

NEW ISSUE

RATING

BOOK-ENTRY ONLY

S&P: "AA-"

(See "CONCLUDING INFORMATION - Rating on the Bonds" herein)

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.

\$28,200,000*

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY REVENUE BONDS, SERIES 2024 (GREEN BONDS)

Dated: Date of Delivery**Due:** June 1, as shown on the inside front cover page.

The cover page contains certain information for general reference only. It is not a summary of the issue. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) (the "Bonds") are payable from revenues pledged under the Trust Indenture (defined below) consisting of Installment Payments (defined herein) to be made by the Santa Cruz County Sanitation District (the "District") to the Santa Cruz County Capital Financing Authority (the "Authority") pursuant to an Installment Purchase Agreement, as described herein and from investment earnings on funds held under the Indenture (the "Revenues"). The Bonds will be issued pursuant to a Trust Indenture, dated as of April 1, 2024 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds are being issued to provide funds to pay for certain capital improvements to the District's wastewater system (the "Wastewater System"). See "THE FINANCING PLAN" herein. The District is required under the Installment Purchase Agreement to make the Installment Payments in each fiscal year from Net Revenues of the Wastewater System in an amount sufficient to pay the annual principal and interest due on the Bonds, as described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

Interest on the Bonds is payable on December 1, 2024, and semiannually thereafter on June 1 and December 1 of each year until maturity. The Bonds are subject to optional and mandatory sinking fund prior to maturity (see "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein).

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues (consisting principally of Installment Payments received from the District). Neither the full faith and credit of the Authority nor its members (including the District) is pledged for the payment of the Bonds and no tax or other source of funds other than the Revenues is pledged to pay the Bonds. The Bonds do not constitute a debt, liability or obligation of the Authority or any member of the Authority (including the District) in violation of any constitutional or statutory debt limitation or for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power. The obligation of the District to pay Installment Payments under the Installment Purchase Agreement is secured solely by the Net Revenues of the Wastewater System. The full faith and credit of the District is not pledged for the payment of the Installment Payments and no tax or other source of funds other than the Net Revenues is pledged to pay the Installment Payments. The Installment Payments do not constitute a debt, liability or obligation of the District in violation of any constitutional or statutory debt limitation.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Norton Rose Fulbright US LLP, Los Angeles, California, as Bond Counsel. Certain legal matters will be passed on for the District and the Authority by County Counsel, as General Counsel to the District and the Authority, and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about April 30, 2024 (see "THE BONDS - General Provisions" herein).

The date of the Official Statement is ____, 2024.

* Preliminary, subject to change.

\$28,200,000*
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
REVENUE BONDS, SERIES 2024
(GREEN BONDS)

MATURITY SCHEDULE

(Base CUSIP®† _____)

Maturity Date	Principal	Interest	Reoffering	
<u>June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP®†</u>

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. Copyright (c) 2024 CUSIP Global Services. All rights reserved. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the District or the Municipal Advisor and are included solely for the convenience of the holders of the Bonds. Neither the Authority, the District nor the Municipal Advisor is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Investment in the Bonds involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth or income) who understand (either alone or with competent investment advice) those risks should consider such an investment.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the Authority and the District. No dealer, broker, salesperson or other person has been authorized by the Authority, the District or the Municipal Advisor to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein; and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the District or the Municipal Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the District or the Authority. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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, create any implication that there has been no change in the affairs of the Authority, the District or any other parties described herein since the date hereof. All summaries of the Indenture, the Installment Purchase Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith. While the District and the County maintain an internet website for various purposes, none of the information on that website is incorporated by reference herein or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the Authority, the County or the District. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Authority does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. The Authority is obligated to provide continuing disclosure for certain historical information only. See the caption “CONCLUDING INFORMATION - Continuing Disclosure” herein.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

SANTA CRUZ COUNTY SANITATION DISTRICT

BOARD OF DIRECTORS

Kristen Brown, Chairperson
Manu Koenig, Director
Zach Friend, Director

MANAGEMENT TEAM

Matt Machado, *Deputy County Administrative Officer,
Director of Community Development and Infrastructure and District Engineer*
Kim Moore, *Assistant Director of Community Development
and Infrastructure – Administrative Services*
Ashleigh Trujillo, *Sanitation Engineer*
Beatriz Barranco, *Water/Wastewater Operations Manager*
Monica Tomlinson, *Environmental Programs Coordinator*
Carisa Duran, *Construction Manager*
Katie Beach, *Construction Manager*
Jason M. Heath, *District Counsel*
Edith Driscoll, *Treasurer*
Terra Prestwich, *District Secretary*

PROFESSIONAL SERVICES

Bond Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Disclosure Counsel

Best Best & Krieger LLP
Riverside, California

Municipal Advisor

Harrell & Company Advisors, LLC
Tustin, California

Trustee

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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OFFICIAL STATEMENT
\$28,200,000*
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
REVENUE BONDS, SERIES 2024
(GREEN BONDS)

This Official Statement which includes the cover page, the inside front cover page and appendices (the “Official Statement”) is provided to furnish certain information concerning the sale of the Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) (the “Bonds”), in the aggregate principal amount of \$28,200,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see “RISK FACTORS” herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in “APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

The District

The Santa Cruz County Sanitation District (the “District”) was established in 1973. The District is a county sanitation district organized and existing under and in accordance with Division 6 of the Health and Safety Code of the State of California, commencing with Section 6400, as amended (the “Law”). The District’s boundaries encompass an area of approximately 13 square miles, generally located along the coast of the Monterey Bay between the City of Santa Cruz and the Seaside area of Aptos, encompassing the City of Capitola and the communities of Live Oak, Soquel and Aptos.

The District currently serves a population of approximately 72,200 (see “SANTA CRUZ COUNTY SANITATION DISTRICT” and “APPENDIX C - ECONOMIC PROFILE FOR THE COUNTY OF SANTA CRUZ” herein).

The District is administered by a Board of Directors consisting of three members, two of whom are members of the County of Santa Cruz (the “County”) Board of Supervisors and the third is a member of the Capitola City Council. The District is managed by the County’s Community Development and Infrastructure Department (the “Department”) under the direction of the District Board of Directors.

The Authority

The Santa Cruz County Capital Financing Authority (the “Authority”) is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Joint Powers Act”). The County and the Santa Cruz County Flood Control and Water Conservation District formed the Authority by the execution of a joint exercise of powers agreement (“JPA Agreement”) dated February 25, 2014.

* Preliminary, subject to change.

Under the JPA Agreement, as amended, the Authority is authorized to provide funds to acquire or construct and to refinance public capital improvements, and to refinance obligations of its members or the District issued for such purposes, through the issuance of bonds in accordance with the Joint Powers Act.

The Authority is governed by a five-member Board of Directors which consists of all members of the County Board of Supervisors.

Sources of Payment for the Bonds

The Bonds. The Bonds are being issued pursuant to the Joint Powers Act and a Trust Indenture, dated as of April 1, 2024 (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “Trustee”). The Bonds are being issued to provide funding for the Project, as defined herein. The proceeds of the Bonds deposited in the Capital Improvements Fund will be used by the District for the acquisition, construction and installation of the Project. A portion of the proceeds will also be used to pay costs of issuance.

The Bonds are secured by the “Revenues,” consisting of Installment Payments (defined herein) to be made by the District to the Authority pursuant to an Installment Purchase Agreement, dated as of April 1, 2024 (the “Installment Purchase Agreement”) by and between the Authority and the District and from investment earnings on funds held under the Indenture. The District is obligated to make installment payments to the Authority under the Installment Purchase Agreement (the “Installment Payments”) from Net Revenues (defined herein), and the Authority is, in turn, required under the Indenture to use the Installment Payments to pay interest on and principal of the Bonds.

The Installment Payments are scheduled to be sufficient to pay, when due, the annual principal and interest on the Bonds. Pursuant to the Indenture, the Authority will assign to the Trustee, for the benefit of the Owners of the Bonds, all of its rights, title and interest under the Installment Purchase Agreement except for its right to be indemnified by the District. For a summary of the Indenture and the Installment Purchase Agreement see “APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

The Parity Installment Payments. The Installment Purchase Agreement is being executed and delivered to finance the construction of the Project. See “THE FINANCING PLAN” and “THE WASTEWATER SYSTEM.” The Installment Payments are secured by a charge and lien on Net Revenues of the Wastewater System, on a parity with:

- the payments required to be made by the District under a project finance agreement (the “2008 Agreement”) with the California State Water Resources Control Board (“SWRCB”),
- the payments required to be made by the District under a construction Installment Purchase Agreement (the “2018 Agreement”) with SWRCB,
- the payments required to be made by the District under an Installment Purchase Agreement (the “2019 Agreement”) with the California Infrastructure and Economic Development Bank (“IBank”),
- the payments required to be made by the District under a construction Installment Purchase Agreement (the “2021 Agreement”) with SWRCB, and
- the payments required to be made by the District under an Installment Purchase Agreement (the “2022 Agreement”) with the Authority.

See “SOURCES OF PAYMENT FOR THE BONDS” herein.

Collectively, the 2008 Agreement, the 2018 Agreement, the 2019 Agreement, the 2021 Agreement and the 2022 Agreement are referred to herein as the “Existing Agreements.” See “THE WASTEWATER SYSTEM - Outstanding Indebtedness of the District” herein.

The Bonds are limited obligations of the Authority and are payable solely from and secured solely by the Revenues and all moneys on deposit in any of the funds and accounts established and held by the Trustee under the Indenture. The District’s obligation to make the Installment Payments is a limited obligation of the District payable solely from Net Revenues of the Wastewater System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Bonds. Neither the Bonds nor the obligation of the District to make Installment Payments constitutes an indebtedness of the Authority, the District, the State of California or any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

No Reserve Fund

The Authority will not establish or fund a reserve fund for the Bonds.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued pursuant to the Joint Powers Act, the Indenture and Resolution No. 46-2024 of the Authority adopted on March 12, 2024.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about April 30, 2024 through the facilities of The Depository Trust Company.

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of these documents may be obtained after delivery of the Bonds from the Auditor-Controller-Treasurer-Tax Collector of the County at Government Center, 701 Ocean Street, Santa Cruz, California 95060, telephone (831) 454-2500.

THE FINANCING PLAN

The Project

The District will use the proceeds of the Bonds for 11 separate components (collectively, the “Project”) described below. The Project is part of an ongoing program to improve system resilience, reduce incidence of sanitary sewer overflows and provide critical maintenance of aging wastewater infrastructure.

Eddy Lane Sewer Relocation: On Eddy Lane there are nearly 800 linear feet of broken and deteriorated sewer mains and associated manholes that require rehabilitation. The deterioration leads to sewer overflows, high operation costs, and potential contamination to ground water. A portion of the existing sewer mains cross under buildings on private property. The new sewer mains will be aligned to avoid any existing structures. It is estimated that the entire project will cost \$1,650,000, of which \$350,000 will be funded with District funds and the remainder from Bond proceeds.

Soquel Village Sewer Rehabilitation – Phase 2: In the Soquel Village area there are nearly 7,600 linear feet of broken and deteriorated sewer mains and associated manholes that require rehabilitation. The deterioration leads to sewer overflows, high operation costs, and potential contamination to ground water. A portion of this project may be completed under a separate name of the “Main Street Sewer project.” It is estimated that the entire project will cost \$9.1 million, of which \$500,000 will be funded with District funds and the remainder from Bond proceeds.

Seacliff/Rio Del Mar Sewer Rehabilitation Project: Within the east Seacliff/Rio Del Mar areas, this project would rehabilitate nearly 2,300 linear feet of sewer mains that are old and deteriorating. The deterioration leads to sewer overflows, high operation costs, and potential contamination to ground water. A portion of this project may be completed under a separate name of the “North Avenue Pipe Rehabilitation project.” The total project estimated cost is \$3.4 million, of which \$700,000 will be funded with District funds and the remainder from Bond proceeds.

Hidden Beach Pump Station Bypass: The Hidden Beach pump station is located on the beach so avoiding overflows is extra critical. An external emergency bypass is required to allow sewer flows to be directed to other pump stations if there is a problem with the station. It is estimated that the entire project will cost \$800,000. Of this cost, \$200,000 will be funded with District funds and the remainder from Bond proceeds.

Emergency Bypass Improvements 2024/25: This project will improve valve vault access and extend connections to bypass valves for quick install of emergency bypass equipment for the Capitola and Soquel pump stations to avoid sewer overflows in the event that there are problems at these critical pump stations. It is estimated that the entire project will cost \$700,000, of which \$90,000 will be funded with District funds and the remainder from Bond proceeds.

D.A. Porath Valve Replacement and Emergency Bypass: All of the District’s sewerage is pumped to the D.A. Porath facility before being transported to the City of Santa Cruz treatment plant (see “THE WASTEWATER SYSTEM – Wastewater System Description – The Treatment Plant” herein). This project will replace the deteriorated valve on the discharge line to the treatment plant. As part of the project a bypass will need to be installed; permanent elements of the bypass will be installed in order to provide a crucial protection measure against sewer overflows at the station if a problem with the station occurs. It is estimated that the entire project will cost \$1.6 million, of which \$300,000 will be funded with District funds and the remainder from Bond proceeds.

Capitola Pump Station Roof/Drainage Improvements: This project will replace the existing roof and improve the drainage in the rear of the critical Capitola Pump Station building to eliminate standing water and damage during rain events. The improvements will serve to harden the structure to protect existing infrastructure at this site, including newly installed pumps and valves. It is estimated that the entire project cost of \$400,000 will be funded by Bond proceeds.

West Seacliff Sewer Rehabilitation – Phase 1: In the West Seacliff area there is nearly 5,000 linear feet of broken and deteriorated sewer mains and associated manholes that require rehabilitation. The deterioration leads to sewer overflows, high operation costs, and potential contamination to ground water. It is estimated that the entire project will cost \$8,870,000, of which \$200,000 will be funded with District funds and the remainder from Bond proceeds.

Upper Rodeo Sewer Trunkline Project: This project is located parallel to Rodeo Gulch from Soquel Drive to Capitola Road. The existing 4,900± linear feet sewer trunkline is deteriorating asbestos cement pipe. The defects in the pipe allow for root intrusion and significant ground water infiltration, both of which contribute to high maintenance costs and the risk for sewer overflows. This project will replace the sewer line where needed and line other segments. The reduction in infiltration will allow the sewer to remain at its current size without being over capacity. This is the first step in removing a long-standing moratorium for the Rodeo Gulch Sewer Basin that restricts new development. The total project estimated cost is \$8,200,000. The project was originally to be fully funded with District funds and the 2022 Agreement. Due

to higher-than-expected construction and environmental mitigation measure costs, an additional \$2,650,000 of bond funding is needed to complete the project.

East Cliff Drive Sewer Replacement Project: Within East Cliff Drive and Portola Drive from 12th Avenue to Richmond Drive, a large diameter sewer trunkline (15-inch to 20-inch in diameter) and a smaller sewer collection line (6-inch to 8-inch in diameter) are deteriorating. This leads to sewer overflows, high operation costs, and potential contamination to ground water. This project includes replacing the existing sewer trunkline and collection main. The total project estimated cost is \$12 million. The project was originally to be fully funded with District funds and the 2022 Agreement. Due to higher-than-expected construction costs, an additional \$500,000 of bond funding is needed to complete the project.

Arana Sewer Trunkline Replacement Project: This project involves replacement of an approximately 2,400-linear foot segment of an existing 10-inch asbestos cement gravity sanitary sewer trunkline. The existing line will be removed and replaced with a new pipeline with replacement, potential relocation, and/or elimination of some existing manholes. The Arana Sewer Trunkline Replacement Project will also include replacement of approximately 325 linear feet of an existing 6-inch sewer line that collects and transmits flows from Salisbury Drive to the Arana sewer trunkline, as well as replacement of approximately 225 linear feet of an existing 6-inch sewer line in Eleanor Way. The purpose of the project is to replace an existing sewer trunkline that is aged and deteriorating. The deterioration of the existing pipe leads to sewage seeping out and ground water seeping in. During the rainy season, storm water fills the system, which can overwhelm the system and cause overflows. This excess water is costly to pump and treat. In addition, the manholes in the lower areas become submerged and maintenance crews have trouble accessing them even in the dry season. The total project estimated cost is \$6,470,000. The project was originally to be fully funded with District funds and the 2022 Agreement. Due to higher-than-expected construction costs, an additional \$1,220,000 of bond funding is needed to complete the project.

The total Project cost is approximately \$53 million, of which \$29 million will be funded from proceeds of the Bonds and the remainder from fund balance (and with respect to the Upper Rodeo Sewer Trunkline Project, the East Cliff Drive Sewer Replacement Project and the Arana Sewer Trunkline Replacement Project, from the 2022 Agreement).

All elements of the Project are expected to be completed by the end of 2026.

Bonds Designation as Green Bonds

The Bonds are being issued for the primary purpose of providing additional moneys to finance all or a portion of the costs of various improvements to the District's Wastewater System. The District has designated the Bonds as "Green Bonds" to allow investors to invest directly in bonds that finance environmentally beneficial projects. Such designation has been made by the District in accordance with the County's Board-approved Guidance for Issuing Green Bonds (the "County's Green Bond Guidance"), which was most recently approved by the County Board of Supervisors on March 12, 2024, and applies to all County-related entities, such as the District. The County's Green Bond Guidance identifies the criteria (described below) that the District expects to take into consideration in identifying the types of "green" projects the costs of which may be funded (or reimbursed to the District) from the proceeds of Green Bonds. The County's Green Bonds Guidance further provides that in identifying potential projects for Green Bond financing, the District's aim should be towards including projects that best meet one or more of the identified criteria and excluding those projects that appear marginal or that have unresolved sustainability issues.

The County, and the District as a related entity, has promoted principles of sustainability for a number of years. As first adopted by the County Board of Supervisors in the County's 2021-23 Operational Plan, it is the goal of the County to "support and strengthen efforts for clean air and water, conservation, renewable energy, recycling and reuse and increase resilience to climate change impacts, including sea-level rise and changing weather patterns." To achieve these goals, the County's strategy is to (1) work with partner

agencies, private water users, residents and the agricultural community to sustainably manage water resources to meet human and environmental needs, (2) pursue policies and programs to encourage recycling and waste reduction, and reduce emissions and the carbon footprint, and (3) advance policies and programs that reduce impacts from and increase community resiliency to climate hazards.

In identifying projects eligible for Green Bond financing, the District considers projects that are designed to meet one or more of the following criteria to be “green” projects: (i) maintain water quality; (ii) improve water use efficiency, including conservation through reduced water loss; (iii) improve biodiversity and ecosystem quality; (iv) protect against flooding; (v) reduce pollution; (vi) improve resilience (adaptation) to climate change; (vii) reduce the combustion of fossil fuels; (viii) reduce greenhouse gas emissions; (ix) implement “reduce, reuse, recycle” practices in preference to raw materials; (x) adhere to sustainable purchasing guidelines; or (xi) provide for carbon sequestration. Where relevant, the County’s Green Bond Guidance maps these criteria for alignment with the principles under the framework established by the International Capital Market Association’s Green Bond Principles. The criteria can also be aligned with categories, principles, or goals under the United Nations’ Sustainable Development Goals and the Climate Bonds Initiative’s Climate Bonds Taxonomy. It should be noted that such mapping, if provided, is for comparison purposes only and no representation is made by the District that the projects satisfying the District’s criteria will necessarily fit the mapped criteria from the other frameworks.

