to be derived from all properties which are improved with a structure the construction of which has been completed prior to the date of issuance of such Parity Obligations and to which service will be provided by such additions, improvements and extensions, all as shown by the certificate or opinion of a Financial Consultant.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Water Enterprise which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of the most recent completed Fiscal Year for which audited financial statements of the Agency are available, or for any more recent consecutive 12-month period selected by the Agency under Section 5.08(b), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, all as shown by the certificate or opinion of a Financial Consultant.

Insurance; Net Proceeds

The Agency will at all times maintain with responsible insurers all such insurance on the Water Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Water Enterprise. If any useful part of the Water Enterprise is damaged or destroyed, such part must be restored to usable condition.

All amounts collected from insurance against accident to or destruction of any portion of the Water Enterprise shall be used to repair or rebuild such damaged or destroyed portion of the Water Enterprise, and to the extent not so applied, shall be applied to redeem the Bonds or any Parity Obligations in accordance with this Indenture and the Parity Obligation Documents, respectively.

The Agency shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Agency, the Trustee and the Owners of the Bonds.

THE WATER ENTERPRISE

Background and Location

Formation and Authority. The Agency is a water management agency formed in 1984 under the Pajaro Valley Water Management Agency Act (California Water Code Appendix, Chapter 24, Sections 124-1 to 124-1108) (the "**Act**").

Purposes. The Agency has the primary responsibility for management of the Pajaro Valley groundwater basin. It is authorized to acquire, plan, construct, maintain, improve, operate and repair necessary works for the protection of groundwater and for any reclamation and replenishment of groundwater. The Agency's activities focus on halting seawater intrusion by balancing the overdraft conditions in the Pajaro basin.

The Agency Act specifically prohibits the Agency from supplying potable water, which is intended to remain the responsibility of local water suppliers. Therefore, all Agency projects considered and approved in the Agency's 2002 Revised Basin Management Plan (the "**BMP**") only supply non-potable water for irrigation purposes. Agency activities also do not include flood control, stream restoration or habitat management (except as mitigations for Agency projects), which are the responsibility of state or county jurisdictions.

The Agency is an independent local agency governed by its board of directors.

Regional Location. The Agency's service area is generally located in the northern portion of Monterey County and the southern portion of Santa Cruz County, bordering the coast of the Pacific Ocean along a portion of Monterey Bay, and includes the City of Watsonville and community of Moss Landing.

The elevation above sea level of the Agency's service area varies from approximately 20 feet on the valley floor to approximately 400 feet in the inland hills.

For certain economic and demographic information regarding the region in and around the Agency's service area, see APPENDIX D.

Governance and Management

Board of Directors. Under the Act, the Agency is governed by a seven-member Board of Directors (the "**Board**"), all of whom are voters of, and residents within, the Agency's service area, who are selected as follows.

Four members of the board are elected by the registered voters within the boundaries of the Agency. Three members of the board are appointed. The appointed members of the board must reside within the Agency's jurisdiction, must derive at least 51 percent of their net income from the production of agricultural products, as certified by affidavit, and must be appointed by the following agencies: one member each by the Board of Supervisors of Monterey County, the Board of Supervisors of Santa Cruz County, and the City of Watsonville. The appointments may be made from lists of not less than three nor more than five persons submitted to the appointing power for each vacancy by the Santa Cruz County Farm Bureau and the Monterey County Farm Bureau.

The current members of the Board, and the expiration dates of their terms of office, are set forth below.

Board Member		Expiration of Term
Rosemarie Imazio, Chair	Appointee, City of Watsonville	November 30, 2016
David Cavanaugh, Member	Appointee, County of Santa Cruz	December 1, 2016
Dwight Lynn, Treasurer	Elected, District "A" Santa Cruz County	November 30, 2018
Rich Persoff, Member	Elected, District "B" Santa Cruz County	November 30, 2016
Amy Newell, Vice-Chair	Elected, District "C" Santa Cruz County	November 30, 2018
Paul Faurot, Member	Elected, District "D" Santa Cruz, Monterey and San Benito Counties	November 30, 2016
Javier Zamora, Member	Appointee, County of Monterey	December 1, 2016

Management.

General Manager. The General Manager, who is hired by the Board, oversees the Agency's staff and reports directly to the Board.

Mary Bannister, RG, CEG, General Manager, is a state of California registered geologist and certified engineering geologist, with over 30 years of experience in ground water management, water supply projects, coastal engineering, and groundwater contamination remediation. Ms. Bannister earned her bachelor's degree in Earth Science from the University of California Santa Cruz.

Ms. Bannister has been with the Agency since 1999 and was named General Manager in 2008. There were numerous challenges facing the Agency when she took on the leadership role, including several lawsuits challenging the Agency's rate structure. Ms. Bannister successfully led the Agency and the Pajaro Valley community through a rigorous Proposition 218 rate process in 2010 that led to precedence-setting court decisions supporting the Agency's methodology. Ms. Bannister oversees a staff of 12 committed to excellent groundwater management in one of the most fertile agricultural communities in the state and country.

Administrative Services Manager. The Administrative Services Manager manages the Agency's fiscal and administrative functions. Teresa Delfino has been with the Agency since 2012. Ms. Delfino earned her bachelor's degree in Economics with an Emphasis in Administration from the University of California Santa Cruz. She has worked locally in administration and finance for 25 years in both the public and private sector.

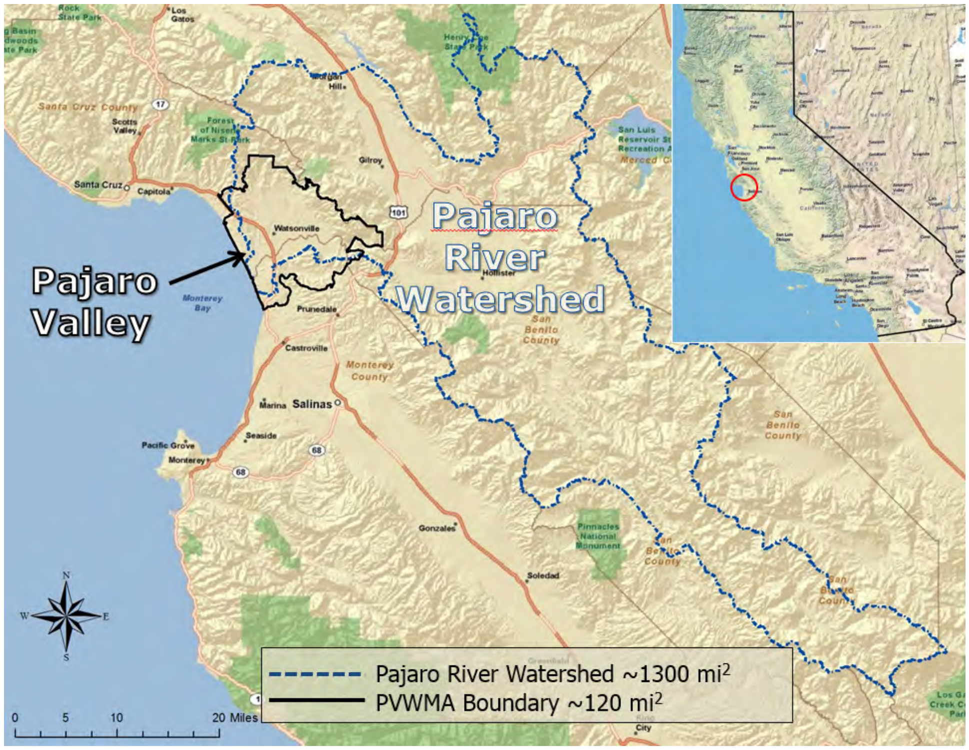
Senior Water Resources Hydrologist. Brian Lockwood, MSc, PG, CHg, is the Senior Water Resources Hydrologist. He leads the basin monitoring and water quality programs providing technical analysis, review, and oversight for projects related to managed aquifer recharge, seawater intrusion, groundwater quality, conjunctive use, hydrologic modeling, recycled water and groundwater production. Mr. Lockwood earned his B.S. and M.Sc. degrees from the University of California, Santa Cruz, and is a California Professional Geologist (PG) and Certified Hydrogeologist (CHg), with over 10 years of experience in surface and groundwater investigations.

Employees

General. The Agency currently employs approximately 12 full-time funded positions.

Labor Relations. The Agency's employee organization, per the Meyers-Milias-Brown Act, serves to represent employees in their relations with the Board of Directors and the General Manager.

The Agency contributes to the California Public Employees Retirement System (CalPERS) for its employees. See "– WATER ENTERPRISE FINANCIAL INFORMATION" and APPENDIX B.


Pajaro Valley
Pajaro River Watershed
Pajaro River Watershed ~1300 mi2
PVWMA Boundary ~120 mi2
Santa Cruz
Capitola
Watsonville
Gilroy
Hollister
Prunedale
Castroville
Salinas
Marina
Seaside
Pacific Grove
Monterey
Gonzales
Soledad
Monterey Bay
Monterey County
San Benito County
Santa Cruz County
Pinnacles National Monument
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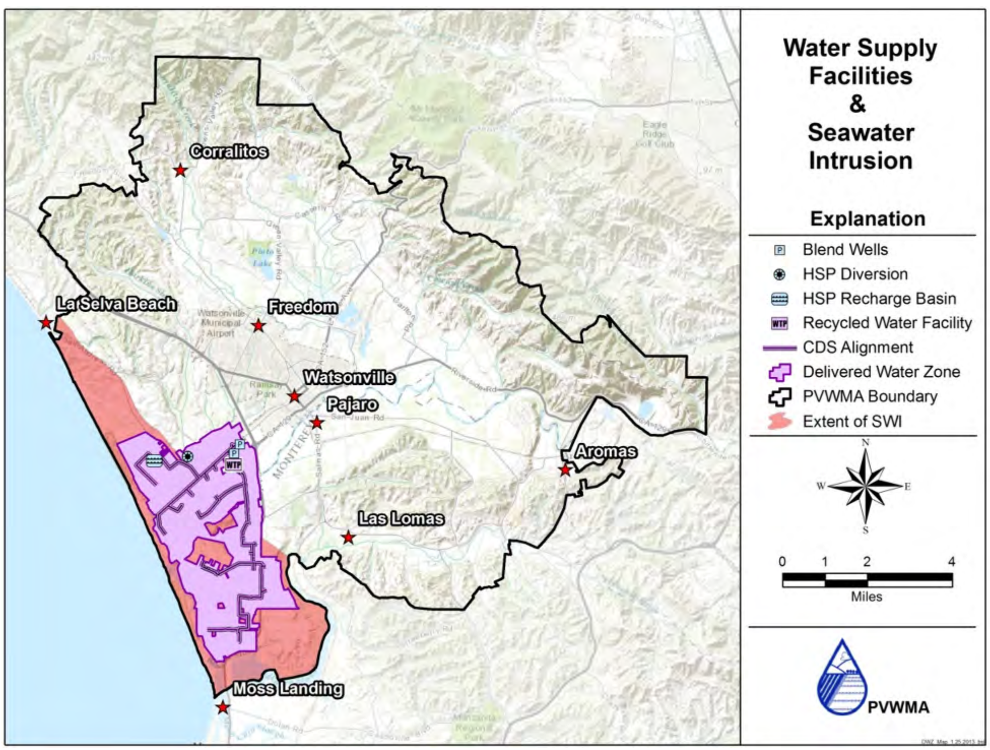
Water Supply Facilities & Seawater Intrusion
Explanation
Blend Wells
HSP Diversion
HSP Recharge Basin
Recycled Water Facility
CDS Alignment
Delivered Water Zone
PVWMA Boundary
Extent of SWI
0 1 2 4
Miles
PVWMA
Corralitos
La Selva Beach
Freedom
Watsonville
Pajaro
Aromas
Las Lomas
Moss Landing