The County’s Green Bond Guidance as approved by the Board on March 12, 2024 is set forth in “APPENDIX G - THE COUNTY’S GREEN BOND GUIDANCE AND EXPECTED GREEN BOND PROJECTS.” Set forth above under the caption “The Project” and in APPENDIX G is a list of the particular projects that are considered by the District to be “green” projects, the costs of which the District expects to be funded from proceeds of the Bonds.

The District’s Capital Improvement Plan, a 2005 moratorium on new sewer connections in the Rodeo Gulch area of the District, and the County’s Climate Action and Adaption Plan guided the prioritization of these infrastructure improvements. Mitigation of potential sewer overflows and reducing risk to public health also were factors in the selection of the Project components to be financed. Many of the Project components involve replacing sewer lines to reduce the inflow of stormwater into the system and prevent groundwater from entering pipes (infiltration). Mitigation of inflow and infiltration is crucial to preventing sanitary sewer overflows. The projects also mitigate wastewater seeping into surrounding soils (exfiltration). Reducing exfiltration and the occurrences of sanitary sewer overflows protect water quality in nearby creeks, rivers, lagoons and the sensitive ecosystems of Monterey Bay. Pump station upgrades to improve system resilience and reduce incidence of sanitary sewer overflows were also considered in the selection of the Project components to be financed. The replacements and upgrades will protect critical habitat, unique riparian and marine ecosystems in California, and public health at nearby beaches. The District considers that the components of the Project are eligible projects as defined by the International Capital Market Association’s Green Bond Principles (2021) in the *Sustainable Wastewater Management* category and align with the core components of *Process for Project Evaluation and Selection and Use of Proceeds*.

The net proceeds of the Bonds will be held by the Trustee in a separate fund. Use of the proceeds of the Bonds will be tracked by the District through requisitions and state-required reporting of expenditures to the California Debt and Investment Advisory Commission. The District will post updates regarding the use of proceeds of the Bonds with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system, currently located at www.emma.msrb.org (which website is not incorporated into this Official Statement by reference), annually, and will post a final list of projects funded once all proceeds of the Bonds have been spent. A form of this report is also included in APPENDIX G. Once all proceeds of the Bonds have been spent, no further updates regarding the projects will be provided or filed. These reporting requirements are meant to align with the core components of *Management of Proceeds and Reporting* of the Green Bond Principles (2021).

There can be no assurance that the green projects funded with the proceeds of the Bonds will meet an investor's expectations regarding sustainability performance. It is possible that adverse environmental or social impacts may occur during the design, construction and operation of the green projects. For additional information regarding the District's capital improvement program for the Wastewater System, and a description of the major programs and projects included therein, see "THE WASTEWATER SYSTEM – Capital Improvement Program."

The terms "Green Bonds" and "green project" are neither defined in nor related to provisions in the Indenture or otherwise defined under State or federal laws. No independent certification is being obtained with respect to the treatment of the Bonds as Green Bonds. The use of such terms herein is for identification purposes only and is not intended to provide or imply that an owner of the Bonds is entitled to any additional security other than as provided in the Indenture. The repayment obligations of the District with respect to the Bonds are not conditioned on the completion of any particular project or the satisfaction of any certification relating to the status of the Bonds as Green Bonds. The District assumes no obligation to ensure that these projects comply with any legal or other principles of green projects as such principles may evolve over time. The County's Green Bond Guidance as applied in connection with the Bonds may be updated or changed in the future at the Board's discretion. The Bonds will not constitute "exempt facility bonds" issued to finance "qualified green building and sustainable design projects" within the meaning of Section 142(1) of the Internal Revenue Code.

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources:

Principal Amount of Bonds
Net Original Issue Premium
Available Sources

Uses:

Capital Improvements Fund
Underwriter's Discount
Costs of Issuance Fund ⁽¹⁾
Total Uses

⁽¹⁾ Expenses include fees of Bond Counsel, the Municipal Advisor, Disclosure Counsel, the rating agency, the Trustee, the costs of printing the Official Statement, and other costs of delivery of the Bonds.

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THE BONDS

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 initially be delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC, 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 - THE BOOK-ENTRY 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 front cover page 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 semiannually on December 1 and June 1 in each year, commencing on December 1, 2024 (each an “Interest Payment Date”).

Redemption

Optional Redemption From any Source of Available Funds. The Bonds maturing on or before June 1, 2034 are not subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 1, 2035, are subject to redemption in whole, or in part, at the option of the Authority, on any date on or after June 1, 2034, from any available source of funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on June 1, ____ and June 1, ____ (the “Term Bonds”) are also subject to redemption, by lot, on June 1 in each of the years as set forth in the following tables, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium, or in lieu thereof may be purchased, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, that if some but not all of the Term Bonds have been redeemed pursuant to the “Optional Redemption” provisions, the total amount of all future payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed, to be allocated among such payments in integral multiples of \$5,000 as determined by the Authority in accordance with the Indenture.

Term Bond Maturing June 1, ____

Sinking Fund
Redemption Date
(June 1)

Principal
Amount To Be
Redeemed

Term Bond Maturing June 1, ____

**Sinking Fund
Redemption Date
(June 1)**

**Principal
Amount To Be
Redeemed**

Selection of Bonds for Redemption. If less than all the Outstanding Bonds are to be redeemed at any one time, the Authority will, by Written Request of the Authority, at least 45 days prior to the date fixed for the redemption of the Bonds, designate the Bonds to be redeemed, or the portions of Bonds of the same maturity date, for redemption on a pro rata basis (unless otherwise directed by the Authority), in integral multiples of \$5,000. Within each maturity, Bonds will be selected by the Trustee for redemption by lot. The decisions of the Authority and the Trustee in designating Bonds or portions of Bonds for redemption shall be conclusive in the absence of fraud.

Notice of Redemption. At least 20, but not more than 60 days prior to the redemption date, the Trustee will mail by first class mail a notice of redemption to the respective Owners of all Bonds selected for redemption in whole or in part. The Trustee will also provide notice to the Municipal Securities Rulemaking Board's EMMA portal by facsimile or electronic transmission. The sole remedy for failure to provide such notice to the EMMA portal will be an action by the holders of the Bonds for specific performance. Each such notice will state the date of such notice, the Bonds to be redeemed, the date of issue of such Bonds, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities of the Bonds to be redeemed and, if less than all of the Bonds of any such maturity are to be redeemed, the numbers of the Bonds of such maturity to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and will give notice that further interest on such Bonds or the portions of the Bonds to be redeemed will not accrue from and after the redemption date, and will require that such Bonds be then surrendered at the address or the addresses of the Trustee so designated; provided, that neither the Authority nor the Trustee will have any responsibility for any defect in the CUSIP number that appears on any Bond or in any related redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee will be liable for any inaccuracy in such numbers. If any Bond so chosen for redemption is not redeemable in whole, such notice will also state that such Bond is to be redeemed in part only and that upon presentation of such Bond for redemption there will be issued in lieu of the unredeemed portion of principal thereof a new Bond or Bonds of the same maturity date, of authorized denominations equal in aggregate principal amount to such unredeemed portion.

Neither the failure to receive any redemption notice nor any defect therein will affect the sufficiency of the proceedings for redemption of the Bonds or the cessation of accrual of interest from and after the redemption date.

Rescission of Redemption Notice. With respect to any notice of optional redemption of Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the interest on and principal of and redemption premium, if any, on such Bonds, and that if such moneys have not been so received the notice will be of no force and

effect and the Trustee will not be required to redeem such Bonds. In the event that the notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made and the Trustee will, within a reasonable time thereafter, give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

Failure by the Trustee to give notice pursuant to this provision of the Indenture to the Municipal Securities Rulemaking Board's EMMA portal, or the insufficiency of any such notices, will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to this provision of the Indenture to any one or more of the respective Owners of any Bonds designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Owners to whom the notice was mailed.

Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Authority will execute and the Trustee will authenticate and deliver to the Owner of such Bond at the expense of the Authority a new Bond or Bonds of the same maturity date and authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption. If notice of redemption has been duly given as provided in the Indenture, and money for the payment of the redemption price of the Bonds or portions of Bonds so called for redemption, together with interest to the redemption date, is held by the Trustee, then, on the redemption date designated in such notice, such Bonds or such portions thereof will become due and payable, and from and after the date so designated interest on the Bonds or such portions of Bonds so called for redemption will cease to accrue and the Owners of such Bonds will have no rights in respect thereof except to receive payment of the redemption price of such Bonds, and the interest accrued on such Bonds to the redemption date.

Purchase in Lieu of Redemption. In lieu of redemption of any Bond, the Authority may, in its discretion, direct that the Trustee, at any time prior to selection of Bonds for redemption, purchase Bonds on the open market, provided that in no event may Bonds be purchased on the open market at a price in excess of the Redemption Price thereof, plus accrued interest to the date of purchase. All Bonds so purchased shall be delivered to the Trustee for cancellation.

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Scheduled Debt Service

The following presents the annual debt service on the Bonds, assuming no optional redemption prior to maturity.

Bond Year			
Ending			
<u>June 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
2052			
2053			
2054			
Total			

Annual Installment Payments related to the Bonds (sometimes referred to as “2024 Installment Payments” herein), along with the expected annual installment payments for the outstanding Existing Parity Obligations, are set forth in the following table. The payments are calculated on an accrual basis for each July 1 to June 30 period, consistent with the debt service calculations for the District’s financial statements.

Aggregate Parity Obligations

Fiscal	Existing	2024	Total
Year Ending	Agreements	Installment	Parity
<u>June 30</u>	<u>Installment</u>	<u>Payments</u>	<u>Obligations</u>
2025	\$ 2,736,486		
2026	2,733,642		
2027	2,735,027		
2028	2,735,392		
2029	2,729,734		
2030	2,733,304		
2031	2,730,600		
2032	2,731,871		
2033	1,936,555		
2034	1,940,525		
2035	1,937,969		
2036	1,939,135		
2037	1,933,771		
2038	1,937,128		
2039	1,933,704		
2040	1,930,548		
2041	1,931,358		
2042	1,930,935		
2043	1,929,276		
2044	1,930,387		
2045	1,925,016		
2046	1,928,369		
2047	1,925,031		
2048	1,925,208		
2049	1,542,803		
2050	1,539,665		
2051	1,539,828		
2052	1,323,875		
2053	125,000		
2054	-		
Total	\$58,852,142		

SOURCES OF PAYMENT FOR THE BONDS

Revenues; Pledge of Revenues

Pledge of Revenues and Other Amounts. The Bonds are payable from, and secured by, a pledge of Revenues and certain funds and accounts established and held by the Trustee under the Indenture. “Revenues” means all Installment Payments and other payments made by the District and received by the Authority pursuant to the Installment Purchase Agreement, and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) held under the Indenture.

Certain reserve funds have been established under the Existing Agreements (“Existing Reserve Funds”). Existing Reserve Funds are not pledged to the Installment Purchase Agreement or the Bonds. The Existing Reserve Funds are held by the District.

Assignment to Trustee. Under the Indenture, the Authority transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges it has under the Installment Purchase Agreement (but none of its obligations thereunder, and none of its rights to give approvals or consents thereunder) including, without limitation, the right to collect and receive directly all the Installment Payments and the right to hold and enforce any security interest, and any Installment Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and will forthwith be paid by the Authority to the Trustee.

Receipt and Deposit of Revenues in the Debt Service Fund. All Revenues when and as received shall be transferred to the Trustee for deposit by the Trustee in the “Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) Debt Service Fund” (the “Debt Service Fund”), which fund the Trustee agrees to establish, maintain and hold in trust, for so long as any Bonds shall be Outstanding.

Establishment and Maintenance of Accounts for Use of Money in the Debt Service Fund. All money in the Debt Service Fund shall be set aside by the Trustee in the following respective special accounts within the Debt Service Fund (each of which is hereby created and each of which the Trustee hereby agrees and covenants to maintain) in the following order of priority:

Interest Account. On each Interest Payment Date, and on each other date when interest on the Bonds becomes due and payable, whether upon redemption, acceleration or otherwise, the Trustee shall set aside from the Debt Service Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest on the Bonds becoming due and payable on such Interest Payment Date or such other date.

Principal Account. On each Maturity Date, the Trustee shall set aside from the Debt Service Fund and deposit in the Principal Account an amount of money equal to the principal amount of the Outstanding Bonds maturing on such date from payments of a principal amount of Installment Payments on such date, plus any redemption premium payable in connection with the redemption of such Bonds on such date.

Redemption Account. All prepayments of Installment Payments made by the District pursuant to the Installment Purchase Agreement, shall be deposited in the Redemption Account and applied to the payment, redemption, or provision for the payment or defeasance of Outstanding Bonds as directed in a Certificate of the District.

Installment Payments

The Installment Payments are payable from and secured by Net Revenues all as set forth in the Installment Purchase Agreement and in the manner described herein. The Installment Payments are sufficient to pay, when due, the scheduled payment of principal and interest on the Bonds. Installment Payments are payable on the 5th Business Day immediately preceding each Interest Payment Date.

The District's obligation to pay the Installment Payments is a limited obligation of the District payable solely from Net Revenues of the Wastewater System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Installment Payments. The District is not obligated to pay the Installment Payments from revenues of the District's water system.

Net Revenues

Definitions. The following definitions are from the Installment Purchase Agreement and the Indenture and capitalized terms used below have the meanings set forth in the Indenture. See "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS."

"Existing Agreements" means the 2008 Agreement, the 2018 Agreement, the 2019 Agreement, the 2021 Agreement and the 2022 Agreement.

"Gross Revenues" means, for each Fiscal Year, all gross income and revenue received or receivable by the District from the ownership or operation of the Wastewater System, determined in accordance with Generally Accepted Accounting Principles ("GAAP"), including all rates, fees, and charges (including connection fees and charges) as received by the District for the services of the Wastewater System; and all other income and revenue howsoever derived by the District from the ownership or operation of the Wastewater System or arising from the Wastewater System, including all income from the deposit or investment of any money in the Enterprise Fund, and any refundable deposits made to establish credit, and advances or contributions in aid of construction.

The term "Gross Revenues" does not include (i) customers' deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater operations and (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District.

"Net Revenues" means, for any Fiscal Year, all Gross Revenues received by the District less all Operation and Maintenance Costs for such Fiscal Year.

"Operations and Maintenance Costs" means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Wastewater System, determined in accordance with GAAP, consistently applied, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits and licenses to operate the Wastewater System and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms of the Indenture; but excluding, in all cases depreciation, replacement, and obsolescence charges or reserves therefor and amortization of intangibles.

Operation and Maintenance Costs do not include debt service payable on obligations incurred by the District with respect to the Wastewater System, including but not limited to the Installment Payments, Existing Parity Obligations and any future Parity Obligations or capital expenditures.

“Parity Obligations” means (i) the Existing Agreements and (ii) all obligations of the District issued or executed and entered into by the District, pursuant to and in accordance with the provisions of the Installment Purchase Agreement, the Parity Obligation Payments under which are secured by a pledge of the Net Revenues on a parity with the Installment Payments, as provided in the Installment Purchase Agreement.

“Wastewater System” means the entire wastewater collection, conveyance and treatment system, owned or operated by the District, including but not limited to all facilities, properties, works and improvements at any time owned, operated or determined to be part of the Wastewater System by the District for the collection, conveyance and treatment of wastewater within the service area of the District, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements or additions thereto hereafter acquired, constructed or installed by the District.

Application of District Revenues

Under the Installment Purchase Agreement, the District is required to deposit all of the Gross Revenues in the Enterprise Fund (which has been established and is held and maintained by the District) immediately upon receipt.

The District shall, from the moneys in the Enterprise Fund, pay all Operation and Maintenance Costs as they become due and payable. All remaining moneys in the Enterprise Fund shall be set aside by the District at the following times for transfer to the following respective special funds in the following order of priority:

- (a) Not later than each Installment Payment Date, the District shall, from the moneys in the Enterprise Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The District shall also, from the moneys in the Enterprise Fund, transfer when due to the applicable trustee or lender for deposit in the respective payment fund or to make payment due, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any Parity Obligation Payments in accordance with the provisions of the applicable Parity Obligations; and
- (b) any other purposes authorized under the Installment Purchase Agreement.

Under the Installment Purchase Agreement, all Net Revenues are irrevocably pledged to the payment of the Installment Payments and shall not be used for any other purpose until all Installment Payments have been fully paid or provision has been made for such payment in accordance with the Indenture. This pledge, together with the pledge of Net Revenues securing all other Existing Parity Obligations, shall, subject to application as permitted in the Indenture, constitute a lien on Net Revenues.

No Reserve Fund for the Bonds

There is no reserve fund established for the Bonds.

Events of Default and Acceleration of Maturities

The Installment Payments are not secured by, and the Owners of Bonds have no security interest in or mortgage on the property of the Wastewater System, or of the District. Default by the District will not result in loss of any property to the District. Should the District default, the Trustee may declare the entire principal amount of the Installment Payments and the accrued interest thereon, to be due and payable immediately, whereupon the same shall become due and payable, and take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Purchase Agreement. A default under the Installment Purchase Agreement is also an Event of Default under the Indenture which may result in an acceleration of Bonds. See “APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS - Events of Default” and “- Remedies on Default” and “RISK FACTORS - Limitations on Remedies Available to Bond Owners.”

Rate Covenant

Covenant Regarding Net Revenues. The District covenants that, to the fullest extent permitted by law, it will fix, prescribe, charge, and collect, or cause to be fixed, prescribed, charged, and collected, in each Fiscal Year, such rates, fees, and charges for the use of and for the service furnished by the Wastewater System so that Net Revenues realized, are in an amount which will be sufficient to be at least equal 125% of annual Installment Payments and Parity Obligation payments, and at least equal to 110% of the sum of annual Installment Payments and Parity Obligation payments and annual debt service on Subordinate Obligations, if any, for such Fiscal Year.

“Subordinate Obligations” are obligations of the District that are payable from Net Revenues on a basis that is subordinate to the payment of the Installment Payments and Parity Obligations. Reimbursement of the City of Santa Cruz’s financing costs under the Capacity Agreement has no lien on Net Revenues and is not included in the calculation of Subordinate Obligations for this purpose.