Operations

The primary operations of the Agency consist of providing (i) supplemental water service to groundwater users throughout the Pajaro Basin and (ii) delivered water supplies to property owners, as further described below.

> ***Supplemental Water Service.*** Supplemental water service is intended to protect and maintain the ability of property owners basin-wide to continue ongoing groundwater extraction, secure basin water supply, retard seawater intrusion, reduce overdraft, promote water conservation, and avoid groundwater pumping limits that could be imposed by the Agency, State Water Resources Control Board, or court adjudication and order.
>
> Supplemental water service includes (a) the design, construction, operation, maintenance, management, repair, replacement and improvement of the Agency's existing and planned projects and facilities and water meters, (b) ongoing debt service related to the design and construction of the projects and facilities, (c) groundwater modeling, water quality monitoring, water resources and groundwater basin planning and management, including periodic updates of the BMP, as appropriate to evaluate the effectiveness of the existing projects, determine improvements and enhancements, and identify future supplemental water projects that will further reduce groundwater overdraft and retard seawater intrusion, and (d) activities and actions to implement the groundwater management program as described in the BMP.
>
> ***Delivered Water Supplies.*** The delivered water service is available to customers (growers) within a 7,000-acre area along the Monterey Bay coast that is either suffering from or threatened by seawater intrusion. The delivered water service consists of blending several supplemental water supplies, such as recycled water, water recovered from a managed aquifer recharge and recovery facility, City of Watsonville potable water and groundwater, and conveying water to customers through the Coastal Distribution System (the "**CDS**"), which consist of over 20 miles of pipeline ranging in diameter from 42 inches to 16 inches.

Facilities

The Agency's facilities include supplemental water facilities, a recycled water facility, and over 20 miles of the CDS, all as described in further detail below. In addition, the Agency operates two blend water wells and a connection to the City of Watsonville's potable water system.

Supplemental Water Facilities. The Agency operates four supplemental water facilities, including the Harkins Slough Facility, which was completed in 2002 and includes two diversion pumps located on Harkins Slough, three intermediate pumps that pump the slough water to a 15-acre recharge facility, and 12 production (recovery) wells that are used to extract percolated Harkins Slough water for use as a source of supplemental irrigation supply. The Harkins Slough Facility has diverted and recharged over 7,000 acre-feet of water since 2002 that would have otherwise flowed out to Monterey Bay.

Recycled Water Facility. The recycled water facility consists of three treatment facilities, distribution pumps and storage tanks. The first treatment facility is a DensaDeg coagulation, sedimentation and flocculation facility. The second is a cloth media filtration facility. The third is an ultra-violet light disinfection facility, which overlies an 800,000 gallon wet well. Adjacent to the wet well is a 500,000 gallon storage tank. At present, four distribution pumps, each equipped with a 350 HP variable speed drive for a combined capacity of 12,000 GPM, are used to move recycled water blended with potable water into the CDS.

Coastal Distribution System. The CDS consists of over 20 miles of pipeline ranging in size from 16 inches to 42 inches in diameter. Approximately 80 turnouts exist along the pipeline, with 8 inches in typical diameter. Each has a flow meter, Cla-Val Flow and pressure regulating valve, and other appurtenances. The primary blend supplies to the CDS are the two blend wells and the City of Watsonville's potable water system. The first blend well has a capacity of 1,500 GPM, and the second blend well has a capacity of 2,000 GPM. The potable connection with the City can supply 2,000 GPM.

In 2014, delivered supplemental water from Agency facilities supplied 4,655 acre feet (over 1.5 billion gallons) to ranches in the coastal areas of Santa Cruz and Monterey counties.

Regulatory Requirements

The Agency is subject to a master reclamation permit for production and distribution of recycled water, a water rights permit for up to 2,000 acre feet from Harkins and Watsonville sloughs and a National Pollutant Discharge Elimination System (NPDES) low-threat discharge permit for Harkins slough diversion.

The Agency is required to file annual reports in order to comply with the above listed permits.

Customer Base

General. The customer base of the Agency consists primarily of agricultural customers.

Historical Number of Customers. The table below shows the historical number of customers of the Water Enterprise by customer classification for the past five fiscal years.

Table 1
Number of Customers
by Customer Class
Fiscal Years 2009-10 through 2013-14

Customer classification	2009-10	2010-11	2011-12	2012-13	2013-14	2013-14 % of Total Number Customers
Private Metered Wells [1]	890	892	873	907	923	40.46%
Municipal	5	5	5	5	5	0.22
Rural Residential [2]	N/A	1,117	1,125	1,138	1,301	57.04
Delivered Water	38	44	49	49	52	2.28
Total:	N/A	2,058	2,052	2,099	2,281	100.00%

[1] Includes all metered wells.
[2] Before fiscal year 2010-11, the number of rural residential customers was calculated using a different methodology and therefore is not comparable to later years.
Source: The Agency.

Historical Revenues. The following table shows billings by type of customer for active accounts of the Water Enterprise for the past five fiscal years.

Table 2
Billings by Customer Class
Fiscal Years 2009-10 through 2013-14

User Type	2009-10	2010-11	2011-12	2012-13	2013-14	2013-14 % of Total
Private Metered Wells	$3,264,765	$4,842,190	$7,088,350	$7,597,215	$8,676,903	73.2%
Municipal	616,567	1,036,228	1,176,855	1,314,200	1,407,137	11.9
Rural Residential	117,936	91,279	176,824	186,774	208,345	1.8
Delivered Water	659,878	767,648	1,122,612	1,154,299	1,555,441	13.1
Total	$4,659,146	$6,737,345 Ttt	$9,564,641	$10,252,488	$11,847,826	100%

Source: The Agency.

Largest Users. The following table shows the largest users of the Water Enterprise based on billings for fiscal year 2013-14.

Table 3
Largest Users
Fiscal Year 2013-14

Customer	Type of Property	Fiscal Year 2013-14 Billings	Percent of Total Billings
Municipality	Municipal	$1,204,080	10.1%
Ag Enterprise	Agriculture	518,199	4.4
Ag Enterprise	Agriculture	492,522	4.1
Ag Enterprise	Agriculture	484,583	4.1
Ag Enterprise	Agriculture	450,892	3.8
Ag Enterprise	Agriculture	420,568	3.5
Ag Enterprise	Agriculture	359,091	3.0
Ag Enterprise	Agriculture	328,874	2.8
Ag Enterprise	Agriculture	321,870	2.7
Ag Enterprise	Agriculture	228,799	1.9
Total Top Ten		4,809,478	40.4
Other	Various	7,099,685	59.6
Grand Total		$11,909,163	100%

Source: The Agency.

Environmental Hazards

Earthquakes. As with other areas within the State, the Pajaro Valley is located in a seismically active area. The San Andreas Fault lies within the Pajaro Valley.

Tsunamis. A tsunami is a large ocean wave generated by an earthquake in or near the ocean. Parts of the Pajaro Valley lying along Monterey Bay or its inlets are located in a tsunami inundation area.

Flooding. Parts of the Pajaro Valley are located within the 100-year flood zone, meaning that there is a probability of their being flooded once every 100 years (or a one percent chance of being flooded in any one year).

Wildfire. Portions of the Pajaro Valley are also at risk of wildfires.

WATER ENTERPRISE FINANCIAL INFORMATION

Sources of Revenue

The Agency's revenues are primarily derived from (i) groundwater augmentation charges on the production of water from extraction facilities, and (ii) delivery charges for the delivery of water to customers, all as further described below.

Groundwater Augmentation Charges

General. The Agency is authorized under the Act to levy groundwater augmentation charges on the production of water from all groundwater extraction facilities within the Agency's service area for purposes of paying the costs of purchasing, capturing, storing and distributing supplemental water for use within the boundaries of the Agency.

Groundwater extraction facilities producing at least 10 acre feet annually are charged based on the recordings of a flow meter and its appurtenances, with certain exceptions.

Any increases in the Agency's groundwater augmentation charges are subject to the noticed public hearing and majority protest procedure of Proposition 218, at which a majority of written protests could disapprove of the proposed changes.

Current Rate Structure. The Agency originally established the groundwater augmentation charges under Ordinance No. 93-1, adopted by the Board on June 30, 1993, and has subsequently amended these charges from time to time. The current groundwater augmentation charges do not expire, and continue in effect at their current rates until the Board takes further action.

The current rate structure for groundwater augmentation charges is as follows:

Category	2014-15 Groundwater Augmentation Charge Rates
Metered Wells Outside Delivered Water Zone	$179 per acre-foot of pumped groundwater
Metered Wells Inside Delivered Water Zone	$215 per acre-foot of pumped groundwater
Unmetered Wells	$__ per acre-foot of pumped groundwater

Estimated Average Annual Demand. The table below shows the estimated average annual water demand for all other extraction facilities serving commercial land or used for commercial purposes, which are presumed accurate for purposes of calculating groundwater augmentation charges.

Land Use	Average Annual Water Demand
Residential	0.6 acre-foot/dwelling unit
Apple Orchard	1.0 acre-foot/cultivated acre
Greenhouse Operation	4.0 acre-foot/cultivated acre
Mushroom Operation	1.5 acre-foot/100 tons of mushrooms produced
Non-irrigated Agriculture	0.0 acre-feet
All Other Agriculture	2.5 acre-foot/cultivated acre
All Other Commercial Operations	1.5 acre-feet/1.0 acre-foot of wastewater produced

Golf Course / Turf Farm	3.2 acre-feet/cultivated acre

Litigation Related to Groundwater Augmentation Charges. The Agency was created, in part, to combat saltwater intrusion in the basin resulting from the over pumping of groundwater. The BMP, which presented solutions to the problems of overdraft and seawater intrusion, was implemented, in part, through a groundwater augmentation charge applicable to wells in the boundaries of the Agency.

The Agency increased the groundwater augmentation charges in 2003, but this increase was invalidated by the court in a legal challenge in 2007 after the court determined that the augmentation charge did not comply with the requirements for increases in a property-related fee or charge under Proposition 218.

Proposition 218, enacted in 1996, amended the California Constitution to add Article XIII C, requiring voter approval for local taxes, and Article XIII D, establishing substantive and procedural requirements for property-related fees and assessments. Article XIII D requires an agency seeking to establish or increase a property-related fee or charge to hold a public hearing and survive a majority protest. Fees or charges for sewer, water, and refuse collection services are not subject to an election.

In 2010, the Agency increased the groundwater augmentation charges once again. Challengers raised the issue of whether the groundwater augmentation charges were subject to voter approval. A California appellate court found that the groundwater augmentation charges constitute a water service fee or charge under Proposition 218 and are therefore exempt from election requirements. The court also found that the Agency had complied with the substantive requirements of Proposition 218 by using a revenue-requirements model to determine the amount of the groundwater augmentation charges, and employing a reasonable method for allocating costs of service across its customer classes.

Historical and Rate Increases. The table below shows a 10-year history of the Agency's groundwater augmentation charges for metered wells.

Fiscal Year	Metered Wells (per acre foot)	% Change from Previous Fiscal Year
2002-03	$80	N/A
2003-04	120	50.0%
2004-05	160	33.3
2005-06	160	N/A
2006-07	160	N/A
2007-08 [1]	80	-100.0
2008-09	80	N/A
2009-10	80	N/A
2010-11	162	100
2011-12 [2]	166	2.5
2012-13 [2]	170	2.4
2013-14 [2]	174	2.6
2014-15 [2]	178	2.6

[1] Decrease was due to a court judgment against the Agency resulting from a legal challenge. See "–*Litigation Related to Groundwater Augmentation Charges*" above.
[2] Beginning in 2011-12, the Agency began charging a higher groundwater augmentation charge for customers inside its delivered water zone (an area near the coast with access to delivered water). Groundwater augmentation charges for customers in this zone were $200 per acre-foot in 2011-12, $205 per acre-foot in 2012-13, $210 per acre-foot in 2013-14 and $215 per acre-foot in 2014-15.
Source: The Agency.

Delivered Water Charges

General. The Agency is authorized under the Act to sell supplemental water for use within the boundaries of the Agency.

Any increases in the Agency's rates for the sale of delivered water are subject to the noticed public hearing and majority protest procedure of Proposition 218, at which a majority of written protests could disapprove of the proposed changes.

Current Rate Structure. The Agency originally established the delivered water charges under Ordinance No. 2004-03, adopted by the Board on November 17, 2004, and has subsequently amended these charges from time to time.

The delivered water charge for Fiscal Year 2014-15 is $338 per acre-foot of delivered water, as measured by the turnout meter.

Each July 1 the delivered water charges are adjusted based on the previous year's change in the U.S. Consumer Price Index for the San Francisco region (all urban consumer index).

Historical and Current Rates. The table below shows a history of the Agency's delivered water charges.

Fiscal Year	Delivered Water Charge (per acre foot)	% Change from Previous Fiscal Year
2011-12	$313	N/A
2012-13	321	2.6%
2013-14	329	2.6
2014-15	313	2.6

Source: The Agency.

Billing Practices and Collection

Groundwater Augmentation Charges.

Billing Procedures. The Agency bills customers producing at least 10 acre feet annually based on the recordings of a flow meter and its appurtenances, with certain exceptions. The Agency bills all other ground water extraction facilities based on average annual water demand for land use.

Delinquent Charges. If payment is not received within 30 days, interest accrues at the rate of 18% per year. If a customer does not timely pay its bill, the delinquent fees are the responsibility of the landowner. The Agency may petition the superior court of the county in which a water-producing facility within the boundaries of the Agency lies to receive a temporary restraining order or bring a suit for the collection of any delinquent groundwater charges. *Notes Receivable for Past Due Augmentation Charges*. The Agency has entered into a long-term agreement for the collection of past due augmentation charges. The note is to be collected with interest over a term of nine years. The balance of the note receivable at June 30, 2014, was $33,333.

Water Delivery Charges.

Billing Procedures. The Agency bills water delivery customers quarterly.

Delinquent Charges. If payment is not received within 30 days, interest accrues at the rate of 18% per year. If a customer does not timely pay its bill, the Agency cuts off future water deliveries and pursues collection of delinquent charges by court action.

Outstanding Debt

Existing Parity Debt.

The outstanding indebtedness of the Agency below is payable on a parity basis with the Bonds. The Agency may also issue additional parity indebtedness in the future. See "SECURITY FOR THE BONDS – Issuance by the Agency of Additional Debt."

DWR Loan. The Agency entered into a promissory note on June 15, 2005 with the Department of Water Resources (the "**DWR**") in the amount of $3,511,446. The loan proceeds were used for the construction of components of the BMP. From April 1, 2008 to February 23, 2012 the note was payable in semiannual installments of principal and interest in the amount of $111,049, with the final payment due September 30, 2027.

On February 24, 2012, the Agency received $390,164 from the DWR related to unpaid retention and the repayment agreement was revised. Commencing with the payment due on April 1, 2012, the note is payable in semiannual installments of principal and interest in the amount of $125,708, with final payment on September 30, 2027.

Subordinate Debt.

Watsonville Contract. In April of 2006 the Agency entered into a repayment agreement (the "**Watsonville Contract**") with the City of Watsonville (the "**City**") for costs associated with the construction and operation of the Watsonville recycle plant, which provides recycled water to the Agency. The City owns, operates, and maintains the treatment plant and the Agency owns, operates, and maintains the distribution component and blending facilities.

Per the Watsonville Contract, the City paid all construction costs associated with the treatment plant and the Agency is responsible for reimbursing the City for those costs, plus accrued interest, less any grant monies received. In exchange, the Agency is entitled to water from the treatment plant. The repayment agreement calls for repayment by the Agency of the construction costs over 30 years, beginning 120 days after the first delivery of water. The date of first water delivery was March 2009.

The City funded construction of the project through the issuance of bonds in the original principal amount of $27,345,000, plus cash reserves. For construction costs funded with bond proceeds, the Watsonville Contract requires the Agency to make payments to the City in the amount of the City's debt service on the bonds.

The City received $10,835,326 in grant funds for the construction of the project that were to be passed through to the Agency. The Agency agreed to let the City of Watsonville hold the funds until 2017. At that time, the funds along with accrued interest, will be used to pay down the amount owed in the Watsonville Contract. As of December 31, 2014, the amount due from the City, including interest, was $10,864,140.

Future Capital Improvements

The Agency is currently in the design phase for the following four capital projects:

- A recycled water storage tank and distribution improvements;
- A blend well pipeline project that will improve delivered water quality;
- A new pipeline to serve additional 180 acres of agriculture land impacted by seawater intrusion; and
- Basin monitoring network improvements.

The following capital projects are also proposed in the BMP:

- Harkins slough recharge facilities upgrades;
- Increased recycled water storage at treatment plant;
- Watsonville slough diversion with recharge basin;
- College Lake diversion with inland pipeline to CDS; and
- Murphy Crossing diversion with recharge basins

It is expected that these proposed capital improvement projects will be funded by a combination of augmentation charge revenue, grant funding, a State Revolving Fund Loan and the refinancing of certificates of participation.

Retirement System

The following information has been derived from the Agency's most recent audited financial statements. See APPENDIX B for further information regarding the Agency's retirement system.

Plan Description. The Agency contributes to the California Public Employees Retirement System Miscellaneous 2% at 55 Risk Pool, a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System ("**PERS**").

Active plan members in the Agency's defined benefit plan (the "**Plan**") are required to contribute 7% of their annual covered salary. The Agency pays this amount to CalPERS on behalf of their employees. The Agency is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the fiscal year 2014 was 13.742%. The contribution requirements of the Plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

PERS issues an annual financial report. Copies of PERS' annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, California 95814.

The Agency's pension funds have been combined into a risk pool of similar sized local government agencies throughout the State of California. The table below shows the recent history of the risk pool's actuarial value of assets, accrued liability, and membership.

Valuation Date June 30	Accrued Liability	Share of Pool's Market Value of Assets	Pool's Share of Unfunded Liability	Funded Ratio	Annual Covered Payroll
2013	$3,545,113	$2,758,113	$787,000	77.8%	$847,847
2012	$3,096,136	$2,262,336	$833,800	73.1%	$669,299
2011	$2,938,457	$2,260,531	$677,926	76.9%	$785,742

Source: PERS annual valuation report, June 30, 2013.

An annual actuarial report specific to Agency with respect to its PERS obligations was provided in October 2014 for fiscal year 2012-13. According to the report, the Agency had an unfunded accrued actuarial liability of $787,000 and market value of assets of $2,758,113 for fiscal year 2012-13. As of the date of this Official Statement, the Agency has not received an updated report for fiscal year 2013-14.

PERS' Unfunded Liability. PERS has a substantial unfunded actuarial accrued liability. The amounts of these liabilities vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. See PERS' comprehensive annual financial report for the fiscal year ended June 30, 2014, which can be found on the Internet at the following respective website address: http://www.calpers.ca.gov.