Covenant Regarding Gross Revenues. The District further covenants that, to the fullest extent permitted by law, it will fix, prescribe, charge and collect, or cause to be fixed, prescribed, charged, and collected, in each Fiscal Year, rates, fees and charges for the use of and for the services furnished by the Wastewater System so that Gross Revenues realized during each Fiscal Year are in an amount which will be sufficient to pay the following amounts in the following order of priority:

- (i) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;
- (ii) The Installment Payments and the principal and interest on any outstanding Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority;
- (iii) All amounts, if any, required to restore the balance of any reserve fund or accounts required under any instrument under which a Parity Obligation was issued or incurred including the Existing Agreements, for any outstanding Parity Obligations, to the full amount of any such reserve requirement; and
- (iv) All payments required to meet any other obligations of the District which are charges, liens or encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year, including any Additional Payments, as defined in the Installment Purchase Agreement.

Parity Obligations

(a) The District may issue or incur Parity Obligations in such principal amount as shall be determined by the District subject to the following specific conditions:

- (i) No Event of Default under the Installment Purchase Agreement and under any instrument secured by Gross Revenues shall have occurred and be continuing, and the District shall otherwise be in compliance with all covenants set forth in the Installment Purchase Agreement; and
- (ii) Net Revenues calculated on GAAP, consistently applied, and excluding the proceeds of any taxes and also excluding any balances in any fund at the beginning of the period of the computation, as shown by the books of the District for the latest Fiscal Year, or any more recent twelve month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligation is issued or incurred, as shown by the books of the District, plus, at the option of the District, either or both of the items below designated in subsections (b)(i) and (b)(ii), shall have amounted to at least 1.25 times the Maximum Annual Debt Service taking into consideration the maximum annual debt service payable in any Fiscal Year on the proposed Parity Obligation.

(b) For purposes of making the calculations set forth in subsection (a)(ii):

- (i) If any Parity Obligation includes capital appreciation bonds, then the accreted value payment thereof shall be deemed a principal payment and interest that is compounded and paid as accreted value shall be deemed due on the scheduled redemption or payment date of such capital appreciation bond;
- (ii) If any Parity Obligation includes interest payable pursuant to a variable interest rate formula, the variable interest rate portion of such Parity Obligation for periods when the actual interest rate cannot yet be determined, shall be assumed to be the maximum interest rate under the Parity Obligation.

(c) The District shall deliver to the Authority and the Trustee, prior to incurring or issuing such proposed Parity Obligation, a copy of the proposed instrument under which such Parity Obligation shall be issued or incurred and a Certificate of the District certifying that the conditions precedent to the issuance of such Parity Obligation set forth in subsections (a) and (b) above have been satisfied.

(d) Notwithstanding subsections (a)(ii), (b) and (c) above, a proposed Parity Obligation to be issued for the purpose of refunding an outstanding Parity Obligation may be issued without compliance with subsections (a)(ii), (b) and (c) above, so long as such refunding results in lower Annual Debt Service in each Fiscal Year after such refunding and the final maturity date of the refunding Parity Obligation is no later than the final maturity date of the refunded Parity Obligation. The District shall deliver to the Authority and the Trustee the instrument under which such Parity Obligation shall be issued or incurred for such refunding within 30 days of such Parity Obligation issuance and a certificate of the District certifying that the conditions precedent to the issuance of the Parity Obligation for the purpose of refunding Parity Obligations set forth in the Installment Purchase Agreement described above have been satisfied.

Nothing contained in the Installment Purchase Agreement provisions described above shall limit the issuance or incurrence of any Subordinate Obligations.

Proceeds of Insurance, Sale or Condemnation Awards

Insurance. To the extent such insurance is available for reasonable premiums from a reputable insurance company, the District covenants under the Installment Purchase Agreement to procure and maintain at all

times insurance on the Wastewater System against such risks (including accident to or destruction of the Wastewater System) and in such amounts as are usually insured in connection with operations in California similar to the Wastewater System; provided, that such insurance coverage may be satisfied under a self-insurance program.

The District covenants under the Installment Purchase Agreement to procure and maintain or cause to be procured and maintained public liability insurance covering claims against the District (including its governing body, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the District's operations, including any use of the Wastewater System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations in California similar to the Wastewater System. Such insurance coverage may also be satisfied under a self-insurance program.

The foregoing insurance may be provided under coverage procured by the County.

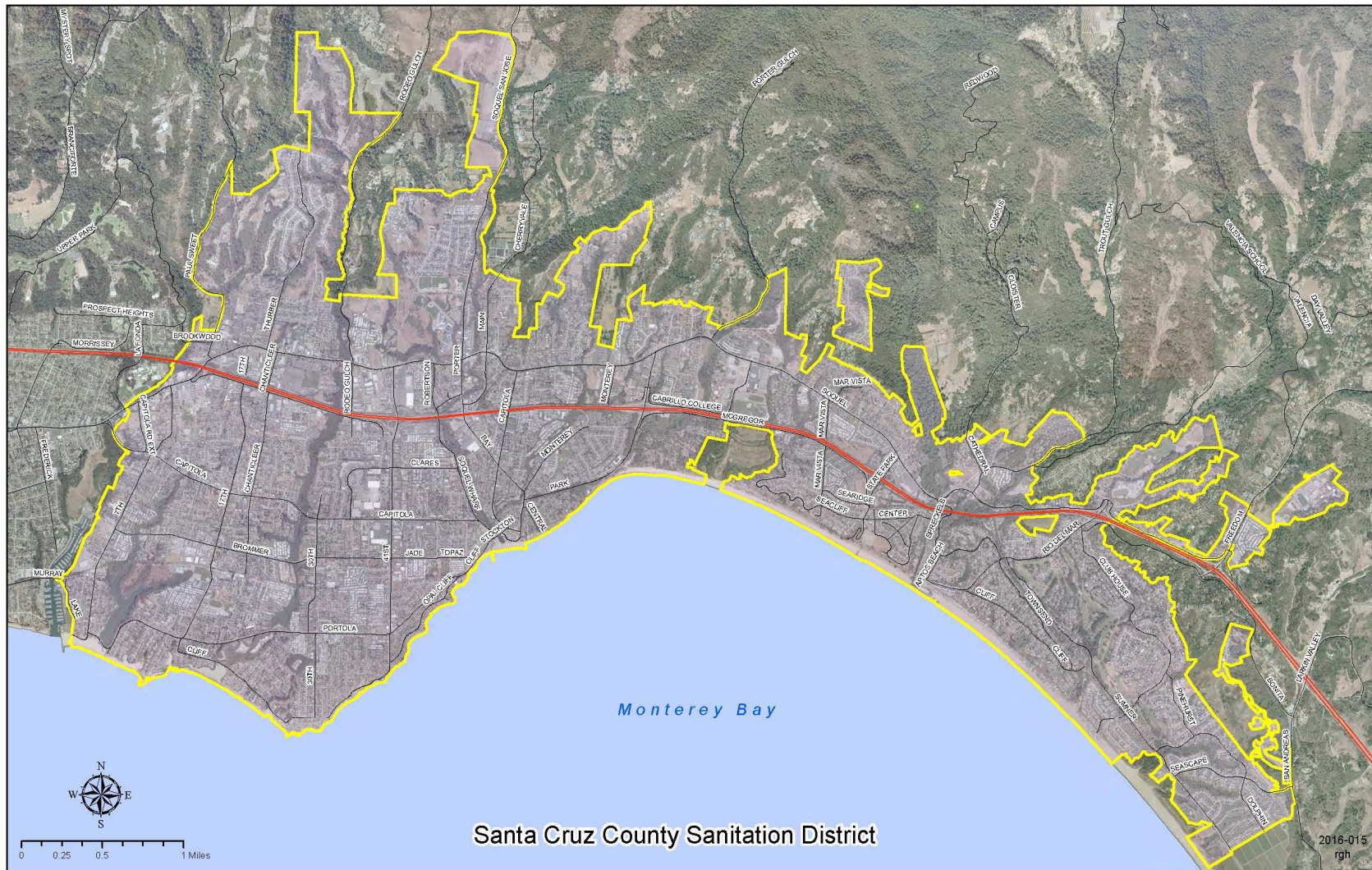
Under the Installment Purchase Agreement, if all or any part of the Wastewater System shall be damaged or destroyed, the Net Proceeds realized by the District as a result thereof shall be applied by the District to the cost of acquiring and constructing repairs, replacements, or improvements to the Wastewater System. If such damage or destruction has had no effect, or at most an immaterial effect, upon the Gross Revenues and the security of the Installment Payment and all Parity Obligations, and a Certificate of the District to such effect has been filed with the Trustee, then the District shall deposit such proceeds in the Enterprise Fund, to be applied as provided for Gross Revenues in the Installment Purchase Agreement.

Sale of the Wastewater Operations. Under the Installment Purchase Agreement, the District covenants not to sell or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the Net Revenues, unless the Installment Payments have been fully paid or provision has been made therefor in accordance with the Installment Purchase Agreement. The District covenants under the Installment Purchase Agreement not to enter into any lease or agreement which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net Revenues for the payment of the Installment Payments and all Parity Obligations, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Wastewater System.

Condemnation Awards. Under the Installment Purchase Agreement, if all or any part of the Wastewater System shall be taken by eminent domain proceedings, the Net Proceeds realized by the District therefrom shall be applied by the District to the cost of acquiring and constructing repairs, replacements, or improvements to the Wastewater System. If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the Gross Revenues and the security of the Installment Payments and all Parity Obligations, and a Certificate of the District to such effect has been filed with the Trustee, then the District shall deposit such proceeds in the Enterprise Fund, to be applied as provided for Gross Revenues in the Installment Purchase Agreement.

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DISTRICT SERVICE AREA



SANTA CRUZ COUNTY SANITATION DISTRICT

The District was formed in 1973. The District's boundaries encompass an area of approximately 13 square miles, generally located along the coast of the Monterey Bay between the City of Santa Cruz and La Selva Beach, encompassing the City of Capitola and the communities of Live Oak, Soquel and Aptos.

The District is governed by a three-member Board of Directors (the "Board"), comprised of the County Supervisor for the 1st District, the County Supervisor for the 2nd District and a member of the City of Capitola City Council, who acts as Chairperson of the Board, plus one alternate member. The County's Community Development and Infrastructure Department is responsible for the administration, engineering, maintenance, emergency response and construction of all County sanitation services. These services are provided not only to the District, but two other sanitation districts and five County service areas.

THE WASTEWATER SYSTEM

The following information concerning the Wastewater System was obtained from District officials except where otherwise indicated. The audited financial statements of the District for the Fiscal Year ended June 30, 2023 with the Independent Auditor's Report are attached hereto as "APPENDIX B" and should be read in their entirety.

Wastewater System Description

The wastewater collection system operated by the District includes 35 pump stations and 234 miles of sewers. The District has approximately 22,800 customer accounts. Wastewater from the eastern side of the District is collected and pumped through the Aptos Transmission facility to the East Cliff Pump Station in the Live Oak area. All of the District's wastewater is received at its East Cliff facility. It is then treated with biocide and pumped through a 36-inch force main pipe approximately four miles west to the treatment facilities in the City of Santa Cruz, described below.

There are 14 miles of force sewer mains and 200 miles of gravity sewer lines. Approximately 132 miles of the system's pipelines were built between 1960 and 1979. The District continues to fund replacement or rehabilitation of older pipeline as part its annual capital improvement budget. Since 2000 approximately 191,125 linear feet of pipeline has been rehabilitated or replaced.

The District's users currently generate approximately 7-8 million gallons of sewage a day ("MGD") in a peak month. The District has treatment capacity rights up to 8 MGD in the wastewater treatment facility (the "Treatment Plant") owned and operated by the City of Santa Cruz (the "City"). The Treatment Plant has a capacity of 17 MGD. The District's capacity rights in the Treatment Plant were determined pursuant to a Joint Wastewater Treatment and Disposal Agreement dated September, 1990 between the District and the City (the "Capacity Agreement"). The Capacity Agreement has a 50-year term (through September 2040) with an option to extend another 50 years at the District's option.

Capacity Agreement. Pursuant to the Capacity Agreement, the District has capacity rights in a number of City facilities, including the Treatment Plant and specific outfall facilities to the Pacific Ocean. The District is authorized to deliver sewage for treatment and disposal of up to a peak flow rate of 30 MGD. The dry weather flow of sewage may not average more than 8 MGD in any consecutive 30-day dry weather period at the Treatment Plant. The District's average daily discharge to the Treatment Plant in Fiscal Year 2022-23 was 3 MGD.

The District is obligated to pay the City for maintenance and operation costs, replacement costs and administrative costs for treating the District's wastewater, with the costs based on volume, biochemical oxygen demand (BOD) and suspended solids (SS) loadings. The District's share of those costs has increased generally for inflation each year.

The Treatment Plant. The Treatment Plant sits on 30 acres of City-owned land at Neary Lagoon. The current plant capacity is 17 million gallons per day. The construction of advanced primary facilities at the plant was completed in 1991. Construction of secondary treatment facilities was completed in 1998. Since then, a Phase II of the odor control project and cogeneration energy production system using methane gas were completed. The City disinfects treated wastewater using an ultraviolet disinfection system. The treated wastewater is discharged to Monterey Bay through an ocean outfall, which is also used by the nearby city of Scotts Valley. Outfall costs, including ocean monitoring, are split in proportion to the total annual flow of the three agencies.

The District is obligated to pay the City for 47.06% of the routine capital expenditures to the Treatment Plant. These amounts vary from year to year. The City recently completed a study of the infrastructure requirements at the Treatment Plant and included those costs in the annual update of its five-year projection of capital costs for the Treatment Plant. The current projection for Fiscal Years 2024-25 – 2027-28 averages \$6 million per year with an additional \$2 million in Fiscal Years 2024-25, 2025-26 and 2026-27 to pay for design of the electrical system upgrade described below. Major facility improvements or replacements must be presented to the District Board.

The City recently financed the replacement of the ultraviolet disinfection system. The City is also planning to finance the replacement of several critical electrical system elements that are either damaged, undersized, obsolete, or nearing the end of their useful life. Pursuant to the Capacity Agreement, the District reimburses the City for 47.06% of the debt service incurred by the City to finance these capital costs of the Treatment Plant.

Customer Base

The customer base of the Wastewater System is largely residential, which generates approximately 85% of sewer charges. The County places the sewer charges on the tax roll, so the number of charges levied is less than the actual number of customers since some parcels have multiple connections. For Fiscal Year 2023-24, there were 22,832 parcels charged, and approximately 32,310 users.

TABLE NO. 1
CUSTOMER ACCOUNTS
Fiscal Years 2017-18 through 2023-24

<u>Fiscal Year</u>	<u>Number of Customer Accounts</u> ⁽¹⁾
2017-18	22,388
2018-19	22,484
2019-20	22,453
2020-21	22,567
2021-22	22,606
2022-23	22,667
2023-24	22,832

⁽¹⁾ Some accounts include multiple connections.

Source: Santa Cruz County Sanitation District.

Table No. 2 shows the 10 largest customers of the Wastewater System for Fiscal Year 2022-23.

TABLE NO. 2
TEN LARGEST CUSTOMERS BY REVENUES
Fiscal Year 2022-23

<u>Customer</u>	<u>Wastewater Revenues</u>	<u>% of Total Wastewater Revenues⁽²⁾</u>
Dignity Health/ Dominican Hospital	\$ 230,040	0.71%
Dominican Oaks Retirement Facility	177,440	0.55
Community Affordable Housing	172,272	0.53
Rodeo Mobile Estates	150,723	0.46
Chaminade Resort & Spa	138,552	0.43
Shoreline Mobile Estates	130,036	0.40
Seascape Resort	119,832	0.37
Alimur Mobile Home Park	111,565	0.34
Elizabeth Oaks Apartments	108,531	0.33
Santa Cruz Port District	<u>105,873</u>	<u>0.33</u>
Total top 10 ⁽³⁾	\$1,444,864	4.45%

⁽¹⁾ Hundred cubic feet.

⁽²⁾ Excluding connection fees.

⁽³⁾ Cabrillo Community College has historically been one of the District's ten largest customers. School accounts are billed on the prior year student counts and many students were still remote-learning when the fees were calculated for Fiscal Year 2022-23. Student counts on campus are much higher for Fiscal Year 2023-24 and Cabrillo Community College is expected to generate revenues in excess of \$118,000 in Fiscal Year 2023-24.

Source: Santa Cruz County Sanitation District.

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Sewer Charges

Pursuant to Proposition 218, the District holds a public hearing each year and approves a schedule of rates to be effective each July 1. Residential customers are billed a fixed fee. Non-residential customers are billed a fixed fee plus a variable component based on their average consumption of water, or other variable measure, as the case may be. Table No. 3 shows the rates effective as of July 1, 2021 (FY 2021-22), July 1, 2022 (FY 2022-23) and July 1, 2023 (FY 2023-24).

**TABLE NO. 3
ANNUAL SEWER VARIABLE AND FIXED CHARGES**

<u>User Group</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
Single Family Residential	\$880.92	\$939.96	\$997.56
Townhomes and Condominiums	762.48	812.28	861.36
Multiple Family	762.48	812.28	861.36
Accessory Dwelling Units	762.48	812.28	861.36
Mobile Homes	655.80	697.44	738.84
Bakeries/Donut Shops, Restaurants/Catering, Food Processing, Funeral Parlors, Other Businesses ⁽¹⁾	\$372.48 + Variable Charge/HCF	\$390.12 + Variable Charge/HCF	\$407.64 + Variable Charge/HCF
Dignity Health/Dominican Hospital ⁽¹⁾	\$372.48 + \$9.66/HCF	\$390.12 + 10.37/HCF	\$407.64 + 14.72/HCF
Hospital/Convalescent ⁽²⁾	N/A	N/A	\$407.64 + 14.72/HCF
Chaminade Resort ⁽¹⁾	\$372.48 + \$12.13/HCF	\$390.12 + \$13.39/HCF	\$407.64 + \$19.20/HCF
State Parks ⁽¹⁾	\$372.48 + \$9.05/HCF	\$390.12 + \$9.63/HCF	\$407.64 + \$13.63/HCF
Elementary and Middle Schools ⁽³⁾	\$372.48 + \$24.17/ADA	\$390.12 + \$23.20/ADA	\$407.64 + \$24.63/ADA
Senior High Schools ⁽³⁾	\$372.48 + \$36.30/ADA	\$390.12 + \$34.75/ADA	\$407.64 + \$36.89/ADA
Junior College ⁽⁴⁾	\$372.48 + \$31.96/FTES	\$390.12 + \$30.61/FTES	\$407.64 + \$32.50/FTES

⁽¹⁾ HCF means hundred cubic feet and is based on prior calendar year water usage. Variable charge ranges from \$14.11 to 22.05/HCF in Fiscal Year 2023-24.

⁽²⁾ New category added in Fiscal Year 2023-24 to distinguish medical facilities that provide temporary and long-term care differently from standard medical offices.

⁽³⁾ ADA means average daily attendance and is based on prior school year attendance.

⁽⁴⁾ FTES means full-time equivalent students and is based on prior school year attendance.

Source: Santa Cruz County Sanitation District.