The reference to PERS' Internet website is made for convenience only. The information contained within the website may not be current, has not been reviewed by the Agency and is not incorporated by reference in this Official Statement.

Changes to PERS Discount Rate and Smoothing Methods. On March 14, 2012, the PERS Board voted to reduce its discount rate, which rate is attributable to its expected price inflation and investment rate of return (net of administrative expenses), from 7.75% to 7.5%. As a result of such discount rate decrease, among other things, the amounts of PERS member public agency contributions will increase by 1 to 2% for Miscellaneous plans beginning in fiscal year 2013-14. More information about the PERS discount rate adjustment can be accessed through PERS's web site at www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2012/mar/discount-rate.xml. *This Internet website address is included for reference and* *convenience only. The information contained within the website may not be current, has not been reviewed by the Agency and is not incorporated in this Official Statement by reference.*

The PERS Board adjustment has been undertaken in order to address underfunding of the PERS funds, which arose from significant losses incurred as a result of the economic crisis arising in 2008 and persists due to a slower than anticipated, subsequent economic recovery. The Agency is unable to predict what the amount of PERS' liabilities will be in the future, or the amount of the PERS contributions that the Agency may be required to make.

At its April 17, 2013 meeting, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and set employer contribution rates for the fiscal year 2015-16.

According to PERS, the current amortization and smoothing policy was designed to reduce volatility in employer contribution rates, and, although the policy accomplished this goal fairly well since its adoption, a number of concerns have developed:

- The use of an actuarial value of assets corridor can lead to significant single year increases to rates in years when there are large investment losses.

- The use of long asset smoothing periods and long rolling amortization periods result in slow progress toward full funding.

- The use of an actuarial value of assets requires the disclosure of two different funded statuses and unfunded liability numbers in actuarial valuation reports. This adds confusion and inhibits transparency.

- The use of rolling amortization and long asset smoothing periods makes it difficult for employers to predict when contribution rates will peak and how high that peak will be.

- The use of rolling amortization and asset smoothing periods may result in additional calculations for the new accounting standards. These calculations would be avoided with a quicker funded status recovery.

According to PERS, the adoption of the new smoothing and amortization policies will change future employer contribution rates, as follows:

- Funding levels will improve, which will reduce the funding level risk.

- Local agencies' plans will experience more rate volatility in normal years, but a much-reduced chance of very large rate increases in years when there are large investment losses.

- Contribution rates in the near term will increase.

- Long-term contribution rates will be lower.

- There will be greater transparency about the timing and impact of future employer contribution rate changes.

- The new policy eliminates the need for an actuarial value of assets. As a result, there will be only one funded status and unfunded liability in actuarial reports.

- There will be less confusion when the new accounting standards are implemented since there will be no need for extra liability calculations.

No Other Post-Employment Benefits

The Agency does have any other post-employment benefits obligations.

Insurance

The Agency participates in the property, liability, and workers' compensation insurance program organized by the Association of California Water Agencies/Joint Powers Insurance Authority ("**ACWA**"). ACWA is a Joint Powers Authority created to provide a self-insurance program to water agencies in the State of California. ACWA is not a component unit of the Agency for financial reporting purposes.

ACWA provides liability, property and workers' compensation insurance for approximately 300 water agencies for losses in excess of the member agencies specified self-insurance retention levels. Individual claims (and aggregate public liability and property claims) in excess of specified levels are covered by excess insurance policies purchased from commercial carriers. ACWA is governed by a board comprised of members from participating agencies. The board controls the operations of ACWA, including selection of management and approval of operating budgets, independent of any influence by the members beyond the representation on the board. Each member shares surpluses and deficiencies proportionately to its participation in ACWA/JPIA.

See APPENDIX B for additional information.

Investments

The Agency's funds are currently held in the investments shown in the following table. It makes its investments in accordance with the California Government Code and the Agency's investment policy. For more information regarding Agency investments, see APPENDIX B.

Investment Type	Fair Value at January 31, 2015
Local Agency Investment Fund	$ 1,066,428
Rabobank Certificate of Deposit	252,996

Morgan Stanley AA Money Trust	1,116
Western Asset Government Money Market	556,198
Rabobank Wealth Management Division	4,014,778
Rabobank Money Market	4,791,892
Total	$10,683,408

Financial Statements

A copy of the most recent audited financial statements of the Agency for the fiscal year ended June 30, 2014, prepared by Bartlett, Pringle & Wolf, LLP (the "**Auditor**"), is attached to this Official Statement as APPENDIX B.

The Agency has neither requested nor obtained permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit work on the financial statements.

Balance Sheet

The following table shows historical balance sheets for the Water Enterprise for fiscal years ended June 30, 2010 through 2014, which are based on the Agency's audited financial statements.

Table 5
Historical Balance Sheet
(for Fiscal Years Ended June 30)

	2010	2011	2012	2013	2014
Assets					
Cash and investments	$4,105,318	$3,578,045	$6,955,373	$5,450,528	$8,890,874
Restricted cash	827,252	830,405	711,223	710,716	712,716
Accounts receivable, net	1,408,539	2,636,675	3,548,052	4,222,619	3,820,863
Grant receivable	6,677,648	2,678,216	23,671	56,198	3,285
Interest receivable	1,454	1,251	940	645	587
Notes receivable	33,333	33,333	33,333	33,333	33,333
Prepaid expenses	15,128	11,087	10,241	22,040	36,059
Due from other government	--	--	--	--	6,654,469
Capital assets, net:					
Nondepreciable	9,215,666	9,340,942	9,503,288	1,731,610	1,898,998
Depreciable	77,979,192	77,046,914	74,695,075	72,275,352	69,825,735
Total capital assets, net	87,194,858	86,387,856	84,198,363	74,006,962	71,724,733
Total assets	100,263,530	96,156,868	95,481,196	84,503,041	91,876,919
Liabilities					
Accounts payable and other accrued expenses	1,328,961	1,265,567	1,859,985	723,245	1,194,272
Accrued interest	1,394,856	629,283	1,839,428	715,251	659,850
Noncurrent liabilities:					
Due within one year	5,373,142	2,680,934	1,590,561	1,643,133	1,706,595
Due in more than one year	56,156,332	54,570,703	53,293,715	51,663,692	49,999,146
Total liabilities	64,253,291	59,146,487	58,583,689	54,745,321	53,559,863
Net Position					
Net investment in capital assets	31,348,906	30,539,372	29,314,303	20,700,137	20,018,992
Restricted	827,252	830,405	711,223	710,716	712,716
Unrestricted	3,834,081	5,640,604	6,871,981	8,346,867	17,585,348
Total net assets	36,010,239	37,010,381	36,897,507	29,757,720	38,317,056
Total liabilities and net position	$100,263,530	$96,156,868	$95,481,196	$84,503,041	$91,876,919

Source: The Agency.

Historical Operating Results

The following table is a summary of revenues, expenditures of the Water Enterprise for the prior five fiscal years based on the Agency's audited financial statements.

Table 6
Historical Revenues and Expenditures Fiscal Years 2009-10 Through 2013-14 (Audited)

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenues					
Management fees	$364,226	$364,322	$364,822	$365,032	$383,206
Augmentation charges	4,036,519	6,119,912	8,573,027	9,172,802	10,353,722
Interest income	30,055	19,138	18,073	24,273	20,253
Water sales	659,844	767,648	1,122,612	1,154,295	1,555,441
Grant income	10,790,698	1,260,304	3,071,481	130,259	114,102
Other income	11,377	14,375	8,724	41,354	236,850
Total revenues	15,892,719	8,545,699	13,158,739	10,888,015	12,663,574
Expenditures					
Supplies and equipment	84,154	101,031	67,745	147,847	80,855
Monitoring well	35,703	87,154	94,006	85,630	77,058
Conservation	335	35	750	2,591	115,492
Delivered water	77,023	94,330	196,623	219,763	335,310
Professional services	968,180	789,988	1,912,200	1,670,789	1,254,542
Personnel	1,061,124	1,159,121	1,282,193	1,354,805	1,514,707
Operating	1,409,006	1,496,935	1,945,218	1,809,863	2,382,934
Training and travel	21,148	22,866	19,771	18,886	18,007
Debt service:					
Principal	7,560,257	1,462,658	1,525,891	1,590,561	1,643,132
Interest	1,361,135	2,973,477	2,395,832	2,648,660	2,623,099
Total expenditures	12,578,065	8,187,595	9,440,229	9,549,395	10,045,136
Revenues over (under) expenditures	3,314,654	358,104	3,718,510	1,338,620	2,618,438
Other financing sources (uses)					
Operating transfers in	8,921,738	4,561,765	3,995,336	3,995,336	4,396,431
Operating transfers out	(8,921,738)	(4,561,765)	(3,995,336)	(3,995,336)	(4,396,431)
Net change in fund balance before extraordinary item	3,314,654	358,104	3,718,510	--	--
Loss due to augmentation fee litigation	4,648,343	3,121,396	1,340,536	--	--
Net change in fund balance	(1,333,689)	(2,763,292)	2,377,974	1,338,620	2,618,438
Fund balance, beginning	10,008,427	8,674,738	5,911,446	8,289,420	9,628,040
Fund balance, ending	$8,674,738	$5,911,446	$8,289,420	$9,628,040	$12,246,478

Source: The Agency

Historical Operating Results and Debt Service Coverage

The table below shows the Agency's revenues, expenditures, debt service coverage and fund balance for the prior five fiscal years.