The Board of Directors increased annual sewer rates by an average 4.0% in Fiscal Year 2021-22 and 6.7% for Fiscal Year 2022-23. Part of the increase in Fiscal Years 2021-22 and 2022-23 were related to the lower usage of restaurants during the COVID-19 Pandemic, since annual charges are based on prior year water usage. The Board of Directors increased annual sewer rates in Fiscal Year 2023-24 by an average 6.1%, in anticipation of additional borrowing.

The District updates its rate model annually. Based on its rate model updated by Hornberger Engineering in February 2024 and the need to fund the District’s capital improvement program, the District anticipates that it will need to increase its rates by an average of approximately 7.6% annually in Fiscal Years 2024-25 to 2026-27, 7.0% in Fiscal Year 2027-28 and 7.1% in Fiscal Year 2028-29.

The Board of Directors is expected to continue to take action each year to set rates in accordance with the procedural and substantive provisions of Proposition 218, however, there can be no assurance that rates will be increased as contemplated herein. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218” herein.

Table No. 4 compares average monthly sewer rates charged by the District with surrounding sanitation districts or sewer operations in the County.

TABLE NO. 4
MONTHLY COMPARISON OF
AVERAGE RESIDENTIAL SEWER RATES
Based on Fiscal Year 2023-24 Rates

<u>Agency</u>	<u>Single</u>	<u>Multifamily</u>
Santa Cruz County Sanitation	\$83.13	\$71.78
Freedom Sanitation District	46.63	34.85
Davenport Sanitation District	141.02	N/A
City of Santa Cruz	61.30	50.10
City of Scotts Valley	60.21	42.17
City of Watsonville	53.22	53.22

Source: Santa Cruz County Sanitation District.

Billing Practices and Collection

Sewer service charges are collected through the property tax bills of the District’s users. Charges are calculated by the Community Development & Infrastructure – Public Works Division and entered on the tax bills by the County Auditor-Controller-Treasurer-Tax Collector’s Office. Charges for commercial users are developed from the records of the two water agencies serving the District: the City of Santa Cruz Water Department and the Soquel Creek Water District. Connection fees are collected for the District by the Community Development & Infrastructure – Planning Division, except for fees in the City of Capitola where the District collects the fees directly from the customer.

The County charges a 1% collection fee for administering the sewer charges on the tax roll.

The County property taxes are allocated under the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. Therefore, the District is allocated 100% of the sewer charges entered on the tax bills. The District is allocated 45% of its sewer charges in December, 50% in April and 5% in June.

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Outstanding Indebtedness of the District

The District had outstanding indebtedness as of February 1, 2024 as shown in Table No. 5.

TABLE NO. 5
OUTSTANDING INDEBTEDNESS
As of February 1, 2024

	<u>Obligation</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
(1)	2008 Agreement with SWRCB	\$12,185,413	\$6,299,476	2032
(2)	2018 Agreement with SWRCB	5,000,000	4,788,080	2050
(3)	2019 Agreement with IBank	7,000,000	6,552,082	2048
(4)	2021 Agreement with SWRCB	1,393,000 ^(a)	1,393,000 ^(a)	2053
(5)	2022 Agreement with Authority	19,945,000	19,565,000	2052
(6)	Capacity Agreement	1,647,000	1,531,711	2050

(1)	Pledge of Net Revenues to the Installment Payments on parity with payments due under the 2024 Agreement. Annual payment approximately \$790,000. Requires a reserve fund set aside from fund balance equal to one year's debt service.
(2)	Pledge of Net Revenues to the Installment Payments on parity with payments due under the 2024 Agreement. Annual payment approximately \$219,000. Requires a reserve fund set aside from fund balance equal to one year's debt service.
(3)	Pledge of Net Revenues to the Installment Payments on parity with payments due under the 2024 Agreement. Annual payment approximately \$403,000. Requires a reserve fund set aside from fund balance equal to one year's debt service.
(4)	Pledge of Net Revenues to the Installment Payments on parity with payments due under the 2024 Agreement. (a) The District has requested an increase in the 2021 Agreement from \$1,393,000 to \$3,265,220 related to increased project costs of the Valencia Creek project. The District began drawing funds under the 2021 Agreement in Fiscal Year 2023-24. Annual payments of approximately \$125,000 are anticipated to commence in Fiscal Year 2024-25 after completion of the project.
(5)	Pledge of Net Revenues to the Installment Payments on parity with payments due under the 2024 Agreement. Annual payment approximately \$1,200,000.
(6)	Payments required to reimburse the City of Santa Cruz for 47.06% of the \$3,500,000 financing undertaken by the City for certain capital improvements to the Treatment Plant. Payments due under the Capacity Agreement have no lien on Net Revenues. The District expects the City to finance another \$27 million for the electrical system upgrade (see "Wastewater System Description – Treatment Plant" above), of which the District's reimbursable share will be approximately \$13 million. The current annual payment is approximately \$83,000 and is expected to increase to \$828,000 by Fiscal Year 2025-26 when the full impact of the cost of the electrical system upgrade is implemented.

Source: Santa Cruz County Sanitation District.

Capital Improvement Program

The District reviews and updates its five-year Capital Improvement Program (the “CIP”) annually. The table below summarizes the five-year CIP by Fiscal Year that is anticipated as part of the Fiscal Year 2024-25 budget. The projects are in addition to the \$29,000,000 being funded with proceeds of the Bonds.

<u>Fiscal Year</u>	<u>Amount</u>	<u>Anticipated Bond Funding</u>
2024-25	\$28,860,000	Includes \$24,000,000 from future bond financing for upgrades to the D.A. Porath Facility (the East Cliff pumping station and District maintenance headquarters)
2025-26	33,086,080	Includes \$30,000,000 from future bond financing for various sewer rehabilitation projects
2026-27	2,550,000	
2027-28	2,095,000	
2028-29	<u>27,110,000</u>	Includes \$25,000,000 for replacement or rehabilitation of existing sewer facilities
Total	\$93,701,080	

Source: Santa Cruz County Sanitation District.

The District has identified the timing and method of funding the capital improvements over the next five years. The above capital costs are designed to be funded with a combination of operational net cashflow, proceeds of the Bonds or other debt, reserves or a combination of these sources. In addition to the projects to be funded with proceeds of the Bonds, currently, the District expects to fund \$79 million of these improvements with future debt proceeds. In addition, the District’s 10-year plan includes an additional \$50 million in capital projects to fix approximately 95% of the known significant deficiencies, including rehabilitation or replacement of sewer infrastructure in poor condition or to address capacity issues that put the system at risk of overflowing in large storm events.

Employees and Benefits

The District has no employees. The County’s Community Development and Infrastructure Department is responsible for the administration, engineering, maintenance, emergency response and construction of all County sanitation services, and the District is charged for the cost of the personnel and services. The County’s Director of Community Development and Infrastructure acts as the District Engineer.

Historical Operating Results

The table on the following page summarizes the Statement of Net Position for the Wastewater System for the last five fiscal years ended June 30, 2023. The audited financial statements of the District for the Fiscal Year ended June 30, 2023 with the Independent Auditor’s Report are attached hereto as “APPENDIX B” and should be read in their entirety.

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TABLE NO. 6
SANTA CRUZ COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION
For the Fiscal Years Ended June 30

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
ASSETS					
Current assets:					
Pooled cash and investment	\$ 15,542,639	\$ 11,494,099	\$ 16,612,452	\$ 20,172,845	\$ 18,715,109
Cash with fiscal agents	7,000,000	7,021,004	-	-	-
Accounts receivable	1,072	-	-	-	-
Inventories	<u>13,299</u>	<u>13,419</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	<u>22,557,010</u>	<u>18,528,522</u>	<u>16,612,452</u>	<u>20,172,845</u>	<u>18,715,109</u>
Non-current assets:					
Cash with fiscal agents	-	-	-	20,008,924	17,860,273
Capital assets, net	133,402,476	141,874,223	147,146,106	146,302,682	151,498,053
Promissory note	<u>55,077</u>	<u>55,077</u>	<u>55,077</u>	<u>-</u>	<u>-</u>
Total non-current assets	<u>133,457,553</u>	<u>141,929,300</u>	<u>147,201,183</u>	<u>166,311,606</u>	<u>169,358,326</u>
Total assets	<u>156,014,563</u>	<u>160,457,822</u>	<u>163,813,635</u>	<u>186,484,451</u>	<u>188,073,435</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	4,703,968	3,094,398	3,989,356	4,113,313	3,461,530
Accrued bond interest	54,697	159,249	206,583	147,222	136,344
Capital leases	1,194	319	-	-	-
Bonds and loans payable, current portion	<u>573,309</u>	<u>731,667</u>	<u>751,342</u>	<u>1,300,301</u>	<u>1,268,422</u>
Total current liabilities	<u>5,333,168</u>	<u>3,985,633</u>	<u>4,947,281</u>	<u>5,560,836</u>	<u>4,866,296</u>
Non-current liabilities:					
Bonds and loans payable	15,106,842	17,009,812	17,883,789	37,729,668	36,461,276
Capital leases	<u>319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>15,107,161</u>	<u>17,009,812</u>	<u>17,883,789</u>	<u>37,729,668</u>	<u>36,461,276</u>
Total liabilities	<u>20,440,329</u>	<u>20,995,445</u>	<u>22,831,070</u>	<u>43,290,504</u>	<u>41,327,572</u>
Net position:					
Net investment in capital assets	124,720,812	131,153,429	128,510,975	107,272,683	131,627,947
Unrestricted	<u>10,853,422</u>	<u>8,308,948</u>	<u>12,471,590</u>	<u>35,921,264</u>	<u>15,117,916</u>
Total net position	<u>\$ 135,574,234</u>	<u>\$ 139,462,377</u>	<u>\$ 140,982,565</u>	<u>\$ 143,193,947</u>	<u>\$ 146,745,863</u>

Source: Santa Cruz County Sanitation District Basic Financial Statements.

The following table presents a summary of the operating results of the Enterprise for the five fiscal years ended June 30, 2019 through June 30, 2023.

TABLE NO. 7
SANTA CRUZ COUNTY SANITATION DISTRICT
HISTORICAL FINANCIAL RESULTS

	<u>Fiscal Year</u> <u>2018-19</u>	<u>Fiscal Year</u> <u>2019-20</u>	<u>Fiscal Year</u> <u>2020-21</u>	<u>Fiscal Year</u> <u>2021-22</u>	<u>Fiscal Year</u> <u>2022-23</u>
Operating Revenues:					
Charges for services	<u>\$ 25,664,972</u>	<u>\$ 27,096,778</u>	<u>\$ 27,780,566</u>	<u>\$ 29,088,620</u>	<u>\$ 31,679,491</u>
Total Operating Revenues	<u>25,664,972</u>	<u>27,096,778</u>	<u>27,780,566</u>	<u>29,088,620</u>	<u>31,679,491</u>
Operating Expenses:					
General and administrative	5,771,734	6,114,191	6,163,848	6,296,211	6,894,506
Services and supplies	12,869,924	12,675,255	14,699,556	13,570,675	15,054,640
Depreciation	<u>5,088,073</u>	<u>5,319,350</u>	<u>5,493,334</u>	<u>5,684,531</u>	<u>6,175,322</u>
Total Operating Expenses	<u>23,729,731</u>	<u>24,108,796</u>	<u>26,356,738</u>	<u>25,551,417</u>	<u>28,124,468</u>
Operating Income	1,935,241	2,987,982	1,423,828	3,537,203	3,555,023
Non-Operating Revenues/(Expenses):					
Aid from other governments	-	1,160,140	514,482	104,436	189,673
Special assessments	(129,567)	-	-	-	-
Investment earnings	263,233	202,201	92,097	(430,016)	1,101,758
Bond interest and related fees	(231,732)	(452,935)	(510,219)	(1,000,241)	(1,303,947)
Loss on sale of capital assets	<u>-</u>	<u>(9,245)</u>	<u>-</u>	<u>-</u>	<u>9,409</u>
Total nonoperating revenues (expenses)	<u>(98,066)</u>	<u>900,161</u>	<u>96,360</u>	<u>(1,325,821)</u>	<u>(3,107)</u>
Change in Net Position	1,837,175	3,888,143	1,520,188	2,211,382	3,551,916
Net Position-Beginning	<u>133,737,059</u>	<u>135,574,234</u>	<u>139,462,377</u>	<u>140,982,565</u>	<u>143,193,947</u>
Net Position-Ending	<u>\$ 135,574,234</u>	<u>\$ 139,462,377</u>	<u>\$ 140,982,565</u>	<u>\$ 143,193,947</u>	<u>\$ 146,745,863</u>

Source: Santa Cruz County Sanitation District Basic Financial Statements.

The following table presents a summary of the operating results of the Enterprise as well as debt service and debt service coverage for the five fiscal years ended June 30, 2019, through June 30, 2023, calculated in accordance with the provisions of the Indenture.

TABLE NO. 8
SANTA CRUZ COUNTY SANITATION DISTRICT
HISTORICAL SUMMARY STATEMENT OF REVENUES,
EXPENSES AND DEBT SERVICE COVERAGE
FOR FISCAL YEARS ENDING JUNE 30, 2019, THROUGH JUNE 30, 2023

	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>
Operating Revenues:					
Sewer Charges	\$25,664,972	\$27,096,778	\$27,780,566	\$29,088,620	\$31,679,491
Investment income	<u>263,233</u>	<u>202,201</u>	<u>92,097</u>	<u>-</u>	<u>1,101,758</u>
Gross Revenues	25,928,205	27,298,979	27,872,663	29,088,620	32,781,249
Operating Expenses	<u>18,641,658</u>	<u>18,789,446</u>	<u>20,863,404</u>	<u>19,866,886</u>	<u>21,949,146</u>
Net Revenues	\$ 7,286,547	\$ 8,509,533	\$ 7,009,259	\$9,221,734	\$10,832,103
Debt Service:					
2005 Bonds	\$ -	\$ -	\$ -	-	-
2008 Agreement	790,313	790,313	790,313	790,313	790,313
2018 Agreement	-	-	200,920	219,203	219,203
2019 Agreement	-	-	404,734	403,679	403,124
2021 Agreement	-	-	-	-	-
2022 Agreement	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,198,001</u>
Total	\$ 790,313	\$ 790,313	\$ 1,395,967	\$ 1,413,195	\$ 2,610,641
Coverage Ratio	922%	1,077%	502%	653%	415%
Available for Capacity Agreement and CIP	\$ 6,496,234	\$ 7,719,220	\$ 5,613,292	\$7,808,539	\$7,119,704
Capacity Agreement	\$ 1,604,000	\$ -	\$ -	\$ 83,165	\$ 83,041

Source: Santa Cruz County Sanitation District.

Projected Debt Service Coverage

The projections of Revenues and the corresponding Net Revenues shown in Table No. 9 are based on the assumptions shown below. The District believes the assumptions used for the projections are reasonable based on its own data and on projections from outside sources; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see “RISK FACTORS”). To the extent that the assumptions are not actually realized the coverage levels shown in Table No. 9 will likely be reduced and, if substantial reductions in Net Revenues were to result, the District’s ability to timely pay the Installment Payments, which, in turn, pay debt service on the Bonds, may be adversely affected.

- (a) Sewer rates for single-family users are projected to increase 7.6% annually July 1, 2024, 2025 and 2026 and 7.0% on July 1, 2027 and July 1, 2028 based on the District’s most recently updated projections. Sewer rates for multi-family users are projected to increase 7.2% on July 1, 2024, 7.6% on July 1, 2025, 7.7% on July 1, 2026, and 7.1% annually on July 1, 2027 and July 1, 2028 based on the District’s most recently updated projections. Non-residential sewer charges increase over the projection period, among user classes, with annual increases ranging from 5.3% to 9.8%.
- (b) Operating expenses include Treatment Plant operational costs and ongoing routine capital maintenance expenses but do not include the financed capital costs payable under the Capacity Agreement (see “THE WASTEWATER SYSTEM - Capacity Agreement” above). District operating and maintenance costs are projected to increase between 3% and 4% annually. Treatment Plant operational costs are projected to increase 4% annually, with annual capital of between \$2.7 million and \$4.4 million, depending on the timing and amount of expected projects to be undertaken by the City.
- (c) Debt service payments on a future District financing of \$24 million are expected to commence in Fiscal Year 2025-26 and debt service payments on a future District financing of \$30 million are expected to commence in Fiscal Year 2026-27.

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TABLE NO. 9
PROJECTED NET REVENUES AND DEBT SERVICE COVERAGE
For the Fiscal Year ended June 30

	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>
Operating Revenues:					
Sewer Charges ⁽¹⁾	\$32,570,000	\$35,078,000	\$37,744,000	\$40,612,000	\$43,455,000
Investment income	<u>306,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Gross Revenues	32,900,000	35,178,000	37,844,000	40,712,000	43,555,000
Operating Expenses					
Operation and Maintenance	<u>25,781,000</u>	<u>27,663,000</u>	<u>29,371,000</u>	<u>28,872,000</u>	<u>29,451,000</u>
Net Revenues	\$ 7,119,000	\$ 7,515,000	\$ 8,473,000	\$11,840,000	\$14,104,000
Debt Service:					
2008 Agreement	\$ 790,313	\$ 790,313	\$ 790,313	\$ 790,313	\$ 790,313
2018 Agreement	219,203	219,203	219,203	219,203	219,203
2019 Agreement	406,052	402,550	401,957	401,342	400,707
2021 Agreement	-	125,000	125,000	125,000	125,000
2022 Installment Payments	1,195,669	1,199,419	1,197,169	1,199,169	1,200,169
2024 Installment Payments	-	1,685,000*	1,685,000*	1,685,000*	1,685,000*
Future Parity Obligations ⁽²⁾	<u>-</u>	<u>-</u>	<u>1,440,000</u>	<u>3,240,000</u>	<u>3,240,000</u>
Total	\$ 2,611,237	\$ 4,421,485 *	\$ 5,858,642 *	\$ 7,660,027 *	\$ 7,660,392 *
Coverage Ratio	273%	170%*	145%*	155%*	184%*
Available for Capacity Agreement and CIP	\$4,507,763	\$ 3,093,515 *	\$ 2,614,358 *	\$ 4,179,973 *	\$ 6,443,608 *
Capacity Agreement ⁽³⁾	\$ 82,913	\$ 82,783	\$ 82,649	\$ 910,512	\$ 910,371

⁽¹⁾ Rates change each July 1. See "Sewer Charges" above. Collection charges are included in Operation and Maintenance expenses.

⁽²⁾ The District anticipates issuing Parity Obligations to fund additional capital improvements, see "Capital Improvement Program" above. Amounts included for Installment Payments are estimated.

⁽³⁾ Estimated. Provided by the City of Santa Cruz to the District.

Source: Santa Cruz County Sanitation District.

The projected Revenues, Taxes and Operation and Maintenance Costs shown above are subject to several variables and assumptions as described on the previous pages. Actual results are likely to be different from these projections and the District provides no assurance that the projected Net Revenues or Coverage Ratios will be achieved (see "RISK FACTORS" herein).