Table 7
Historical Revenues, Expenditures and Debt Service Coverage
Fiscal Years 2009-2010 Through 2013-14 (Audited)

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenues					
Augmentation Charges	$4,036,519	$6,119,912	$8,573,027	$9,172,802	$10,353,722
Water Sales	659,844	767,648	1,122,612	1,154,295	1,555,441
Management Fees	364,226	364,322	364,822	365,032	383,206
Grant Income	10,790,698	1,260,304	3,071,481	130,259	114,102
Interest & Other Income	41,432	33,513	26,797	65,627	257,103
Total Operating Expenses	15,892,719	8,545,699	13,158,739	10,888,015	12,663,574
Expenses					
Maintenance & Equipment	2,595,549	2,467,063	4,073,966	3,866,366	4,107,832
Personnel	1,061,124	1,159,121	1,282,193	1,354,805	1,514,707
Total Operating Expenses	3,656,673	3,626,184	5,356,159	5,221,171	5,622,539
Net Revenue Before Debt Service & Capital	12,236,046	4,919,515	7,802,580	5,666,844	7,041,035
Senior Debt Service					
1999 Certificates	1,379,638	1,376,138	1,376,025	1,378,988	1,375,375
1999 SWRCB Loan	756,481	756,290	756,360	755,627	755,685
2002 SWRCB Loan	410,734	410,633	410,529	410,422	410,312
2005 DWR Loan	222,098	222,098	222,049	222,144	222,098
Total Senior Debt Service	2,768,950	2,765,158	2,764,962	2,767,179	2,763,470
Senior Coverage (1.10x Requirement)*	4.42x	1.78x	2.82x	2.05x	2.55x
Subordinate Debt Service					
Watsonville Contract	1,294,059	1,294,059	1,294,059	1,294,059	1,294,059
Total Subordinate Debt Service	1,294,059	1,294,059	1,294,059	1,294,059	1,294,059
Subordinate Coverage	3.01x	1.21x	1.92x	1.40x	1.74x
Capital Projects	-	125,276	162,347	89,003	156,366
Net Surplus/(Deficit)[(1)]	$8,173,037	$735,022	$3,581,212	$1,516,603	$2,827,140

(1) Annual surplus or deficit changes reserve balance.
Source: The Agency

Projected Operating Results and Debt Service Coverage

The table below shows the Agency's revenues, expenditures, debt service coverage and fund balance for the Water Enterprise for the current and next four fiscal years.

The projections set forth in the table below are forward-looking statements, as such term is defined in the Securities Act of 1933, as amended, and reflect certain significant assumptions concerning future events and circumstances. The forecast represents the Agency's estimate of projected financial results based upon its judgment of the most probable occurrence of certain important future events. The assumptions set forth in the footnotes to the table below are material in the development of the Agency's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast, and such variations may be material.

Table 8
Projected Revenues, Expenditures, Debt Service Coverage and Fund Balances
Fiscal Years 2014-15 (Budgeted) and
2015-16 Through 2018-19 (Projected)

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenues					
Augmentation Charges	$9,495,500	$9,964,578	$10,456,828	$10,973,395	$11,515,481
Water Sales	1,622,400	1,702,547	1,786,652	1,874,913	1,967,534
Management Fees	383,206	383,206	383,206	383,206	383,206
Grant Income	-	-	-	-	-
Interest & Other Income	77,000	102,894	106,089	108,890	112,236
Total Operating Expenses	11,578,106	12,153,224	12,732,775	13,340,404	13,978,456
Expenses					
Maintenance & Equipment	4,537,465	4,794,416	4,989,008	5,247,996	5,408,285
Personnel	1,666,688	1,841,689	2,025,689	2,219,072	2,285,645
Total Operating Expenses	6,204,153	6,636,105	7,014,697	7,467,069	7,693,930
Net Revenue Before Debt Service & Capital	5,373,953	5,517,119	5,718,078	5,873,335	6,284,527
Senior Debt Service					
1999 Certificates	1,379,738	-	-	-	-
1999 SWRCB Loan	755,473	-	-	-	-
2003 SWRCB Loan	410,199	-	-	-	-
2005 DWR Loan	222,098	222,059	222,133	222,098	222,098
The Bonds [1]	-	2,367,062	2,365,863	2,369,363	2,360,363
2015 SRF Loan [2]	-	-	[ ]	[ ]	[ ]
Total Senior Debt Service	2,767,507	2,589,122	2,587,995	2,591,460	2,582,460
Senior Coverage (1.10x Requirement)*	1.94x	2.13x	2.21x	2.27x	2.43x
Subordinate Debt Service					
Watsonville Contract	1,294,059	1,294,059	2,094,059	2,093,259	2,090,419
Total Subordinate Debt Service	1,294,059	1,294,059	2,094,059	2,093,259	2,090,419
Subordinate Coverage	1.32x	1.42x	1.22x	1.25x	1.34x
Capital Projects	2,927,541	-	-	-	586,934
Net Surplus/(Deficit)(1)	$(1,615,154)	$1,633,938	$1,036,024	$1,188,616	$1,024,714

* Preliminary; subject to change.
[1] Annual surplus or deficit changes reserve balance.
[2] Assumed to be entered into on or about _________, 2015. Debt service is assumed to commence in Fiscal Year 2016-17.
Source: NHA Advisors

BOND OWNERS' RISKS

This section describes certain special considerations and risk factors affecting the payment of and security for the Bonds. The following discussion is not meant to be an exhaustive list of the risks associated with the purchase of any Bonds and the order does not necessarily reflect the relative importance of the various risks. Potential investors in the Bonds are advised to consider these special factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other considerations will not materialize in the future, and if additional considerations materialize to a sufficient degree, they could delay or prevent payment of principal of and interest on the Bonds.

Net Revenues; Rate Covenant

Net Revenues are dependent upon the demand for water services, which can be affected by population factors, more stringent water standards, water regulations, water conservation, water shortages, problems with the Water Enterprise and other factors.

There can be no assurance that water service demand will be consistent with the levels contemplated in this Official Statement. A decrease in demand could require an increase in rates or charges in order to comply with the rate covenant contained in the Indenture.

The Agency's ability to meet its rate covenant is dependent upon its capacity to increase rates without driving down demand to a level insufficient to meet debt service on the Bonds and future Parity Obligations. See also "– Risks Relating to Governing Board."

Risks Related to Facilities and Operations

The operation of the Water Enterprise and physical condition of the Water Enterprise facilities are subject to a number of risk factors that could adversely affect the reliability of sewer service or increase the operating expenses of the Water Enterprise. Prolonged damage to the Water Enterprise facilities could interrupt the ability of the Agency to realize revenues sufficient to pay principal of and interest on the Bonds, require substantial increases in rates or charges in order to comply with the rate covenant in the Indenture (which could drive down demand for groundwater and related services), or require the Agency to increase expenditures for repairs significantly enough to adversely impact the Agency's ability to pay the principal of or interest on the Bonds.

These factors could include, among others, the following.

Aging Facilities. Over the life of the Bonds, the Water Enterprise's facilities may become aged and in need of replacement or refurbishment. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on the Agency's operations.

Operation and Maintenance Expenses. There can be no assurance that operation and maintenance expenses of the Agency related to the Water Enterprise will be consistent with the levels contemplated in this Official Statement.

Seismic Hazards and Natural Disasters. The Water Enterprise is located in a seismically active region. From time to time, the service area of the Agency may be subject to other natural disasters, including without limitation wildfires, flooding and landslides, tsunamis, or man-made disasters that could interrupt operation of the Water Enterprise or adversely affect economic activity in the Agency's service area. See "THE WATER ENTERPRISE – Environmental Hazards."

There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the Water Enterprise, including exacerbated infiltration and/or inflow of ground and other waters into the Water Enterprise, or that the Agency would have insurance or other resources available to make repairs in order to generate sufficient Net Revenues to pay debt service on the Bonds when due. The casualty and liability insurance maintained by the Agency may not cover damages and losses to the Water Enterprise due to earthquake, fire or flood.

Statutory and Regulatory Compliance. The operation of the Water Enterprise is subject to a variety of federal and State statutory and regulatory requirements. Any failure by the Agency to comply with applicable laws and regulations could result in significant fines and penalties.

Casualty Losses. The Indenture obligates the Agency to obtain and keep in force various forms of insurance for repair or replacement of a portion of the Water Enterprise in the event of damage or destruction to such portion of the Water Enterprise. No assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement of any other portion of the Water Enterprise.

Water Enterprise Expenses

There can be no assurance that Operation and Maintenance Costs of the Water System will be consistent with the levels described in this Official Statement. Changes in technology, increases in the cost of energy or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

Limitations on Remedies Available to Bond Owners

The ability of the Agency to comply with its covenants under the Indenture and generate sufficient Net Revenues may be adversely affected by actions and events outside of the control of the Agency or taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See "Articles XIIIC and XIIID of the California Constitution" below. Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects 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 limitations on Bondholder remedies contained in the Indenture, the rights and obligations under the Bonds, the Indenture may be subject to the following: the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative property tax decrease or an initiative with the effect of reducing revenues payable to or collected by the Agency. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues and adversely affecting the security of the Bonds.

Loss of Tax-Exemption

As discussed under the caption “TAX MATTERS,” interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued, as a result of future acts or omissions of the Agency in violation of its covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to special redemption and will remain Outstanding until maturity or until redeemed under other provisions set forth in the Indenture.

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of the Agency to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 also extends the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes, assessments, fees and charges imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees or charges, except those which are pledged to the repayment of debt. If such a repeal or reduction in Agency fees or charges were to occur, and it was held that any such taxes, assessments, fees or charges were not pledged to any debt repayment, the Agency’s ability to pay the Bonds could be adversely affected.

The Agency has previously been involved with litigation related to raises of its rates. See “WATER ENTERPRISE FINANCIAL INFORMATION – Rates and Charges – Litigation Related to Rates.”

Limited Recourse on Default

If the Agency defaults on its obligation to pay the bonds, the Trustee, as assignee of the Agency, has the right to accelerate the total unpaid principal amounts of the Bonds. However, in the event of a default and such acceleration there can be no assurance that the Agency will have sufficient Net Revenues to pay the accelerated Bonds.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

Future Parity Obligations

As described in "SECURITY FOR THE BONDS – Issuance by the Agency of Additional Debt" above, the Indenture permits the Agency to issue Parity Obligations, under which its obligations would be payable on a parity with the payment debt service on the Bonds.

The coverage tests described in "SECURITY FOR THE BONDS – Issuance by the Agency of Additional Debt" involve, to some extent, projections of Net Revenues. If Parity Obligations are issued, the debt service coverage for the Bonds could be diluted below what it otherwise would be. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Bonds and any future Parity Obligations.

TAX MATTERS

Federal Tax Law. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding sentence are subject to the condition that the Agency comply with all requirements of the Internal Revenue Code of 1986 (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Agency has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount and original issue premium is disregarded. Owners of Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such Bonds.

State Tax Law. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

General. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Form of Proposed Opinion. The form of the proposed opinion of Bond Counsel is attached as APPENDIX E.