* Preliminary, subject to change.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII B Gann Limit

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

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

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

The District is of the opinion that its charges with respect to Wastewater Service do not exceed the costs that it reasonably bears in providing Wastewater Service and are not subject to the limits of Article XIII B.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related “fee” or “charge,” which is defined as “any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property related fee or charge”).

On November 2, 2010, California voters approved Proposition 26, the so-called “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIID.

Property-Related Fees and Charges. Under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIIC states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to Statewide statutory initiatives.”

Judicial Interpretation of Articles XIIC and XIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges levied for water and wastewater would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to Wastewater Service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing Wastewater Service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218, and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno’s petition for review of the Court of Appeal’s decision on June 15, 2005.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIII D, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIII C's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIII C authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIII C and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that Wastewater Service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the "SJC Case") upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. District management believes that this case will not have any material impact on the District's ability to make the Installment Payments or to meet its rate covenant.

Conclusion. It is not possible to predict how the courts will further interpret Article XIII C and Article XIII D in future judicial decisions and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals sewer rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

The District believes that its rates with respect to the Wastewater Service comply with the requirements of Proposition 218 and expect that future fees and charges will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto. The requirements of, or a voter initiative pursuant to, Proposition 218 could impact the ability of the District to set or raise service charges.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIII C and Article XIII D to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for wastewater, or to call into question previously adopted sewer rate increases.

Future Initiatives

Articles XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the revenues of the District.

A voter initiative entitled "The Taxpayer Protection and Government Accountability Act" ("Initiative 1935") was recently determined to be eligible for the November 2024 Statewide general election and will be certified as qualified for the ballot in such election, unless withdrawn by its proponent prior to June 27, 2024 or a pending court challenge is successful in preventing Initiative 1935 from appearing on the ballot. Were it to be adopted by the voters in the Statewide general election, Initiative 1935 would amend the California Constitution to provide, among other things, that charges for services or products provided directly to the payor are "taxes" subject to voter approval unless the local government can prove by clear and convincing evidence that the charge is reasonable and does not exceed the "actual cost" of providing the service or product. The District charges fees based upon the cost of service and this ballot initiative is not anticipated to have an impact on the District's rates and charges or the process for approving rates and charges under Article XIII D (see "Proposition 218" above and "RISK FACTORS – Proposition 218" herein).

RISK FACTORS

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 wastewater services, which can be affected by population factors, more stringent wastewater standards, wastewater regulations, water conservation, water shortages, problems with the District's wastewater collection and other factors. There can be no assurance that wastewater 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 Installment Purchase Agreement. For example, during the Pandemic, water usage at restaurants and other businesses was reduced, which impacted the following year's revenue, since rates are set in advance.

The District's ability to meet its rate covenant is dependent upon its capacity to increase rates to a level sufficient to meet debt service on the Bonds and other Parity Obligations.

Risks Related to Facilities and Operations

The operation of the District's facilities and physical condition of the District's facilities and the Treatment Plant are subject to a number of risk factors that could adversely affect the reliability of sewer service or increase the operating expenses of the District. Prolonged damage to the District's facilities or the Treatment Plant could interrupt the ability of the District 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 Installment Purchase Agreement, or require the District to increase expenditures for repairs significantly enough to adversely impact the District's ability to pay the principal of or interest on the Bonds.

These factors could include, among others, the following:

Operation and Maintenance Expenses. There can be no assurance that operation and maintenance expenses of the District related to the wastewater system or its share of the Treatment Plant operation and maintenance expenses will be consistent with the levels contemplated in this Official Statement.

Seismic Hazards and Natural Disasters. The District is located in a seismically active region. From time to time, the service area of the District may be subject to other natural disasters, including without limitation wildfires, flooding and landslides, or man-made disasters that could interrupt operation of the wastewater system, or adversely affect economic activity in the District's service area.

There can be no assurance that the occurrence of any natural calamity would not cause substantial damage to the District's facilities, including exacerbated infiltration and/or inflow of ground and other waters into the wastewater system, or that the District 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 District may not cover damages and losses to the District's facilities due to earthquake, fire or flood.

Climate Change. As noted, the sewer charges are based on water usage by customers, and therefore, factors affecting water usage will necessarily affect revenues of the Wastewater System.

The issue of climate change has become an important factor in water resources planning in the State, and it is being considered during planning for water supplies and systems. Many studies cite evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, they cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes could have a direct effect on water resources in the State, and numerous studies on climate and water in the State have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of water resources impacts in the State, including impacts on water supplies and systems:

- Sea level rise and an increase in saltwater intrusion into groundwater,
- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, and a shift in snowmelt runoff to earlier in the year,
- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

Other than the general trends listed above, there is no specific information on exactly how global warming will quantitatively affect water supplies to the District's customers (which is the basis for calculating sewer rates) or customer water conservation. However, there can be no assurance that climate change will not affect water sources or customer demand.

Sea Level Rise. The District is located along and inland from the Pacific Ocean coast of California. In recent years, concern has arisen regarding the impact of climate change on coastal communities like the County, including as a result of sea level rise. The County's 2013 Climate Action Strategy originally identified risks of potential damage to property in the County in the event of various climate change scenarios resulting from sea level rise as well as the actions current and future decision makers will need to take to protect the natural and built environments, residents, visitors, and the economic base and quality of life. The County completed a new 2022 Climate Action and Adaption Plan to include adaptation and mitigation strategies, founded upon the principles of equity, and actionable within the span of local government response.

Sea level rise is expected to gradually inundate low-lying areas, which includes the shoreline and beach areas along the coastline that are presently closest to sea level, and therefore some property in the County, including the District, will be susceptible to direct impacts from rising sea levels, as will certain public facilities operated by the District. The greatest uncertainty is the rate at which sea level rise will occur. Because sea level rise is a gradual process, affected public agencies can implement long term policies designed to mitigate the impacts, but there is no guarantee that there will be funding to invest in adaptation strategies or what the net effect of those strategies will be. The District has plans to address gradual sea level rise by adding additional pump stations that may be needed for wastewater currently transported by gravity to low-lying areas to stations outside any area impacted by sea level rise. The District also plans to seek funding allocated for climate resiliency projects as it plans for the effects of climate change.

The City's Treatment Plant is located on the floodplain of the San Lorenzo River next to Neary Lagoon. As such, it is at a low point of the County and is adjacent to the tidal flow of the Pacific Ocean. The facility is also located above groundwater in the area's aquifer. As climate change progresses and if sea levels rise as projected, the Treatment Plant may be subject to additional water intrusion from the river, the ocean and rising groundwater. Sea change may increase the operational costs of the Treatment Plant or necessitate the construction of additional gates or walls to protect the facility or may necessitate the planning and construction of new facilities of the City's wastewater system. Some of these increased costs can be charged to the District under the Capacity Agreement.

The impacts of sea level rise can include physical damage to property and therefore reduced habitability, which could result in a significant decrease in the market value of certain property in the District.

The various scientific studies that forecast the amount and timing of adverse impacts of climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the District is unable to forecast with certainty when adverse impacts of climate change will occur or the extent of such impacts on the property in the District or on the County's economy.

Coastal Storm Waves. Sea level rise could also increase the frequency of coastal flooding from extreme waves. Extreme waves during storms have recently caused localized flooding and damage to structures along the Santa Cruz County coast.

Wind Impacts. In recent storms, the County has been subjected to straight-line high-velocity winds. These high-velocity winds can exert significant force on structures and trees. In some areas, wind has caused trees to be toppled when the ground had been saturated by rain, resulting in landslides and blockage of roads. There are trees adjacent to the District's East Cliff pumping facility. Damage to the facility might occur if high-velocity winds are experienced during a future storm, causing the trees to fall on the facility.

Aging Facilities. While the District has an ongoing series of projects to rehabilitate and upgrade the Wastewater System some of these facilities are aging and still in need of repair or replacement. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on District operations.

Private Sewer Laterals. Private sewer laterals are not owned or operated by the District; however, faulty private sewer laterals can increase inflow and infiltration into the District's facilities. Excessive inflow and infiltration into the facilities due to faulty sewer laterals may cause damage to the District's facilities.

Statutory and Regulatory Compliance. The operation of the District is subject to a variety of federal and State statutory and regulatory requirements. Any failure by the District to comply with applicable laws and regulations could result in significant fines and penalties. See “- Risk of Fines and Litigation” below. Further, compliance with these laws and regulations may result in significant increases in the capital and operating costs of the District.

Casualty Losses. The Installment Purchase Agreement obligates the District to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of a portion of the District's facilities in the event of damage or destruction to such portion of the District's facilities. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any other portion of the District's facilities.

Risk of Fines and Litigation

There is no certainty that the District can eliminate all future sanitary sewer overflows that reach waters of the United States. Sanitary sewer overflows could result in administrative civil penalties or the request for civil penalties by third parties brought under the citizen suit provisions of the Clean Water Act. Any such actions could impose additional payment obligations on the District. Any fines or civil penalties would likely be classified by the District as Operation and Maintenance Costs and, therefore, payable prior to debt service on the Bonds.

Proposition 218

On November 5, 1996, California voters approved Proposition 218-Voter Approval for Local Government Taxes-Limitation on Fees, Assessments, and Charges-Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The ability of the District to comply with its covenants under the Installment Purchase Agreement and generate Net Revenues sufficient to pay the Installment Payments may be adversely affected by actions and events outside of the control of the District or taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218” for a discussion of specific issues and risks raised by Proposition 218. The District's current projections assume future rate increases will be needed during the time that the Bonds are Outstanding, which will be subject to the Proposition 218 notice process.

Limitations on Remedies Available to Bond Owners

Any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Installment Purchase Agreement or 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 Owner remedies contained in the Installment Purchase Agreement and the Indenture, the rights and obligations under the Bonds, the Installment Purchase Agreement and 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.

Future Parity Obligations

As described in “SOURCES OF PAYMENT FOR THE BONDS - Parity Obligations” herein, the District has entered into Parity Obligations, and the Installment Purchase Agreement permits the District to issue additional Parity Obligations, under which its obligations would be payable on a parity with the payment of the Installment Payments.

The coverage tests described in “SOURCES OF PAYMENT FOR THE BONDS - Parity Obligations” involve, to some extent, projections of Net Revenues. If future 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, existing Parity Obligations and any future Parity Obligations.

Cybersecurity

The District’s finances and operations are managed through the County. The County, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations and finances and consequently faces the threat of cybersecurity incidents. As a recipient and provider of personal, private or other electronic sensitive information, the County faces cyber threats from time to time including, but not limited to, hacking, viruses, malware, ransomware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the County’s systems for the purposes of misappropriating assets or information or causing operational disruption or damage. There are certain safeguards to limit access to the District’s dispatch center.

The County has developed incident response plans for cyber events and has implemented cyber security training for all County employees. A cyber security committee has developed policies for end users around passwords, training, data destruction and handling as well as mobile device use. The County’s Information Services Department actively participates and works with local and national cybersecurity groups such as the National Association of Counties, the Multi-State Information Sharing & Analysis Center and the Northern California Regional Incident Command. The County also engages the Department of Homeland Security’s Cybersecurity & Infrastructure Security Agency yearly for vulnerability assessments and weekly scans of externally facing systems. The County conducts twice yearly tabletop exercises. The County Information Services Department also took part in a Bay Area tabletop exercise in March 2024. A tabletop exercise is a structured and facilitated meeting to discuss a simulated emergency situation. . As standards continue to change, the County too will continually update processes and priorities to meet these changes.

In 2023, the County experienced a cyber fraud incident, and is working with law enforcement and its insurance carrier to obtain restitution. The County has never had a major cyber breach that resulted in a significant financial loss, and the 2023 incident did not impact critical finance operations of the County. The County has since instituted certain procedural changes and continues to monitor its compliance with its policies. However, no assurances can be given that the security and operational control measures of the County will be successful in guarding against any and each cyber threat or breach. Although the County maintains insurance coverage for cyber security losses should a successful breach ever occur again, the cost

of any such disruption or remedying damage caused by future attacks could be substantial and in excess of such insurance coverage. In addition, the software developer of the District's SCADA system also maintains cybersecurity insurance coverage.

The District is also reliant on other entities and service providers in connection with the administration of the Bonds, including the Trustee, and the dissemination agent. No assurance can be given that the District and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond Owners.

Bankruptcy

While an involuntary bankruptcy petition cannot be filed against the District or the Authority, each of the District and the Authority is authorized to file for bankruptcy under certain circumstances. Should the District or the Authority file for bankruptcy, there could be adverse effects on the holders of the Bonds.

To the extent that the Net Revenues are "special revenues" under the Bankruptcy Code and the Bonds are covered by the provisions of the Bankruptcy Code relating to pledges of special revenues, then Net Revenues collected after the date of the bankruptcy filing should secure the District's obligations under the Installment Purchase Agreement. If any or all of the Net Revenues are determined not to be special revenues or if it is determined that the Bonds are not covered by the relevant provisions of the Bankruptcy Code, then any such amounts collected after the commencement of the bankruptcy case will likely not secure the District's obligations under the Installment Purchase Agreement. The holders of the Bonds may not be able to assert a claim against any property of the District other than the Net Revenues, and if any or all of the Net Revenues no longer secure the Installment Purchase Agreement, then there may be limited, if any, funds from which the holders of the Bonds are entitled to be paid.

The Bankruptcy Code provides that "special revenues" can be applied to necessary operating expenses of the project or system before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the transaction documents may not be applicable.

If the District or the Authority is in bankruptcy, the parties (including the Trustee, and the holders of the Bonds and the parties to the Existing Agreements) may be prohibited from taking any action to collect any amount from the bankrupt party or to enforce any obligation of the bankrupt party, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession. If the Authority is in bankruptcy, it may be able to require that all amounts due under the Installment Purchase Agreement (including Net Revenues) be paid directly to it, notwithstanding the provisions of the transaction documents that require such payments be made directly to the Trustee. The rate covenant (see "SOURCES OF PAYMENT FOR THE BONDS - Rate Covenant") may not be enforceable in bankruptcy by the Trustee or the holders of the Bonds.

The District is permitted to commingle Net Revenues with its own funds for certain periods of time before turning over the Net Revenues to the Trustee. If the District goes into bankruptcy, the District may not be required to turn over to the Trustee any Net Revenues that are in its possession at the time of the bankruptcy filing and have been commingled with other moneys. If the District has possession of Net Revenues (whether collected before or after commencement of the bankruptcy) and if the District does not voluntarily turn over such Net Revenues to the Trustee, it is not entirely clear what procedures the Trustee and the holders of the Bonds would have to follow to attempt to obtain possession of such Net Revenues, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

If the District or the Authority is in bankruptcy it may be able to repudiate the Installment Purchase Agreement. If the Installment Purchase Agreement is repudiated, the District will no longer be obligated to make any payments under it.

If the District or the Authority is in bankruptcy it may be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Installment Purchase Agreement, the Indenture, and the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable.

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

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Authority will covenant in the Indenture and the District will covenant in the Installment Purchase Agreement to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code. The interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the Bonds, as a result of acts or omissions of the Authority or the District in violation of this or other covenants in the Indenture or the Installment Purchase Agreement. Should such an event of taxability occur, the Bonds are not subject to prepayment or any increase in interest rates and will remain outstanding until maturity. See “- Limitations on Remedies Available to Bond Owners” and “TAX MATTERS” herein.

IRS Audit of Tax-Exempt Bond Issues

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

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the District. Secondary market prices for the Bonds could be more or less than the original issue price depending on market factors.

TAX MATTERS

Federal Tax Exemption

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the District and the Authority with certain covenants in the Indenture, the Installment Purchase Agreement, the Tax Certificate and other documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986 (the “Code”) regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not included in the gross income of the owners of the Bonds for federal income tax purposes. Failure by the District or the Authority to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture, the Installment Purchase Agreement, the Tax Certificate or other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and judicial decisions and the representations and covenants of the District and the Authority described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Bonds is commenced, under current procedures the IRS is likely to treat the Authority as the "taxpayer," and the owners of the Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the examination, regardless of its ultimate outcome.

Tax Accounting Treatment of Bond Premium and Original Issue Discount

Bond Premium. To the extent a purchaser acquires a Bond at a price in excess of the amount payable at its maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations). The amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes, though such amortized premium is not deductible for federal income tax purposes. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. Bond Counsel is not opining on the accounting for bond premium or the consequence to a Bond purchaser of purchasing a Bond with bond premium. Accordingly, persons considering the purchase of Bonds with bond premium should consult their own tax advisors with respect to the determination of bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Original Issue Discount. The excess, if any, of the stated redemption price at maturity of Bonds of a particular maturity over the initial offering price to the public of the Bonds of that maturity at which a substantial amount of the Bonds of that maturity is sold to the public is “original issue discount.” Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes under the same conditions and limitations as are applicable to interest payable on such Bond. Original issue discount on a Bond of a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the Bonds of that maturity is sold to the public accrues on a semiannual basis over the term of the Bond on the basis of a constant yield; and within each semiannual period accrues on a ratable daily basis. The amount of original issue discount on a Bond accruing during each period is added to the adjusted basis of such Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase Bonds other than at the initial offering price.

Bond Counsel is not opining on the accounting for or consequence to a Bond purchaser of purchasing a Bond with original issue discount. Accordingly, persons considering the purchase of Bonds with original issue discount should consult their own tax advisors with respect to the determination of original issue discount on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Information Reporting and Backup Withholding

Interest paid on the Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

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

Future Developments

Existing law may change to reduce or eliminate the benefit to owners of the Bonds of the exclusion of the interest on the Bonds from gross income for federal income tax purposes or of the exemption of interest on the Bonds from State of California personal income taxation. Any proposed legislation, whether or not enacted, or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors with respect to any proposed or future change in tax law.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is included in “APPENDIX E” hereto.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Installment Purchase Agreement or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture and the Installment Purchase Agreement are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

The legality and enforceability of the Indenture and the Installment Purchase Agreement and certain other legal matters are subject to the approval of Norton Rose Fulbright US LLP, San Francisco, California, acting as Bond Counsel. See “APPENDIX E” for the proposed form of Bond Counsel’s Opinion.

The District has no knowledge of any fact or other information which would indicate that the Indenture and the Installment Purchase Agreement are not so enforceable against the Authority or the District except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors’ rights generally.

Certain legal matters will be passed on for the District and the Authority by Jason M. Heath, County Counsel, as General Counsel to the District and the Authority, and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel to the District. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Litigation

At any given time, including the present, there are certain claims, disputes and litigation actions that arise in the normal course of the District’s activities. Such matters could, if determined adversely to the District, affect the Wastewater Operations and in some cases the Net Revenues. The Authority and the District will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture or the Installment Purchase Agreement, or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture or the Installment Purchase Agreement are to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof or, in the case of the District, which if decided adversely to the District would have a material adverse effect on the District’s financial condition and its ability to pay the Installment Payments.