CERTAIN LEGAL MATTERS

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. Certain legal matters will also be passed upon for the Agency by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the Agency by the Agency's Counsel.

ABSENCE OF MATERIAL LITIGATION

In connection with issuance of the Bonds, the Agency will certify that, to the best knowledge of the Agency, there is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Agency after reasonable investigation, threatened against or affecting the Agency or the assets, properties or operations of the Agency which, if determined adversely to the Agency or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Indenture, or upon the financial condition, assets, properties or operations of the Agency.

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P)", has assigned its municipal bond rating of __" to the Bonds.

These ratings reflect only the views of S&P, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Agency has provided certain additional information and materials to the rating agency (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price or marketability of the Bonds.

CONTINUING DISCLOSURE

The Agency will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Agency and the Water Enterprise (the "**Annual Report**") by not later than nine months following the end of the Agency's fiscal year (currently March 31 based on the Agency's fiscal year ending June 30), commencing March 31, 2016, with the report for the fiscal year ending June 30, 2015, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of certain listed events is set forth in "APPENDIX C — Form of Continuing Disclosure Certificate." The initial Dissemination Agent will be NHA Advisors, LLC.

The Agency entered into one prior continuing disclosure undertaking under the Rule (in connection with the execution and delivery of the 1999 COPs). In 2015 the Agency commissioned a compliance review covering the prior five years that concluded, based on the filings available on the EMMA internet site maintained by the Municipal Securities Rulemaking Board, that the Agency had not previously made any filings of annual financial information or listed event notices in accordance with its prior continuing disclosure undertaking. The Agency subsequently made remedial filings of annual operating data, audited financial statements and listed event notices covering the prior five-year period, and has taken steps intended to ensure compliance with its continuing disclosure undertakings going forward.

UNDERWRITING

Southwest Securities (the "**Underwriter**"), has entered into a Bond Purchase Agreement with the Agency under which it has agreed to purchase the Bonds at a price of $________________ (equal to the par amount of the Bonds, less an Underwriter's discount of $_____________, and [plus/less] an original issue [premium/discount] of $____________).

The Underwriter will be obligated to take and pay for all the Bonds if any are taken. The Underwriter intends to offer the Bonds to the public at the offering prices shown on the inside cover page of this Official Statement. After the initial public offering, the public offering price may be varied from time to time by the Underwriter.

PROFESSIONAL SERVICES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds:

- Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel;
- NHA Advisors, LLC, as Financial Advisor;
- Schiff Hardin LLP, as Underwriter's Counsel;
- U.S. Bank National Association, as Escrow Agent; and
- The Bank of New York Mellon Trust Company, N.A., as Trustee.

EXECUTION

The execution and delivery of this Official Statement have been authorized by the board of directors of the Agency.

PAJARO VALLEY WATER MANAGEMENT AGENCY

By :____________________________________
General Manager

APPENDIX A

SUMMARY OF INDENTURE

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR ENDED JUNE 30, 2014

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$__________*
Pajaro Valley Water Management Agency
2015 Water Revenue Refunding Bonds
(Santa Cruz and Monterey Counties, California)

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the PAJARO VALLEY WATER MANAGEMENT AGENCY (the "Agency") in connection with the execution and delivery of the bonds captioned above (the "Bonds"). The Bonds are being executed and delivered pursuant to an Indenture dated as of April 1, 2015 (the "Indenture"), by and between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee.

The Agency covenants and agrees as follows:

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

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

"*Annual Report*" means any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Annual Report Date*" means the date that is 9 months after the end of the Agency's fiscal year (currently March 31 based on the Agency's fiscal year end of June 30).

"*Dissemination Agent*" means NHA Advisors, LLC, or any successor Dissemination Agent designated in writing by the Agency and which has filed with the Agency a written acceptance of such designation.

"*Listed Events*" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"*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 that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the Agency in connection with the issuance of the Bonds.

"*Participating Underwriter*" means __________________, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The Agency shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2016, with the report for the 2014-15 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the Agency shall provide the Annual Report to the Dissemination Agent (if other than the Agency). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Agency) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Agency to determine if the Agency is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Agency may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Agency's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Agency shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Agency hereunder.

(b) If the Agency does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Agency shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Agency, file a report with the Agency certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Agency's Annual Report shall contain or incorporate by reference the following:

(a) The Agency's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Agency's audited financial statements are not available by the Annual Report Date, 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)Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Agency for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(i)Principal amount of Bonds outstanding.

(ii)Balance in the Reserve Fund and a statement of the Reserve Requirement.

(iii)[discuss additional items]

(c)In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Agency shall provide such further material 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.

(d)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 Agency or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Agency shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a)The Agency shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, 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.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the Agency or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the Agency or an obligated person, or the sale of all or substantially all of the assets of the Agency or an 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, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b)Whenever the Agency obtains knowledge of the occurrence of a Listed Event, the Agency shall, or shall cause the Dissemination Agent (if not the Agency) to, file a notice of such occurrence with the MSRB, 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)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c)The Agency acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Agency shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the Agency obtains knowledge of the occurrence of any of these Listed Events, the Agency will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Agency will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Agency in a proceeding under the United States 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 Agency, or if such jurisdiction has been assumed by leaving the existing governing 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 Agency.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Agency's obligations under this Disclosure Certificate shall terminate upon the legal 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 Agency shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The Agency may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NHA Advisors, LLC. Any Dissemination Agent may resign by providing 30 days' written notice to the Agency.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Agency may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

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

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Agency to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the Agency 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 Certificate, the Agency shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Agency fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Agency to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Agency to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Agency agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Agency hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Agency, the Bond holders or any other party. The obligations of the Agency under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Agency for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Agency, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: ____________, 2015

PAJARO VALLEY WATER MANAGEMENT AGENCY

By: ______________________________________

Name: ____________________________________

Title: _____________________________________

AGREED AND ACCEPTED:
NHA ADVISORS, LLC,
as Dissemination Agent

By: ________________________________

Name: ______________________________

Title: _______________________________

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Pajaro Valley Water Management Agency

Name of Issue: Pajaro Valley Water Management Agency 2015 Water Revenue Refunding Bonds

Date of Issuance: _________, 2015

NOTICE IS HEREBY GIVEN that the Agency has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture dated as of April 1, 2015, by and between the Agency and The Bank of New York Mellon Trust Company, N.A., as trustee. The Agency anticipates that the Annual Report will be filed by ________________.

Dated: __________, 2015

DISSEMINATION AGENT:

____

By: ____________________________
Its: ____________________________

APPENDIX D

GENERAL INFORMATION ABOUT THE CITY OF WATSONVILLE, AND SANTA CRUZ, MONTEREY AND SAN BENITO COUNTIES

The following information concerning the City of Watsonville, County of Santa Cruz, County of Monterey, and County of San Benito is included only for the purpose of supplying general information regarding these areas.

General Information

City of Watsonville. The City of Watsonville (the "City") is located in Santa Cruz County, on the central coast of California and covers an area of about 6.6 square miles. The economy centers predominantly around the farming industry. The City of Watsonville was incorporated on March 30, 1868 and adopted a charter on February 16, 1960. It uses the council–manager government model. The city is divided into seven districts, each of which elects a representative to the city council.

County of Monterey. The County of Monterey (the "County of Monterey") borders the Pacific Ocean almost at the midpoint of the California coastline, approximately 130 miles south of San Francisco and 240 miles north of Los Angeles. Incorporated in 1850 as one of the State's original 27 counties, the City of Salinas is the County seat. The County of Monterey covers an area of approximately 3,300 square miles. Agriculture, tourism, and government are major contributors to the County's economy. The Salinas Valley, located in the eastern portion of the County of Monterey, is a rich agricultural center and one of the nation's major vegetable producing areas. The Monterey Peninsula, famed for its scenic beauty, is a year-round tourist attraction. Pebble Beach, Cypress Point, Spyglass Hill, Poppy Hills and The Links at Spanish Bay are well known Monterey Peninsula golf courses. The Monterey Bay Aquarium and the City of Carmel also are attractions that draw tourists to the Monterey Peninsula

County of San Benito. The County of San Benito (the "County of San Benito") is located several miles southeast of the Santa Clara Valley, and is included in the San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area, which is also included in the San Jose-San Francisco-Oakland, CA Combined Statistical Area. Although it is inland, the county is also considered part of the California Central Coast. The County of San Benito was formed from parts of the County of Monterey in 1874. The economy is statistically included in metro San Jose, though the dominant activity is agriculture. Agricultural tourism is growing as the county has destination wineries, organic farms and quaint inns with views of cattle grazing.

County of Santa Cruz. The County of Santa Cruz (the "County of Santa Cruz") is the second smallest county by area in California, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. It is located on the Pacific Ocean between the San Francisco Bay Area and the Monterey Peninsula. The City of Santa Cruz is approximately 74 miles south of the City of San Francisco. San Mateo County, which was originally part of Santa Cruz County, borders the county on the north. It is bordered by Santa Clara County on the east and by San Benito and Monterey counties on the south. The County's diverse topography has shaped the County's economy in terms of agricultural uses and tourism. In recent years the County has experienced growth in service industries and light manufacturing.

Population

The following table shows population estimates for the City of Watsonville, County of Monterey, County of San Benito, County of Santa Cruz and the State of California for the past five years as of January 1.

CITY OF WATSONVILLE, COUNTY OF SANTA CRUZ, COUNTY OF MONTEREY, AND COUNTY OF SAN BENITO

Population Estimates
As of January 1

Area	2010	2011	2012	2013	2014
City of Watsonville	51,246	51,226	51,484	51,919	52,508
County of Monterey	415,108	416,968	419,586	422,754	425,756
County of San Benito	55,272	55,474	56,137	57,079	57,517
County of Santa Cruz	262,552	263,954	265,350	268,189	271,595
State of California	37,223,900	37,427,946	37,668,804	37,984,138	38,340,074

Source: State of California, Department of Finance.

Industry

The unemployment rate in Salinas Metropolitan Statistical Area was 10.7 percent in December 2014, up from a revised 8.5 percent in November 2014, and below the year-ago estimate of 11.3 percent. This compares with an unadjusted unemployment rate of 6.7 percent for California and 5.4 percent for the nation during the same period.