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CONCLUDING INFORMATION

Rating on the Bonds

S&P Global Ratings (“S&P”) has assigned its rating of “AA-” to the Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating 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.

Except as otherwise required in the Continuing Disclosure Certificate, the District undertakes no responsibility either to bring to the attention of the owners of any Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Bonds were purchased by _____ (the “Underwriter”) at a competitive sale. The Underwriter has agreed to purchase the Bonds at a price equal to \$_____, which amount represents the principal amount of the Bonds plus a net original issue premium of \$_____, less an Underwriter’s discount of \$_____. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter’s discount.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside front cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Municipal Advisor

The material contained in this Official Statement was prepared by the Authority and the District with the assistance of the Municipal Advisor, who advised the Authority and the District as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein received from sources other than the Authority or the District is believed to be reliable, but such information is not guaranteed by the Authority, the District or the Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The District will covenant to provide certain annual financial information by not later than March 31 in each year (the “Annual Reports”) and notices of the occurrence of certain listed events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the “Rule”). Harrell & Company Advisors, LLC will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Reports or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the District’s Continuing Disclosure Certificate attached in “APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Within the last five years, the District believes it has not failed to comply in all material respects with any prior undertakings with regard to the Rule. The County provides administrative services to the District, including with respect to undertakings made pursuant to the Rule. In the previous 5 years, the County believes it has complied in all material respects with any undertaking made pursuant to the Rule. However,

within the last five years, the County has failed to comply with its prior undertakings in the following respects: (i) with respect to the County’s 2020-2021 Tax and Revenue Anticipation Notes, the County’s final budget was posted on November 10, 2020, 10 days later than required and (ii) with respect to four land-secured financings, the Annual Report for Fiscal Year 2020-21 was filed timely; however, the County’s audited financial statements were filed on April 11, 2022 for such issues, 42 days later than required and a notice of failure to timely file such audited financial statements for the four affected issues was filed on April 11, 2022.

Audited Financial Statements

The District’s audited financial statements for Fiscal Year 2022-23 with the Independent Auditor’s Report included in this Official Statement have been audited by Brown and Armstrong Accountancy Corporation (the “Auditor”), independent auditors. Attention is called to the scope limitation described in the Auditor’s report accompanying the financial statements. The Auditor has not been requested to consent to the inclusion of its report in this Official Statement. The Auditor has not undertaken to update the audited financial statements for Fiscal Year 2022-23 or its report, and no opinion is expressed by the Auditor with respect to any event subsequent to its report dated December 20, 2023. See “APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS” herein.

References

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

Execution

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

SANTA CRUZ COUNTY SANITATION DISTRICT

By: _____
District Engineer

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY

By: _____
Assistant Executive Director

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of certain provisions of the documents pertaining to the Bonds. Such summaries are not intended to be definitive. Reference is directed to the Trust Indenture and the Installment Purchase Agreement for the complete text thereof. Copies of the Trust Indenture and the Installment Purchase Agreement are available from the Authority.

Definitions

“Act” means Chapter 5 of Division 7 of Title 1 of the California Government Code, commencing at Section 6500 thereof.

“Additional Payments” means “Additional Payments” as defined in the Agreement.

“Agreement” or “Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of April 1, 2024, between the District and the Authority, as originally executed and as it may from time to time be amended or supplemented.

“Agreement Event of Default” means an event of default described in the Agreement.

“Annual Debt Service” means, for any Fiscal Year, the sum of (1) the interest component of the Installment Payments and the interest payable on all Parity Obligations during such Fiscal Year, assuming that all such Installment Payments are paid as scheduled and all such Parity Obligations are retired as scheduled, plus (2) the principal component of the Installment Payments and the principal amount allocable to all Parity Obligations in such Fiscal Year, provided that the following adjustments will be made to the foregoing amounts in the calculation of Annual Debt Service:

(a) with respect to any Parity Obligations bearing or comprising interest at other than a fixed interest rate, the rate of interest used to calculate Annual Debt Service will be (i) with respect to such Parity Obligations then outstanding, 110% of the greater of (A) the daily average interest rate on such Parity Obligations during the 12 calendar months next preceding the date of such calculation (or the portion of such 12 calendar months that such Parity Obligations have borne interest), or (B) the most recent effective interest rate on such Parity Obligations prior to the date of such calculation, or (ii) with respect to Parity Obligations then proposed to be issued, the then current The Bond Buyer Revenue Bond Index for a maturity comparable to the maturity of the applicable Parity Obligations (or if such index is no longer published, such other published similar index as will be selected by the District);

(b) with respect to any issue or series of Parity Obligations having 25% or more of the aggregate principal amount thereof due in any one Fiscal Year, Annual Debt Service will be calculated as if the interest on and principal of the Parity Obligations of such issue or series were being paid in substantially equal annual amounts over the term of such Parity Obligations; provided, however that the full amount of scheduled payments of interest and principal of such Parity Obligations will be included in Annual Debt Service if the date of calculation is within 24 months of the date on which such 25% or more of aggregate principal amount becomes due;

(c) with respect to any Parity Obligations or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Parity Obligations or portions thereof, such accreted discount will be treated as due when scheduled to be paid;

(d) Annual Debt Service will not include interest on any Parity Obligations which are to be paid from amounts constituting capitalized interest;

(e) if an interest rate swap agreement is in effect with respect to, and is payable on a parity with, any Parity Obligations, no amounts payable under such interest rate swap agreement in addition to debt service payable with respect to such Parity Obligations will be included in the calculation of Annual Debt Service unless, in the applicable Fiscal Year, the sum of (i) the interest payable on such Parity Obligations, plus (ii) the amounts payable by the District under such interest rate swap agreement, less (iii) the amounts receivable by the District under such interest rate swap agreement, is greater than the interest payable on such Parity Obligations, in which case the net amount of payments to be made by the District under such interest rate swap agreement that exceed the interest to be paid on such Parity Obligations will be included in such calculation, and for this purpose, the variable amount under any such interest rate swap agreement will be determined in accordance with the procedure set forth in subparagraph (a) of this definition; and

(f) Repayment Obligations payable on a parity with the Installment Payments or any Parity Obligations will be deemed to be payable at the scheduled amount due under such Repayment Obligation, and, for this purpose, the variable interest amount included in any such Repayment Obligation will be determined in accordance with the procedure set forth in subparagraph (a) of this definition.

“Authority” means the Santa Cruz County Capital Financing Authority, a joint exercise of powers authority, organized and existing pursuant to the laws of the State of California.

“Authorized Denomination” means \$5,000 or any integral multiple thereof.

“Bond Counsel” means any attorney at law or firm of attorneys of nationally recognized standing in matters pertaining to the federal tax exemption of interest on obligations of states and political subdivisions, selected by the District and duly admitted to practice law before the highest court of any state of the United States of America.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, and Article 11 (commencing with Section 53580) of Chapter 3 of Part 1, Division 2 of Title 5 of the California Government Code.

“Bond Year” means “Bond Year” as defined in the Tax Certificate.

“Bond Register” means the books for the registration and transfer of the Bonds kept by the Trustee pursuant to the Trust Indenture.

“Bonds” means the bonds issued by the Authority pursuant to the Trust Indenture.

“Business Day” means any day other than a Saturday, a Sunday or a day on which banks located in the city where the Corporate Trust Office of the Trustee is located, are required or authorized to remain closed.

“Capital Improvements” will mean the capital improvements to the Wastewater System as described in “Exhibit A - Description of the Project” to the Agreement.

“Capital Improvements Fund” will mean the Capital Improvements Fund to be held by the Trustee and established pursuant to the Indenture.

“Certificate of an Independent Consultant” means an instrument in writing signed by an Independent Consultant.

“Certificate of the Authority” means an instrument in writing signed by the Chair, the Executive Director, the Assistant Executive Director or the Treasurer of the Authority, or their designees, or any other officer of the Authority duly authorized by the Authority to act on behalf of the Authority for that purpose.

“Certificate of the District” means an instrument in writing signed by the District Engineer, the Assistant District Engineer or the Treasurer of the District, or their designees, or by any other officer of the District duly authorized by the District to act on behalf of the District for that purpose.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provision of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed by the District in connection with the Bonds.

“Corporate Trust Office” means, with respect to the Trustee, the principal Corporate Trust Office of the Trustee in Los Angeles, California, or such other office designated by the Trustee from time to time; provided that, for purpose of payment, redemption, exchange, transfer, surrender and cancellation of Bonds, such term means the corporate trust operations or agency office designated by the Trustee.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District or the Authority and related to the execution and delivery of the Agreement, the Trust Indenture and the issuance and sale of the Bonds, including, but not limited to, costs of preparation and reproduction of documents, costs of rating agencies and costs to provide information required by rating agencies, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, fees and expenses of the underwriter, fees and charges for preparation, execution and safekeeping of the Bonds, fees of the Authority and any other cost, charge or fee in connection with the issuance and sale of the Bonds.

“Cost of Issuance Fund” means the fund by that name established pursuant to the Trust Indenture.

“County” means the County of Santa Cruz, a political subdivision organized and existing under and by virtue of the laws of the State of California.

“Debt Service Fund” means the fund by that name established pursuant to the Trust Indenture.

“Defeasance Securities” means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are fully and unconditionally pledged for the timely payment of interest and principal, or securities evidencing ownership interests in such obligations or in specified portions of the interest on or principal of such obligations.

“Delivery Date” means the date on which the Bonds are originally delivered.

“Depository” means the Securities Depository acting as Depository pursuant to the Trust Indenture.

“District” means the Santa Cruz County Sanitation District, a county sanitation district organized and existing under the laws of the State of California.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the New York Banking Law, in its capacity as the initial securities depository for the book-entry Bonds.

“Enterprise Fund” means the fund by that name referred to in the Agreement.

“Event of Default” means an event described in the Trust Indenture.

“Existing Agreements” means the 2008 Agreement, the 2018 Agreement, the 2019 Agreement, the 2021 Agreement and the 2022 Agreement.

“Favorable Opinion of Bond Counsel” means, with respect to any action requiring such an opinion, an Opinion of Counsel from a Bond Counsel to the effect that such action, in and of itself is permitted under the Trust Indenture and will not adversely affect the tax-exempt status of interest on the Bonds.

“Fiscal Year” means the period beginning on July 1 of each year and ending on June 30 of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

“Fitch” means Fitch, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the services of a municipal securities rating agency, then “Fitch” will be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

“Gross Revenues” means, for each Fiscal Year, all gross income and revenue received or receivable by the District from the ownership or operation of the Wastewater System, determined in accordance with Generally Accepted Accounting Principles, including all rates, fees, and charges (including connection fees and charges) as received by the District for the services of the Wastewater System; and all other income and revenue howsoever derived by the District from the ownership or operation of the Wastewater System or arising from the Wastewater System, including all income from the deposit or investment of any money in the Enterprise Fund, and any refundable deposits made to establish credit, and advances or contributions in aid of construction; provided, “Gross Revenues” does not include (i) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, (ii) the proceeds of any ad valorem property taxes levied to pay any general obligation bond indebtedness of the District with respect to the Wastewater operations and (iii) special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the District.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, which is independent of the District and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Independent Consultant” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to wastewater systems, or any other financial consultant or firm of financial consultants (including an Independent Certified Public

Accountant) generally recognized to be well qualified in matter relating to wastewater systems, appointed and paid by the District, and who or each of whom -

- (a) is in fact independent and not under the domination of the District;
- (b) does not have a substantial financial interest, direct or indirect, in the operations of the District; and
- (c) is not connected with the District as a director, officer or employee of the District, but may be regularly retained to make reports to the District.

“Installment Payment Date” means, with respect to any Interest Payment Date, the 5th Business Day immediately preceding such Interest Payment Date.

“Installment Payments” means the Installment Payments of interest and principal scheduled to be paid by the District pursuant to the Agreement.

“Interest Account” means the account by that name in the Debt Service Fund established pursuant to the Trust Indenture.

“Interest Payment Date” means June 1 and December 1 of each year commencing December 1, 2024.

“Investment Securities” means any of the following obligations if and to the extent then permitted by law:

- (1) Defeasance Securities;
- (2) Obligations issued by the Resolution Funding Corporation and the Student Loan Marketing Association, or obligations, participations, or other instruments of or issued by, or fully guaranteed as to interest and principal by, the Government National Mortgage Association (excluding stripped mortgage backed securities which are valued at greater than par on the unpaid principal);
- (3) Bills of exchange or time drafts drawn on and accepted by a commercial bank (including the Trustee or any of its affiliates), otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System and which are drawn on any bank the short-term obligations of which are rated in the highest letter and numerical rating category as provided by Moody’s and by S&P; provided, that purchases of eligible bankers acceptances may not exceed 270 days’ maturity;
- (4) Commercial paper which at the time of purchase is of “prime” quality of the highest ranking or of the highest letter and numerical rating category as provided by Moody’s and by S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of \$500,000,000 and that have an “A1” or higher rating for the issuer’s unsecured debentures, other than commercial paper, as provided by Moody’s and by S&P; provided, that purchases of eligible commercial paper may not exceed 180 days’ maturity nor represent more than 10% of the outstanding commercial paper of an issuing corporation;

(5) Non-negotiable certificates of deposit (including those placed by a third party pursuant to an agreement between the Authority and the Trustee) issued by a state or national bank (including the Trustee or any of its affiliates) that have maturities of not more than 365 days or deposit accounts with a state or national bank and that are fully insured by the Federal Deposit Insurance Corporation or the short term obligations of which state or national bank rated no lower than “P-1” by Moody’s and no lower than “A-1 ” by S&P;

(6) Certificates, notes, warrants, bonds or other evidence of indebtedness of the State or any local agencies in the State which are rated in the highest short-term rating category or within one of the three highest long-term rating categories by Moody’s and by S&P (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date);

(7) Bank deposit products, demand or time deposits (including certificates of deposit), trust funds, trust accounts, interest bearing deposits, overnight bank deposits, interest bearing money market accounts or bankers’ acceptances in a nationally or state-chartered bank, including the Trustee or any affiliate thereof, fully insured by the Federal Deposit Insurance Corporation or collateralized by Investment Securities described in clause (1);

(8) Investments in units of a money-market fund portfolio that is rated in the highest letter and numerical rating category by Moody’s and by S&P (including funds for which the Trustee, its affiliates or subsidiaries provide investment advisory, custodial, transfer agency or other management services, and for which such entities receive and retain a fee for services provided to the fund) and that is composed of obligations guaranteed by the full faith and credit of the United States of America or repurchase agreements collateralized by such obligations;

(9) A guaranteed investment contract with a financial institution or insurance company (or guaranteed by a financial institution or insurance company) which has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated within the two highest Rating Categories of any Rating Agency; and

(10) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State and which is authorized to accept investments by or on behalf of the Authority of the moneys held by the Trustee in any of the accounts or funds established pursuant hereto to the extent deposits and withdrawals may be made by the Trustee directly.

Ratings of Investment Securities referred to herein shall be determined at the time of purchase of such Investment Securities and without regard to rating subcategories. The Trustee shall have no responsibility to monitor the ratings of Investment Securities after the initial purchase of such Investment Securities, or the responsibility to validate the ratings of Investment Securities prior to the initial purchase.

“Letter of Representations” means the letter of representations to The Depository Trust Company, New York, New York, from the Authority.

“Maturity Date” means, with respect to each Bond, the applicable maturity date set forth in the Trust Indenture.

“Maximum Annual Debt Service” means as of the date of calculation, the greatest total Annual Debt Service payable in any Fiscal Year during which the Agreement is in effect.

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation will be dissolved or liquidated or will no longer perform the services of a municipal securities rating agency, then the term “Moody’s” will be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

“Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Net Revenues” means, for any Fiscal Year, all Gross Revenues received by the District less all Operation and Maintenance Costs for such Fiscal Year.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Indenture.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the Wastewater System, determined in accordance with Generally Accepted Accounting Principles, consistently applied, including all reasonable expenses of management and repair and all other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any), the cost of permits and licenses to operate the Wastewater System and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms hereof; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles.

“Opinion of Counsel” means a written opinion signed by an attorney or firm of attorneys selected by the District and duly admitted to practice law before the highest court of the State.

“Outstanding,” when used as of any particular time with respect to the Bonds, subject to provisions in the Trust Indenture, means all Bonds except:

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds with respect to which all Authority liability has been discharged pursuant to the defeasance provisions of the Indenture; and
- (c) Bonds in lieu of or in exchange for which other Bonds will have been authenticated and delivered by the Trustee.

“Owner” or “Registered Owner” means any person who will be the registered owner of any Outstanding Bond.

“Parity Bonds” means any bonds secured by Parity Obligations and issued pursuant to any Parity Bonds Trust Indenture.

“Parity Bonds Trust Indenture” means any other trust indenture pursuant to which a Series of Parity Bonds is issued.

“Parity Obligation Payments” means (i) the Existing Agreement, and (ii) the payments scheduled to be paid by the District under and pursuant to Parity Obligations, which payments are secured by a pledge of Net Revenues on a parity with the Installment Payments as provided in the Agreement.

“Parity Obligations” means all obligations of the District issued or executed and entered into by the District, pursuant to and in accordance with the provisions of the Agreement, the Parity Obligation Payments under which are secured by a pledge of the Net Revenues on a parity with the Installment Payments, as provided in the Trust Indenture.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds the Bonds as securities depository.

“Participating Underwriter” will have the meaning ascribed in the Continuing Disclosure Certificate.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Pledge Law” means Section 5451 of the California Government Code and all laws amendatory thereof or supplemental thereto.

“Principal Account” means the account by that name in the Debt Service Fund established pursuant to the Trust Indenture.

“Project” means the acquisition and construction of public capital improvements for the Wastewater System, as described in “Exhibit A - Description of the Project” to the Agreement.

“Purchase Price” means the principal components of the Installment Payments plus interest on the unpaid portion of such principal components owed by the District to the Authority under the terms of, and as provided in the Agreement.

“Rating Agencies” means, if then providing a rating with respect to the Bonds, any of the following: Fitch, Moody’s, S&P, and any other nationally recognized securities rating agency or agencies, including their respective successors or assigns.

“Rating Category” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rebate Fund” means the fund by that name established pursuant to the Trust Indenture.

“Record Date” means the fifteenth day of the month prior to an Interest Payment Date whether or not a Business Day.

“Redemption Account” means the account by that name in the Debt Service Fund established pursuant to the Trust Indenture.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Trust Indenture.

“Repayment Obligation” means the reimbursement obligation or any other payment obligation of the District under a written agreement between the District and a credit or liquidity provider to reimburse the credit or liquidity provider for amounts paid pursuant to a credit or liquidity facility for the payment of the principal amount or purchase price of and/or interest on any Parity Obligation.