The table below lists employment by industry group for the County of Monterey for the years 2009 through 2013. Data for calendar year 2014 is not yet available.

SALINAS METROPOLITAN STATISTICAL AREA (MSA)
(MONTEREY COUNTY)
Annual Average Labor Force
Employment by Industry Group
(March 2013 Benchmark)

	2009	2010	2011	2012	2013
Civilian Labor Force	215,500	220,800	221,600	223,100	221,600
Employment	190,200	192,800	193,800	197,500	199,100
Unemployment	25,300	28,000	27,800	25,600	22,400
Unemployment Rate	11.7%	12.7%	12.5%	11.5%	10.1%
Wage and Salary Employment: (1)					
Agriculture	42,800	45,100	46,300	48,200	50,700
Manufacturing	5,700	5,600	5,600	5,200	5,400
Wholesale Trade	4,900	4,900	4,900	5,200	5,100
Retail Trade	15,100	15,200	15,700	15,900	16,200
Trans., Warehousing, Utilities	3,400	3,300	3,400	3,800	3,900
Information	1,700	1,700	1,600	1,500	1,600
Financial Activities	4,700	4,300	4,100	4,200	4,000
Professional and Business Services	10,900	11,500	11,500	11,300	11,200
Educational and Health Services	15,800	15,700	15,600	16,200	16,900
Leisure and Hospitality	20,300	20,000	20,200	21,200	21,800
Other Services	4,600	4,600	4,600	4,700	4,800
Federal Government	5,300	5,800	5,900	5,800	5,500
State Government	5,400	5,500	5,600	5,600	5,400
Local Government	21,800	21,400	20,200	19,800	19,300
Total All Industries (2)	167,200	169,000	169,100	172,800	176,500

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) May not add due to rounding.
Source: State of California Employment Development Department.

The unemployment rate in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area was 4.6 percent in December 2014, down from a revised 5.2 percent in November 2014, and below the year-ago estimate of 5.8 percent. This compares with an unadjusted unemployment rate of 6.7 percent for California and 5.4 percent for the nation during the same period.

The following table shows civilian labor force and wage and salary employment data for the County of San Benito, for the past five calendar years. Data for calendar year 2014 is not yet available.

SAN JOSE-SUNNYVALE-SANTA CLARA METROPOLITAN STATISTICAL AREA
(San Benito and Santa Clara Counties)
Annual Average Labor Force
Employment by Industry Group
March 2013 Benchmark

	2009	2010	2011	2012	2013
Civilian Labor Force:					
Employment	21,400	21,500	22,100	22,900	23,600
Unemployment	3,500	4,500	4,200	3,700	3,000
Unemployment Rate	14.3%	17.3%	15.9%	13.9%	11.1%
Wage and Salary Employment: (1)					
Agriculture	2,100	1,600	1,600	1,500	1,600
Manufacturing	2,500	2,500	2,700	2,700	2,700
Wholesale Trade	400	400	300	400	300
Retail Trade	1,600	2,000	2,200	2,200	2,400
Trans., Warehousing, Utilities	200	300	300	300	400
Information	100	100	100	100	100
Financial Activities	300	300	300	300	400
Professional and Business Services	700	700	700	900	1,000
Educational and Health Services	1,000	1,000	1,000	1,000	1,100
Leisure and Hospitality	1,400	1,100	1,100	1,200	1,200
Other Services	400	400	500	400	400
Federal Government	200	200	200	100	100
State Government	200	200	200	200	200
Local Government	2,600	2,600	2,500	2,400	2,400
Total All Industries (2)	14,700	14,200	14,100	14,500	15,200

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

The unemployment rate in Santa Cruz County was 8.3 percent in December 2014, up from a revised 7.6 percent in November 2014, and below the year-ago estimate of 9.2 percent. This compares with an unadjusted unemployment rate of 6.7 percent for California and 5.4 percent for the nation during the same period.

The following table shows civilian labor force and wage and salary employment data for the Santa Cruz Metropolitan Statistical Area, for the past five calendar years. Data for calendar year 2014 is not yet available.

SANTA CRUZ METROPOLITAN STATISTICAL AREA
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

	2009	2010	2011	2012	2013
Civilian Labor Force [1]	147,800	149,900	149,200	150,500	151,700
Employment	131,100	130,900	130,800	133,700	137,300
Unemployment	16,700	19,000	18,500	16,800	14,400
Unemployment Rate	11.3%	12.7%	12.4%	11.2%	9.5%
Wage and Salary Employment: [2]					
Agriculture	9,500	9,600	8,600	8,400	8,400
Mining, Logging, Construction	3,200	3,000	2,900	3,000	3,200
Manufacturing	5,300	5,500	5,400	5,700	5,900
Wholesale Trade	3,800	3,500	3,400	3,400	3,500
Retail Trade	11,500	11,400	11,300	11,400	11,600
Trans., Warehousing and Utilities	1,400	1,500	1,500	1,400	1,400
Information	1,000	900	900	800	800
Finance and Insurance	2,000	2,000	1,900	1,900	2,000
Real Estate and Rental and Leasing	1,400	1,300	1,200	1,300	1,500
Professional and Business Services	9,400	9,100	9,500	9,800	10,200
Educational and Health Services	14,200	14,600	14,900	15,400	16,300
Leisure and Hospitality	11,100	10,900	11,000	11,600	12,200
Other Services	3,700	3,700	3,600	3,800	4,000
Federal Government	500	500	500	500	500
State Government	8,100	7,900	8,000	8,000	8,100
Local Government	12,200	11,900	11,800	11,900	12,200
Total, All Industries [3]	98,000	97,100	96,200	98,100	101,500

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.
(3) Totals may not add due to rounding.
Source: State of California Employment Development Department.

The table below lists, in alphabetical order, the major employers in the County of Monterey.

COUNTY OF MONTEREY
Major Employers
February 2015

Employer Name	Location	Industry
Azcona Harvesting	Greenfield	Harvesting-Contract
Breast Care Ctr	Monterey	Diagnostic Imaging Centers
Bud of California	Soledad	Fruits & Vegetables-Growers & Shippers
California State University	Seaside	Schools-Universities & Colleges Academic
Casa Palmero	Pebble Beach	Hotels & Motels
D'Arrigo Brothers Co	Salinas	Fruits & Vegetables-Growers & Shippers
Dole Fresh Vegetables Co	Soledad	Fruits & Vegetables-Growers & Shippers
Growers Co	Salinas	Fruits & Vegetables & Produce-Retail
Hilltown Packing Co	Salinas	Harvesting-Contract
Mann Packing Co	Salinas	Fruits & Vegetables-Growers & Shippers
Misionero Vegetables	Gonzales	Fruits & Vegetables-Growers & Shippers
Monterey Cnty Social Svc Cmmtt	Salinas	County Government-Social/Human Resources
Monterey Cnty Social Svc Dept	Salinas	County Government-Social/Human Resources
Monterey County Office Edu	Salinas	School Districts
Monterey Peninsula College	Monterey	Schools-Universities & Colleges Academic
Natividad Medical Ctr	Salinas	Hospitals
Naval Postgraduate School	Monterey	Schools-Universities & Colleges Academic
Pebble Beach Co	Pebble Beach	Resorts
Pebble Beach Resorts	Pebble Beach	Resorts
Providence Farms Llc	Salinas	Agricultural Consultants
Salinas Valley Meml Healthcare	Salinas	Hospitals
Social Services Dept	Salinas	Senior Citizens Service Organizations
Taylor Farms	Salinas	Fruits & Vegetables-Growers & Shippers
US Defense Dept	Seaside	Federal Government-National Security
US Defense Manpower Data Ctr	Seaside	Government Offices-Us

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2015 1st Edition.

The table below lists, in alphabetical order, the major employers in the County of San Benito.

COUNTY OF SAN BENITO
Major Employers
February 2015

Employer Name	Location	Industry
Calaveras Elementary School	Hollister	Schools
Corbin	Hollister	Motorcycles-Supls & Parts-Manufacturers
Denise & Filice Packing Co	Hollister	Fruits & Vegetables-Wholesale
Diageo North America	Paicines	Liquors-Wholesale
Earthbound Farm	San Juan Bautista	Fruits & Vegetables-Growers & Shippers
Gabilan Hills Elementary Schl	Hollister	Schools
Hazel Hawkins Medical Ctr	Hollister	Hospitals
Ladd Lane Elementary School	Hollister	Schools
Mc Electronics Inc	Hollister	Wire Harnesses-Electrical-Manufactu
Milgard Manufacturing Inc	Hollister	Windows-Manufacturers
Nob Hill Foods	Hollister	Grocers-Retail
Pacific Harvest Seafoods	San Juan Bautista	Frozen Fruit, Fruit Juices/Vegs (Mfrs)
R O Hardin Elementary School	Hollister	Schools
Ridgemark Golf & Country Club	Hollister	Full-Service Restaurant
Safeway	Hollister	Grocers-Retail
San Benito Foods	Hollister	Canning (Mfrs)
San Benito High School	Hollister	Stadiums Arenas & Athletic Fields
San Benito Sheriff	Hollister	Sheriff
Save Mart	Hollister	Grocers-Retail
Target	Hollister	Department Stores
Trical Inc	Hollister	Farms
True Leaf Farms	San Juan Bautista	Farm Management Service
Waste Management	Hollister	Garbage Collection
West Marine	Hollister	Marine Equipment & Supplies
Willis Construction Co Inc	San Juan Bautista	Concrete Prods-Ex Block & Brick (Mfrs)

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2015 1st Edition.

The table below lists, in alphabetical order, the major employers in the County of Santa Cruz.

COUNTY OF SANTA CRUZ
Major Employers
February 2015

Ameri-Kleen	Watsonville	Janitor Service
Audiology Associates	Soquel	Clinics
Brg Sports Inc	Scotts Valley	Sporting Goods-Retail
CB North Llc	Watsonville	Membership Sports & Recreation Clubs
Creekside Farms Inc	Watsonville	Farms
Dominican Hospital	Santa Cruz	Hospitals
Dutra Farms	Watsonville	Grocers-Wholesale
Granite Construction Co	Watsonville	Construction-Building Contractors
Granite Construction Inc	Watsonville	Building Contractors
Larse Farms Inc	Watsonville	Fruits & Vegetables-Growers & Shippers
Monterey Mushrooms Inc	Watsonville	Mushrooms
Mukti For Social Development	Santa Cruz	E-Commerce
Plantronics Inc	Santa Cruz	Electronic Equipment & Supplies-Mfrs
Santa Cruz Beach Boardwalk	Santa Cruz	Amusement & Theme Parks
Santa Cruz City	Santa Cruz	E-Commerce
Santa Cruz Governmental Ctr	Santa Cruz	Government Offices-County
Santa Cruz Health Ctr	Santa Cruz	Clinics
Sesnon House	Aptos	Caterers
Source Naturals	Scotts Valley	Vitamin Products-Manufacturers
Threshold Enterprises Ltd	Scotts Valley	Health Food Products-Wholesale
University of Ca-Santa Cruz	Santa Cruz	Schools-Universities & Colleges Academic
Watsonville City Sewer Dept	Watsonville	Government Offices-City, Village & Twp
Watsonville Community Hospital	Watsonville	Hospitals
West Marine Inc	Watsonville	Boat Equipment & Supplies
West Marine Products Inc	Watsonville	Marine Equipment & Supplies

Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2015 1st Edition.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail store data for 2009 and after is not comparable to that of prior years.

A summary of historical taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2013 in the City were reported to be $433,953, a 5.5% increase over the total taxable sales of $411,439 reported during the first three quarters of calendar year 2012.

CITY OF WATSONVILLE
Taxable Transactions
(dollars in thousands)

	Retail Stores		Total All Outlets	
Year	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	578	$429,901	1,170	$553,334
2009 (1)	698	381,538	1,119	495,137
2010 (1)	726	401,411	1,149	516,230
2011 (1)	743	426,431	1,163	537,997
2012 (1)	722	439,364	1,141	551,398

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: State of California, Board of Equalization.

A summary of historical taxable sales within the County of Monterey during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2013 in the County were reported to be $4,381,442, a 4.6% increase over the total taxable sales of $4,188,515 reported during the first three quarters of calendar year 2012.

COUNTY OF MONTEREY
Taxable Transactions
(dollars in thousands)

	Retail Stores		Total All Outlets	
Year	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	6,880	$3,255,804	10,125	$4,705,845
2009 (1)	6,921	3,423,370	10,204	4,955,562
2010 (1)	6,953	3,680,776	10,268	5,312,732
2011 (1)	6,911	3,927,095	10,184	5,637,445
2012 (1)	6,911	3,927,095	10,184	5,637,445

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: State of California, Board of Equalization.

A summary of historical taxable sales within the County of San Benito during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of calendar year 2013 in the County were reported to be $412,682, a 5.5% increase over the total taxable sales of $391,326 reported during the first three quarters of calendar year 2012.

COUNTY OF SAN BENITO
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
Year	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	573	$291,420	1,330	$504,523
2009 (1)	816	245,237	1,219	422,942
2010 (1)	833	257,233	1,244	449,872
2011 (1)	803	281,201	1,217	486,490
2012 (1)	786	308,777	1,199	530,017

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: State of California, Board of Equalization.

A summary of historical taxable sales within the County of Santa Cruz during the past five years in which data is available is shown in the following table. Total taxable sales during the first three quarters of 2013 in the County were reported to be $2,414,943, a 7.3% increase over the total taxable sales of $2,250,838 reported during the first three quarters of 2012. Figures are not yet available for 2013.

COUNTY OF SANTA CRUZ
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(dollars in thousands)

	Retail Stores		Total All Outlets	
Year	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2008	3,807	$2,211,878	8,614	$3,031,072
2009 (1)	5,557	1,956,754	8,092	2,638,469
2010 (1)	5,711	2,079,236	8,222	2,731,832
2011 (1)	5,823	2,248,131	8,301	2,893,395
2012 (1)	5,835	2,375,320	8,320	3,056,694

(1) Not comparable to prior years. “Retail” category now includes “Food Services.”
Source: State of California, Board of Equalization.

Construction Trends

Provided below are the building permits and valuations for the City of Watsonville, for calendar years 2009 through 2013. Data for calendar year 2014 is not yet available..

CITY OF WATSONVILLE
Building Permit Valuations
(dollars in thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$0.0	$197.7	$165.0	$0.0	$690.0
New Multi-family	0.0	0.0	1,966.1	0.0	482.8
Res. Alterations/Additions	1,339.1	1,017.4	1,468.7	287.0	2,112.2
Total Residential	1,339.1	$1,215.1	3,599.8	287.0	3,285.0
New Commercial	0.0	0.0	68.9	94.0	2,330.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	405.9	669.2	0.0	0.0	477.5
Com. Alterations/Additions	3,878.2	4,224.8	1,780.7	116.0	904.9
Total Nonresidential	4,284.1	4,894.0	1,849.6	210.0	3,712.4
New Dwelling Units					
Single Family	0	1	2	0	3
Multiple Family	0	0	18	0	5
TOTAL	0	1	20	0	8

Source: Construction Industry Research Board, Building Permit Summary

Provided below are the building permits and valuations for the County of Monterey, for calendar years 2009 through 2013. Data for calendar year 2014 is not yet available.

COUNTY OF MONTEREY
Building Permit Valuations
(dollars in thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$44,924,748	$55,857,302	$63,217,194	$76,667,352	$75,564,431
New Multi-family	11,632,669	28,302,048	5,859,680	19,151,017	31,054,750
Res. Alterations/Additions	60,181,340	58,784,807	61,111,034	55,293,026	62,204,024
Total Residential	116,738,757	142,944,157	130,187,908	151,111,395	168,823,205
New Commercial	13,202,255	16,132,249	3,800,000	18,363,006	39,908,388
New Industrial	0	0	1,494,409	4,403,590	1,822,080
New Other	18,541,839	11,384,452	14,321,642	1,376,000	15,345,435
Com. Alterations/Additions	64,578,434	57,074,829	44,505,941	46,115,255	47,622,087
Total Nonresidential	96,322,528	84,591,530	64,121,992	70,257,851	104,697,990
New Dwelling Units					
Single Family	118	118	130	106	190
Multiple Family	95	167	26	131	252
TOTAL	213	285	156	237	442

Source: Construction Industry Research Board, Building Permit Summary

Provided below are the building permits and valuations for the County of San Benito, for calendar years 2009 through 2013. Data for calendar year 2014 is not yet available.

COUNTY OF SAN BENITO
Building Permit Valuations
(dollars in thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$11,355.6	$10,191.6	$9,030.4	$9,115.1	$32,574.5
New Multi-family	0.0	7,708.6	0.0	0.0	0.0
Res. Alterations/Additions	2,244.8	2,384.2	3,601.5	1,936.0	3,019.5
Total Residential*	13,600.4	20,284.4	12,631.9	11,051.1	35,594.0
New Commercial	1,107.0	225.0	2,007.7	7,614.9	4,763.9
New Industrial	750.0	1,900.0	750.0	2,340.0	42.0
New Other	3,193.6	1,757.7	1,484.3	20.0	2,623.5
Com. Alterations/Additions	2,472.4	5,031.0	2,43.6	4,578.7	3,200.0
Total Nonresidential*	7,522.9	8,913.7	4,287.6	14,553.6	10,629.3
New Dwelling Units					
Single Family	40	48	32	36	138
Multiple Family	0	97	0	0	0
TOTAL	40	145	32	36	138

Source: Construction Industry Research Board, Building Permit Summary

Provided below are the building permits and valuations for the County of Santa Cruz, for calendar years 2009 through 2013. Data for calendar year 2014 is not yet available.

COUNTY OF SANTA CRUZ
Building Permit Valuations
(dollars in thousands)

	2009	2010	2011	2012	2013
Permit Valuation					
New Single-family	$5,148.1	$10,718.5	$5,469.6	$19,429.3	$19,380.2
New Multi-family	0.0	2,234.8	0	832.5	4,155.5
Res. Alterations/Additions	9,619.6	11,197.5	11,856.4	13,984.8	13,491.4
Total Residential	14,767.7	24,150.8	17,326.0	34,246.6	37,027.1
New Commercial	4,065.8	3,500.0	174.5	18,521.8	15,415.9
New Industrial	657.0	0.0	0.0	0.0	914.0
New Other	1,653.0	784.7	0.0	7,587.4	1,819.6
Com. Alterations/Additions	5,570.0	14,012.6	9,973.7	16,552.5	13,004.0
Total Nonresidential	11,945.7	18,297.3	10,148.2	42,661.7	31,153.5
New Dwelling Units					
Single Family	20	18	19	41	30
Multiple Family	0	23	0	2	23
TOTAL	20	41	19	43	53

Source: Construction Industry Research Board, Building Permit Summary

Effective Buying Income

"Effective Buying Income" is defined as personal income less personal tax and non-tax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City of Watsonville, County of Monterey, County of San Benito, and County of Santa Cruz, the State and the United States for the past five years. Data for calendar year 2014 is not yet available.

CITY OF WATSONVILLE, COUNTY OF MONTEREY, COUNTY OF SAN BENITO, AND COUNTY OF SANTA CRUZ
Effective Buying Income - 2009 through 2013

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2009	City of Watsonville	$636,398	$38,925
	County of Monterey	7,883,583	48,203
	County of San Benito	1,146,298	59,165
	County of Santa Cruz	6,722,508	55,044
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Watsonville	$616,753	$37,406
	County of Monterey	7,920,354	49,171
	County of San Benito	1,075,045	55,795
	County of Santa Cruz	6,400,490	51,518
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Watsonville	$609,023	$37,201
	County of Monterey	7,637,341	46,950
	County of San Benito	1,116,678	55,295
	County of Santa Cruz	6,521,260	51,112
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Watsonville	$631,418	$37,710
	County of Monterey	7,810,921	46,881
	County of San Benito	967,165	46,168
	County of Santa Cruz	6,478,800	48,932
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Watsonville	$675,745	$40,363
	County of Monterey	8,215,141	45,519
	County of San Benito	1,129,535	52,004
	County of Santa Cruz	6,686,470	52,149
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

APPENDIX E

FORM OF BOND COUNSEL OPINION

APPENDIX F

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest 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. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

*Neither the issuer of the Bonds (the "**Issuer**") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "**Agent**") take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("**DTC**"), New York, NY, will act as securities depository for the securities (the "**Securities**"). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

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

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

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption 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 Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.