“Report” means a written document signed by an Independent Consultant or an Independent Certified Public Accountant, and including:

(a) A statement that the person or firm making or giving such Report has read the pertinent provisions of this Agreement to which such Report relates;

(b) A brief statement as to the nature and scope of the examination or investigation upon which the Report is based; and

(c) A statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said consultant to express an informed opinion with respect to the subject matter referred to in the Report.

“Revenues” means all Installment Payments and other payments made by the District and received by the Authority pursuant to the Agreement, and all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) held under the Trust Indenture.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, and its successors or assigns, except that if such entity will be dissolved or liquidated or will no longer perform the services of a municipal securities rating agency, then “S&P” will be deemed to refer to any other nationally recognized municipal securities rating agency selected by the District.

“Series” means all Parity Bonds authorized and established pursuant hereto or to a Parity Bonds Trust Indenture as constituting a single Series and delivered on original issuance in a simultaneous transaction, and any Parity Bonds thereafter executed, authenticated and delivered in lieu thereof or in substitution therefor.

“State” means the State of California.

“Subordinate Obligations” means the obligations of the District that are payable from Net Revenues on a basis that is subordinate to the payment of the Installment Payments and Parity Obligations.

“Supplemental Trust Indenture” means any trust indenture then in full force and effect which has been duly executed by the Authority and the Trustee amendatory hereof or supplemental hereto.

“Tax Certificate” means the tax certificate and agreement, dated the Delivery Date of the Bonds, concerning certain matters pertaining to the use and investment of proceeds of the Bonds, executed and delivered by the Authority and the District on the Delivery Date of the Bonds, including any and all exhibits attached to such certificate.

“Treasury Regulations” means those regulations issued by the United States Department of the Treasury under the Code.

“Trust Indenture” means the Trust Indenture, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

“Wastewater System” means the entire wastewater collection, conveyance and treatment system owned or operated by the District, including but not limited to all facilities, properties, works and improvements at any time owned, operated or determined to be part of the Wastewater System by the District for the collection, conveyance and treatment of wastewater within the service area of the District, together with any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements or additions thereto hereafter acquired, constructed or installed by the District.

“Written Request of the Authority” means an instrument in writing signed by the Chair, the Executive Director, the Assistant Executive Director or the Treasurer of the Authority, or their designees, or any other person duly authorized by the Authority to act on behalf of the Authority for that purpose.

“Written Request of the District” means an instrument in writing signed by the District Engineer, the Assistant District Engineer or the Treasurer of the District, or their designees, or by any other person duly authorized by the District to act on behalf of the District for that purpose.

“2008 Agreement” means the Project Finance Agreement (State Revolving Fund Project No. C-06-4831-110; Agreement No. 09-848550), between the District and the California State Water Resources Control Board, as amended from time to time.

“2018 Agreement” means the Construction Installment Sale Agreement (Soquel Pump Station Force Main Replacement; Project No. C-06-8124-110; Agreement No. D17-01046), between the District and the California State Water Resources Control Board, as amended from time to time.

“2019 Agreement” means the Installment Sale Agreement, dated as of April 1, 2019, by and between the District and the California Infrastructure and Economic Development Bank, as amended from time to time.

“2021 Agreement” means the Construction Installment Sale Agreement (Project No. C-06-8436-110; Valencia Creek Relocation Project; Agreement No. SWRCB00000000002001043), between the District and the California State Water Resources Control Board, as amended from time to time.

“2022 Agreement” means the Installment Purchase Agreement, dated as of June 1, 2022, between the District and the Authority, as amended from time to time.

INSTALLMENT PURCHASE AGREEMENT

Acquisition of the Project

Sale and Purchase of Project. In consideration for the Authority’s assistance in financing the Project through the execution and delivery of the Agreement and the Trust Indenture, the District hereby agrees to purchase from the Authority, and the Authority agrees to sell to the District, the Project at the Purchase Price specified in the Agreement, and otherwise in the manner and in accordance with the provisions of the Agreement.

Installment Payments

Purchase Price; Construction of the Capital Improvements; Capital Improvements Fund.

(a) The Purchase Price to be paid by the District to the Authority for the purchase of the Project is the sum of the principal components of the Installment Payments set forth in the Agreement plus the interest components of the Installment Payments which consist of the sum of the interest to accrue on the unpaid balance of each such principal component from the date hereof over the term hereof at the interest rates applicable to the principal components set forth in the Agreement, subject to prepayment as provided in the Agreement.

(b) The interest component of the Installment Payments will be paid by the District as and constitute interest paid on the principal components of the Installment Payments. The interest component will be computed on the basis of a 360-day year of twelve 30 day months.

(c) Pursuant to the Trust Indenture, the Trustee has agreed to set aside and transfer or deposit funds received from the sale of the Bonds to the Capital Improvements Fund created pursuant to the Indenture.

(d) The Authority hereby agrees to cause the Capital Improvements to be constructed, acquired and installed by the District as its agent. The District will enter into contracts and provide for, as agent for the Authority, the complete construction, acquisition and installation of the Capital Improvements. The District hereby agrees that it will cause the construction, acquisition and installation of the Capital Improvements to be diligently performed after the transfer of funds into the Capital Improvements Fund. It is expressly understood and agreed that the Authority will be under no liability of any kind or character for the payment of any cost or expense of the Capital Improvements and that all such costs and expenses will be paid by the District, regardless of whether the funds transferred by the Trustee to the Capital Improvements Fund pursuant to the Trust Indenture are sufficient to cover all such costs and expenses.

(e) When the Capital Improvements have been constructed and acquired, in accordance with the Agreement, a Certificate of the District stating the fact and date of such acquisition, construction and acceptance and stating that all of such cost of acquisition and construction have been determined and paid will be delivered to the Authority and the Trustee by the District.

Installment Payments and Additional Payments. The District will, subject to the provisions of the Agreement, and to any rights of prepayment provided in the Agreement, pay the Authority the Purchase Price in installments as follows: (i) each principal component of the Installment Payments is payable on the Installment Payment Date preceding the due date for such principal component, set forth in "Exhibit B - Principal Components of Installment Payments" to the Agreement in the amount specified for such due date in "Exhibit B - Principal Components of Installment Payments" to the Agreement; and (ii) the interest components of the Installment Payments are payable on the Installment Payment Date preceding each Interest Payment Date in the amount of accrued interest on the unpaid balance of the principal components of the Installment Payments to the next succeeding Interest Payment Date, at the respective interest rates per annum set forth in Exhibit B to the Agreement. The schedule of the principal and interest components as of the Delivery Date are set forth in "Exhibit B - Principal Components of Installment Payments" to the Agreement. Amounts required to be paid by the District to the Authority pursuant to the Agreement on any Installment Payment Date will be reduced to the extent of amounts on deposit on such date in the Interest Account of the Debt Service Fund established under the Trust Indenture. The amounts shown in "Exhibit B- Schedule of Installment Payments as of Delivery Date" to the Agreement will automatically be adjusted to account for any prepayment of Installment Payments made by the District and any discharge of Installment Payments.

Each Installment Payment will be paid to the Authority in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under the Agreement, such payment will continue as an obligation of the District until such amount will have been fully paid, and the District agrees to pay the same with interest accruing thereon at the highest rate of interest then applicable to the remaining unpaid principal components of the Installment Payments.

The obligation of the District to make the Installment Payments is absolute and unconditional, and, until such time as the Purchase Price will have been paid in full (or provision for the payment thereof will have been made pursuant to the Agreement), the District will not discontinue or suspend any Installment Payment required to be made by it under the Agreement, whether or not the Wastewater System or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part. The Agreement will be deemed and construed to be a net contract, and the District will pay absolutely net during the term hereof the Installment Payments and all other payments required under the Agreement, and such payments will be net payments and will not be subject to deduction, abatement, reduction or diminution, whether by offset or otherwise, and will not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

In addition to the Installment Payments, the District will also pay such amounts ("Additional Payments") as will be required for the payment of all fees and administrative costs of the Authority and the Trustee under the Trust Indenture or otherwise relating to the Bonds, including, without limitation, payments required to satisfy the Rebate Requirement, all expenses, compensation and indemnification of the Authority and the Trustee payable by the District under the Agreement and under the Trust Indenture, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Authority or charges required to be paid by it to comply with the terms hereof, of the Bonds or of the Trust Indenture.

Security

Pledge of Net Revenues; Parity Pledge. All Net Revenues are, pursuant to the Bond Law and the Pledge Law, hereby irrevocably pledged to the payment of the Installment Payments as provided in the Installment Purchase Agreement and will not be used for any other purpose until all Installment Payments have been fully paid or provision has been made for such payment in accordance with the Agreement. This pledge, together with the pledge of Net Revenues securing all other Parity Obligations, will, subject to application as permitted in the Installment Purchase Agreement, constitute a lien on Net Revenues.

Allocation of Gross Revenues. In order to carry out and effectuate the pledge and lien contained in the Installment Purchase Agreement, the District agrees and covenants that all Gross Revenues will be received by the District in trust under the Agreement and, except for Net Proceeds, will be deposited when and as received in a special fund designated as the "Enterprise Fund," which fund the District has established and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds until all Installment Payments have been fully paid or provision has been made in accordance with the Agreement. The District may designate one or more existing funds to satisfy the foregoing requirements. The District may maintain separate accounts within the Enterprise Fund. Moneys in the Enterprise Fund will be used and applied by the District as provided in the Agreement.

The District will, from the moneys in the Enterprise Fund, pay all Operation and Maintenance Costs as they become due and payable. All remaining moneys in the Enterprise Fund will be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and

withdrawn only for the purposes set forth in the Agreement and, as to funds held under the Trust Indenture, the Trust Indenture.

(a) *Installment Payments.* Not later than each Installment Payment Date, the District will, from the moneys in the Enterprise Fund, transfer to the Trustee the Installment Payment due and payable on that Installment Payment Date. The District will also, from the moneys in the Enterprise Fund, transfer when due to the applicable trustee or lender for deposit in the respective payment fund or to make payment due, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any Parity Obligation Payments in accordance with the provisions of the applicable Parity Obligations.

(b) *Reserved.*

(c) *Surplus.* Moneys on deposit in the Enterprise Fund not necessary to make any of the payments required above in a Fiscal Year may, subject to the limitations in the Installment Purchase Agreement, be expended by the District at any time for any purpose permitted by law, including but not limited to payments with respect to any Subordinate Obligations.

Execution or Incurrence of Parity Obligations.

(a) The District may, after the Delivery Date, issue or incur one or more Parity Obligations in such principal amount as shall be determined by the District subject to the following specific conditions, which are made conditions precedent to the District's issuance and delivery of each such Parity Obligation:

(i) No Event of Default under the Agreement or under any other instrument secured by Gross Revenues shall have occurred and be continuing, and the District shall otherwise be in compliance with all covenants set forth in the Agreement; and

(ii) Net Revenues calculated on Generally Accepted Accounting Principles, consistently applied, and excluding the proceeds of any taxes and also excluding any balances in any fund at the beginning of the period of the computation, as shown by the books of the District for the latest Fiscal Year, or any more recent twelve month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Obligation is issued or incurred, as shown by the books of the District, plus, at the option of the District, either or both of the items below designated in subsections (b)(i) and (b)(ii), shall have amounted to at least 1.25 times the Maximum Annual Debt Service taking into consideration the maximum annual debt service payable in any Fiscal Year on the proposed Parity Obligation.

(b) For purposes of making the calculations set forth in subsection (a)(ii) above:

(i) If any Parity Obligation includes capital appreciation bonds, then the accreted value payment thereof shall be deemed a principal payment and interest that is compounded and paid as accreted value shall be deemed due on the scheduled redemption or payment date of such capital appreciation bond;

(ii) If any Parity Obligation includes interest payable pursuant to a variable interest rate formula, the variable interest rate portion of such Parity Obligation for periods when the actual interest rate cannot yet be determined, shall be assumed to be the maximum interest rate under the Parity Obligation.

(c) The District shall deliver to the Authority and the Trustee, prior to incurring or issuing such proposed Parity Obligation, a copy of the proposed instrument under which such Parity Obligation shall be issued or incurred and a Certificate of the District certifying that the conditions precedent to the issuance of such Parity Obligation set forth in subsections (a) and (b) above have been satisfied.

(d) Notwithstanding subsections (a)(ii), (b) and (c) above, a proposed Parity Obligation to be issued for the purpose of refunding an outstanding Parity Obligation may be issued without compliance with subsections (a)(ii), (b) and (c) above, so long as such refunding results in lower Annual Debt Service in each Fiscal Year after such refunding and the final maturity date of the refunding Parity Obligation is no later than the final maturity date of the refunded Parity Obligation. The District shall deliver to the Authority and the Trustee the instrument under which such Parity Obligation shall be issued or incurred for such refunding within 30 days of such Parity Obligation issuance and a Certificate of the District certifying that the conditions precedent to the issuance of the Parity Obligation for the purpose of refunding Parity Obligations set forth in this subsection (d) have been satisfied.

Nothing contained in the Agreement will limit the issuance or incurrence of any Subordinate Obligations.

Covenants of the District

Punctual Payment. The District will punctually pay the Installment Payments in strict conformity with the terms in the Agreement and will faithfully satisfy, observe and perform all agreements, conditions, covenants and terms in the Agreement.

Legal Existence. The District will use all means legally available to maintain its existence.

Against Encumbrances. The District will not hereafter mortgage or otherwise encumber, pledge or place any charge or lien upon Gross Revenues except as provided in the Agreement. The District will not hereafter mortgage or otherwise encumber, pledge or place any lien or charge upon any of the Net Revenues on a parity with the pledge securing the payment of the Installment Payments, except for Parity Obligations as provided in the Agreement. The District may at any time issue Subordinate Obligations.

Against Sale or Other Disposition of the Wastewater System. The District will not sell or otherwise dispose of the Wastewater System or any part thereof essential to the proper operation of the Wastewater System or to the maintenance of the Net Revenues, unless the Installment Payments have been fully paid or provision has been made in accordance with the Agreement. The District will not enter into any lease or agreement which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Net Revenues for the payment of the Installment Payments and all Parity Obligations, or which would otherwise impair the rights of the Owners with respect to the Net Revenues or the operation of the Wastewater System.

Maintenance and Operation of Wastewater System. The District will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner.

Insurance.

(a) To the extent such insurance is available for reasonable premiums from a reputable insurance company, the District will procure and maintain at all times insurance on the Wastewater System against such risks (including accident to or destruction of the Wastewater System) and in such amounts as

are usually insured in connection with operations in California similar to the Wastewater System; provided, that such insurance coverage may be satisfied under a self-insurance program.

(b) The District will procure and maintain or cause to be procured and maintained public liability insurance covering claims against the District (including its governing body, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the District's operations, including any use of the Wastewater System, and such insurance will afford protection in such amounts as are usually covered in connection with operations in California similar to the Wastewater System. Such insurance coverage may also be satisfied under a self-insurance program.

(c) The insurance required by this section may be provided under coverage procured by the County.

(d) If all or any part of the Wastewater System will be damaged or destroyed, the Net Proceeds realized by the District as a result will be applied by the District to the cost of acquiring and constructing repairs, replacements, or improvements to the Wastewater System.

If such damage or destruction has had no effect, or at most an immaterial effect, upon the Gross Revenues and the security of the Installment Payment and all Parity Obligations, and a Certificate of the District to such effect has been filed with the Trustee, then the District will deposit such proceeds in the Enterprise Fund, to be applied as provided the Agreement.

Eminent Domain Proceeds. If all or any part of the Wastewater System will be taken by eminent domain proceedings, the Net Proceeds realized by the District will be applied by the District to the cost of acquiring and constructing repairs, replacements, or improvements to the Wastewater System.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the Gross Revenues and the security of the Installment Payments and all Parity Obligations, and a Certificate of the District to such effect has been filed with the Trustee, then the District will deposit such proceeds in the Enterprise Fund, to be applied as provided in the Agreement.

Amounts of Rates, Fees and Charges.

(a) The District covenants under the Agreement that, to the fullest extent permitted by law, it will fix, prescribe, charge, and collect, or cause to be fixed, prescribed, charged, and collected, in each Fiscal Year, such rates, fees, and charges for the use of and for the service furnished by the Wastewater System so that Net Revenues realized during each Fiscal Year are in an amount which will be sufficient to be at least equal to one hundred twenty five percent (125%) of Annual Debt Service, and at least equal to one hundred ten percent (110%) of the sum of Annual Debt Service and annual debt service on Subordinate Obligations for such Fiscal Year.

(b) The District further covenants under the Agreement that, to the fullest extent permitted by law, it will fix, prescribe, charge, and collect, or cause to be fixed, prescribed, charged, and collected, in each Fiscal Year, such rates, fees, and charges for the use of and for the service furnished by the Wastewater System so that Gross Revenues realized are in an amount which will be sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the District to become due and payable in such Fiscal Year;

(ii) The Installment Payments and the principal and interest on any outstanding Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority;

(iii) All amounts, if any, required to restore the balance of any reserve fund or accounts required under any instrument under which a Parity Obligation was issued or incurred including the Existing Agreements, for any outstanding Parity Obligations, to the full amount of any such reserve requirement; and

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

(c) If for any reason Net Revenues, or Gross Revenues, as applicable, prove insufficient to comply with the requirements of subsections (a) and (b) above, the District first will engage an Independent Consultant to recommend revised rents, rates, fees, charges, savings, or assessments, or any combination thereof, and the District will, subject to any applicable requirements and restrictions imposed by law, including, but not limited to, the Prop 218 Law, and subject to the good faith determination of the District that such recommendations, in whole or in part, are in the best interests of the District, take all actions necessary to increase Gross Revenues through any combination of increased rents, rates, fees, charges, savings, or assessments and that it will do so not later than one hundred eighty (180) days following the date on which Net Revenues first fail to meet the requirements of this Section.

The District may make adjustments from time to time in such rents, rates, fees, and charges and may make such classification thereof as it deems necessary, but shall not reduce the rents, rates, fees, and charges then in effect unless the Net Revenues from such reduced rents, rates, fees, and charges will at all times be sufficient to meet the requirements of the Agreement.

Enforcement of and Performance Under Contracts. The District will enforce all material provisions of any contracts to which it is a party, an assignee, or successor in interest to a party or third-party beneficiary, in any case where such contracts provide for material payments or services to be rendered to the Wastewater System. Further, the District will comply with, keep, observe and perform all material agreements, conditions, covenants and terms, express or implied, required to be performed by it, contained in all contracts affecting or involving the Wastewater System, to the extent that the District is a party. The District approves the Trust Indenture and will comply with the provisions under the Trust Indenture applicable to it.

Collection of Charges, Fees and Rates. The District will have in effect at all times rules and regulations requiring each user of the Wastewater System to pay the applicable charges, fees and rates and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District will enforce the collection procedures contained in such rules and regulations.

No Free Service. The District will not permit any part of the Wastewater System or any facility to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State, and any city, county, public agency, political subdivision, public corporation or agency of any thereof), unless otherwise required by law or existing written agreements.

Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Wastewater System or upon

the Gross Revenues or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the Installment Payments; except that nothing in the Agreement will require the District to make any such payments so long as the District in good faith contests the validity of any such claims and such nonpayment will not materially adversely affect the District's ability to perform its obligations in the Agreement.

Books of Record and Accounts; Finance Statements. The District will keep proper books of record and accounts in which complete and correct entries will be made of all transactions relating to the Wastewater System, the Enterprise Fund and all other accounts or funds established pursuant to the Agreement, and upon request will provide information concerning such books of record and accounts to the Trustee (who has no duty or obligation to make such request).

The District will annually cause to be prepared by a Certified Public Accountant, not later than 270 days after the close of each Fiscal Year, until all Installment Payments have been fully paid, or provision has been made in accordance with the Agreement, audited financial statements of the District containing schedules relating to the Enterprise Fund. The District will maintain accurate books and records for each Fiscal Year of all accounts or funds established pursuant to the Agreement for the preceding Fiscal Year, showing the balances in each such account or fund as of the beginning of such Fiscal Year, all deposits in and withdrawals from each such account or fund during such Fiscal Year, and the balances in each such account or fund as of the end of such Fiscal Year.

Payment of Taxes and Other Charges and Compliance with Governmental Regulations. The District will pay and discharge all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Wastewater System or any properties owned by the District, or upon the Gross Revenues, when the same will become due; provided, that nothing contained in the Agreement will require the District to make any such payments so long as the District in good faith will contest the validity of any such taxes, service charges, assessments or other governmental charges and such nonpayment will not materially adversely affect the District's ability to perform its obligations in the Agreement.

The District will duly comply with all applicable State, federal and local statutes and all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the District will not be required to comply with any regulations or requirements so long as the validity or application thereof will be contested in good faith and such noncompliance will not materially adversely affect the District's ability to perform its obligations in the Agreement.

Tax Covenants and Matters.

(a) *General.* The District covenants, for the benefit of the Authority and the Owners and Beneficial Owners of the Bonds that, notwithstanding any other provisions of the Agreement, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. The District will not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code and applicable Treasury Regulations) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) *Use of Proceeds.* The District will not take any action, or fail to take any action, if any such action or failure to take action would cause the Bonds to be "private activity bonds" within the

meaning of Section 141 of the Code and applicable Treasury Regulations, and in furtherance thereof, will not make any use of the proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, or any other funds of the District, that would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Bonds are Outstanding, the District, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and applicable Treasury Regulations, to the extent such requirements are, at the time, applicable and in effect. The District will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Bonds as “governmental bonds.”

(c) *Arbitrage.* The District will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced, or other funds of the District, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations, and will not otherwise take any action, or fail to take action, if such action or failure to take action would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations. To that end, the District will comply with all requirements of Section 148 of the Code and applicable Treasury Regulations to the extent such requirements are, at the time, in effect and applicable to the Bonds.

(d) *Federal Guarantee.* The District will not make any use of the proceeds of the Bonds or any other funds of the District, or take or omit to take any other action, that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code, and will not otherwise take any action, or fail to take action, when such action or failure to take action would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) *Compliance with Tax Certificate.* In furtherance of the tax covenants of the Agreement, the District covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Agreement as if fully set forth therein. These covenants will survive payment in full or defeasance of the Bonds.

Continuing Disclosure. The District covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Agreement, failure of the District to comply with the Continuing Disclosure Certificate will not be considered an Agreement Event of Default; however, any Participating Underwriter or any Owner or Beneficial Owner of the Bonds may take such actions as described under the Continuing Disclosure Certificate to cause the District to comply with its obligations under the Agreement.

Preservation of Authority. The District covenants to take whatever action is necessary to preserve the existence of the Authority through the final maturity of the Bonds.

Further Assurances. The District will adopt, make, execute and deliver any and all such further documents, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate performance under the Agreement.

Prepayment of Installment Payments

Prepayment. The District may, from any available funds, prepay the Installment Payments, as a whole or in part, on any date on or after the date provided in the Agreement, on a pro rata basis, or as otherwise directed by the District; provided that any prepayment of a principal component of the Installment Payments will be an amount sufficient to provide for the redemption or defeasance of Bonds in Authorized Denominations and otherwise in accordance with the provisions of the Trust Indenture. The prepayment of

the principal component of the Installment Payments will be at a prepayment price equal to 100% of the principal amount of the Bonds to be prepaid or redeemed, plus accrued interest thereon to the next applicable optional redemption date for the Bonds as provided in the Trust Indenture, without penalty.

The Authority will accept such prepayments when the same are tendered by the District. All prepayments of Installment Payments made by the District pursuant to the Agreement will, upon receipt, be transferred to the Trustee for deposit into the Redemption Account of the Trust Indenture pursuant to the Trust Indenture or deposited as provided under the Trust Indenture to defease Bonds.

Method of Payment. With respect to prepayments of Installment Payments pursuant to the Agreement, the District will determine which Installment Payments are to be prepaid, including the principal component of the Installment Payment due on each Installment Payment Date to be paid or prepaid with such prepayments, and, subject to the provisions the Agreement, the date on which each such prepayment is to be made. Before making any prepayment pursuant to the Agreement, the District will give written notice to the Authority and the Trustee specifying the date on which the prepayment will be paid, which date will be not less than 45 days from the date such notice is given; except that, notwithstanding any such prepayment, the District will not be relieved of its obligations in the Agreement until all Installment Payments will have been fully paid, or provision for payment thereof will have been made pursuant to the Agreement.

Events of Default and Remedies of the Authority

Events of Default and Acceleration of Maturities. There will be an Agreement Event of Default if one or more of the following will happen:

(a) if default is made by the District in the due and punctual payment of any Installment Payment or any other Parity Obligations when and as the same will become due and payable;

(b) if default is made by the District in the performance of any of the other agreements or covenants required in the Installment Purchase Agreement to be performed by it, and such default has continued for a period of 30 days after the District has been given notice in writing of such default by the Authority or the Trustee; except that such default will not constitute an Agreement Event of Default under the Agreement if the District commences to cure such default within such 30-day period and thereafter diligently and in good faith proceeds to cure such default within a reasonable period of time, which period will be no longer than 365 days after delivery of such notice of default;

(c) if the District will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the District or of the whole or any substantial part of its property; or

(d) if payment of the principal of any Parity Obligations is accelerated in accordance with its terms;

then, and in each and every such case during the continuance of an Agreement Event of Default specified in clauses (c) and (d) above, the Authority will, and for any other Agreement Event of Default the Authority may, by notice in writing to the District, declare all unpaid principal components of the Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such

declaration the same will become immediately due and payable. This subsection, however, is subject to the condition that if, at any time after all unpaid principal components of the Installment Payments and the accrued interest thereon will have been so declared due and payable and before any judgment or decree for the payment of the moneys due will have been obtained or entered, the District will deposit with the Authority a sum sufficient to pay the unpaid principal components and interest components of the Installment Payments then due and payable (other than the principal components of the Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration), with interest on such overdue Installment Payments at the highest rate applicable to the remaining unpaid principal component of the Installment Payments, and the reasonable expenses of the Authority and the Trustee will have been paid or provision deemed by the Authority or the Trustee, as applicable, to be adequate will have been made therefor, and any and all other Agreement Events of Default will have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate will have been made therefor, then and in every such case the Authority, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment will extend to or will affect any subsequent default or will impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in the Agreement, all Gross Revenues thereafter received will be applied in the following order:

First, to the payment, without preference or priority, and in the event of any insufficiency of such Gross Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Trustee and the trustee for any other Parity Obligations, then the Authority, including the costs, if any, in carrying out the provisions of the Agreement, including reasonable compensation to accountants and counsel and similar costs with respect to the Agreement and Parity Obligations;

Second, to the payment of Operation and Maintenance Costs;

Third, to the payment of all unpaid principal components of the Installment Payments and the accrued interest thereon and the unpaid principal amount of all other Parity Obligations and the accrued interest thereon, with interest on the overdue Installment Payments at the highest rate of interest applicable to the unpaid principal components of the Installment Payments and, with respect to such other Parity Obligations, as required by the terms of such other Parity Obligations; and

Fourth, to amounts due to any provider of credit enhancement for other Parity Obligations.

Other Remedies of the Authority. In addition to remedies elsewhere provided in the Agreement, upon the continuance of an Agreement Event of Default, the Authority will have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity, to enforce its rights against the District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or their duties under applicable law and the agreements and covenants required to be performed by it or them contained in the Installment Purchase Agreement;

(b) by suit in equity, to enjoin any acts or things which are unlawful or violate the rights of the Authority;

(c) by suit in equity, to require the District and its directors, officers and employees to account as the trustee of an express trust; or

(d) by mandamus or other action or proceeding or suit at law or in equity, to pursue any other remedy now or hereafter existing in law or in equity or by statute or otherwise to enforce the performance of the District's obligations under the Agreement and to otherwise protect the Authority's rights and interests in connection with the Agreement.

Notwithstanding anything contained in the Installment Purchase Agreement, the Authority will have no security interest in or mortgage on the Project, the Wastewater System or other facilities of the District, or any other real property of the District, and no default under the Agreement will result in the loss of the Project, the Wastewater System or other facilities of the District or any other real property of the District.

Non Waiver. Nothing in the Agreement will affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Authority at the respective due dates from the Net Revenues, the Enterprise Fund and the other funds pledged for such payment, or will affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Installment Purchase Agreement.

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

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

Remedies Not Exclusive. No remedy in the Installment Purchase Agreement conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy will be cumulative and will be in addition to every other remedy given under the Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

Discharge of Obligations

Discharge of Installment Payments. Notwithstanding any other provision of the Agreement, the District may on any date secure the payment of Installment Payments in whole or in part by irrevocably depositing with the Trustee, an escrow agent or other fiduciary, an amount of cash which is either (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in the Agreement, or (b) invested in whole or in part in non-callable Defeasance Securities in such amount as will, together with interest to accrue thereon and together with any cash which is so deposited, in the written opinion of an Independent Certified Public Accountant, be fully sufficient to pay all such Installment Payments when due pursuant to the Agreement, or when due on any optional prepayment date pursuant to the Agreement, as the District will instruct at the time of the deposit. In the event of a security deposit pursuant to the Agreement with respect to all of the Installment Payments, all obligations of the District under the Agreement, and all security provided by the

Agreement for such obligations, will cease and terminate, excepting only the obligation of the District to make, or cause to be made, all of such Installment Payments from such security deposit, and the obligation of the District to pay all required Additional Payments pursuant to the Agreement. The security deposit will be deemed to be and will constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Agreement.

In the event that Bonds are discharged under the Trust Indenture from amounts other than prepayments of Installment Payments, the principal component of each succeeding Installment Payment will be reduced (with the interest component of each remaining Installment Payment reduced correspondingly) by the aggregate corresponding amount which would otherwise be payable on the Bonds thereby discharged pursuant to the applicable provisions of the Trust Indenture.

Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Installment Payments in full under the Agreement, such that the Trust Indenture will be discharged by its terms as a result of such prepayment, and upon payment in full of all Additional Payments and other amounts then due and payable under the Agreement, all available amounts then on deposit in the funds and accounts established under the Trust Indenture will be credited towards the amounts then required to be so prepaid.

Miscellaneous

Liability of District Limited to Net Revenues. Notwithstanding anything contained in the Installment Purchase Agreement, the District will not be required to advance any moneys derived from any source of income other than Net Revenues for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained in the Installment Purchase Agreement. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Installment Payments and any other payments under the Agreement is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Waiver of Personal Liability. No director, officer or employee of the District will be individually or personally liable for the payment of the Installment Payments or be subject to any personal liability by reason of the execution of the Agreement or the execution and delivery of the Bonds.

Assignment; Third-Party Beneficiary. The District acknowledges and agrees that the Installment Payments, and certain of the Authority's rights under the Agreement will be assigned to the Trustee and pledged under the Trust Indenture to the payment of the Bonds. The District consents to such assignment. In addition to the rights and remedies assigned by the Authority to the Trustee, to the extent that the Trust Indenture and the Agreement confer upon or gives or grants to the Trustee any right, remedy or claim under or by reason of the Trust Indenture or the Agreement, the Trustee is hereby explicitly recognized as being a third-party beneficiary under the Agreement and may enforce any such right, remedy or claim conferred, given or granted.

Amendments. This Agreement may only be amended in accordance with the terms applicable to the Authority in the Trust Indenture and any other limitations to amendment of the Agreement in any Parity Bonds Trust Indenture.

TRUST INDENTURE

Assignment and Pledge of Revenues; Funds and Accounts

Pledge and Assignment of Revenues.

(a) All Revenues and any other amounts held by the Trustee in any fund or account established under the Trust Indenture (other than amounts on deposit in the Rebate Fund) are irrevocably pledged to the payment of the interest on and principal or Redemption Price of the Bonds, as provided in the Trust Indenture, and the Revenues will not be used for any other purpose while any of the Bonds remain Outstanding; except that, out of the Revenues and other moneys, there may be applied such sums for such purposes as are permitted under the Trust Indenture. Subject to the application of proceeds upon an Event of Default provisions of the Trust Indenture, this pledge will constitute a first pledge of and charge and lien upon the Revenues and all other moneys on deposit in the funds and accounts established under the Trust Indenture (other than amounts on deposit in the Rebate Fund) for the payment of the principal or Redemption Price of, and interest on the Bonds in accordance with the terms hereof and thereof.

(b) The Authority transfers, assigns and sets over to the Trustee under the Trust Indenture all of the Revenues and any and all rights and privileges it has under the Agreement (but none of its obligations under the Agreement, and none of its rights to give approvals or consents under the Agreement) including, without limitation, the right to collect and receive directly all of the Installment Payments and the right to hold and enforce any security interest, and any Installment Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and will forthwith be paid by the Authority to the Trustee.

The Trustee accepts such assignment. Subject to the Trust Indenture, the Trustee will take all steps, actions and proceedings required to be taken as provided in any opinion of Bond Counsel delivered to it necessary to maintain in force, for the benefit of the Owners, the Trustee's rights in and priority to the following security granted to it for the payment of the Bonds, the Trustee's rights as assignee of the Installment Payments and other Revenues, interest and other income, and all other rights to security for the Bonds which the Trustee may receive in the future.

The Trustee may, in performing the obligations set out in the Trust Indenture, rely on and will be protected in acting or refraining from acting upon an opinion of Bond Counsel furnished by the Authority.

Receipt and Deposit of Revenues in the Debt Service Fund. In order to carry out and effectuate the pledge, charge and lien contained in the Trust Indenture, the Authority agrees and covenants that all Revenues when and as received will be received by the Authority in trust under the Trust Indenture for the benefit of the Owners and will be transferred to the Trustee for deposit by the Trustee in the "Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) Debt Service Fund" (the "Debt Service Fund"), which fund the Trustee agrees to establish, maintain and hold in trust, for so long as any Bonds will be Outstanding under the Trust Indenture.

All Revenues will be accounted for through and held in trust in the Debt Service Fund, and the Authority will have no beneficial right or interest in any of the Revenues, except as provided in the Trust Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Trust Indenture, will nevertheless be allocated, applied and disbursed solely to the purposes and uses as set forth in the Trust Indenture, and will be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Establishment and Maintenance of Accounts for Use of Money in the Debt Service Fund. Subject to the provisions of the Trust Indenture, and by the Tax Certificate, all money in the Debt Service Fund will be set aside by the Trustee in the following respective special accounts within the Debt Service Fund (each of which is hereby created and each of which the Trustee hereby agrees and covenants to maintain) in the following order of priority:

- (i) Interest Account,
- (ii) Principal Account, and
- (iii) Redemption Account.

All money in each of such accounts will be held in trust by the Trustee for the benefit of the Owners and will be applied, used and withdrawn only for the purposes authorized in the Trust Indenture.

The Trustee will transfer from the Debt Service Fund the following amounts at the times and in the manner provided in the Trust Indenture, and will deposit such amounts in one or more of the following respective funds or accounts, each of which will be disbursed and applied only as authorized in the Trust Indenture. Such amounts will be so transferred to and deposited in the following respective funds or accounts in the following order of priority, the requirements of each such fund or account at the time of deposit to be satisfied before any transfer is made to any fund or account subsequent in priority:

(a) *Interest Account.* On each Interest Payment Date, commencing on December 1, 2024, and on each other date when interest on the Bonds becomes due and payable, whether upon redemption, acceleration or otherwise, the Trustee will set aside from the Debt Service Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest on the Bonds becoming due and payable on such Interest Payment Date or such other date.

No deposit needs be made to the Interest Account on any date if the amount contained is at least equal to the aggregate amount of interest on the Bonds becoming due and payable on such date.

Except as otherwise provided in the Trust Indenture, all money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest as it will become due and payable (including accrued interest on Bonds purchased or redeemed prior to their respective Maturity Dates).

(b) *Principal Account.* On each Maturity Date, the Trustee will set aside from the Debt Service Fund and deposit in the Principal Account an amount of money equal to the principal amount of the Outstanding Bonds maturing on such date from payments of a principal amount of Installment Payments on such date, plus any redemption premium payable in connection with the redemption of such Bonds on such date.

No deposit need to be made to the Principal Account on any date if the amount contained in the Principal Account is at least equal to the aggregate principal amount of Outstanding Bonds maturing on such date.

All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal amount of Bonds as they mature.

(c) *Redemption Account.* All prepayments of Installment Payments made by the District, pursuant to the Agreement, will be deposited in the Redemption Account and applied to the

payment, redemption, or provision for the payment or defeasance of Outstanding Bonds as directed in a Certificate of the District.

Capital Improvements Fund.

(a) The Trustee will establish, maintain and hold under the Trust Indenture a fund separate from any other fund established and maintained thereunder designated as the “Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) Capital Improvements Fund” (the “Capital Improvements Fund”). Moneys in the Capital Improvements Fund shall be expended in accordance with the Trust Indenture.

(b) The moneys in the Capital Improvements Fund shall be held by the Trustee in trust and applied to the payment of the costs of acquisition and construction of the Capital Improvements and of costs incidental thereto. The Trustee shall disburse moneys in the Capital Improvements Fund from time to time to pay for Capital Improvements directly or to reimburse the District for payment thereof upon receipt by the Trustee of a Written Request of the District substantially in the form provided in the Trust Indenture. The Trustee shall be absolutely protected in making any disbursement from the Capital Improvements Fund in reliance upon a Written Request of the District.

(c) Concurrent with such statement of Project completion by the District required under of the Agreement, the Trustee shall transfer any remaining balance in the Capital Improvements Fund to the Debt Service Fund.

Rebate Fund. The Trustee will establish when needed, and maintain, so long as any Bonds remain Outstanding, a fund separate from any other fund established and maintained under the Trust Indenture designated as the “Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2024 (Green Bonds) Rebate Fund” (the “Rebate Fund”). All amounts at any time on deposit in the Rebate Fund will be held by the Trustee to the extent required to satisfy the requirement to make rebate payments to the United States (the “Rebate Requirement”) pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the “Treasury Regulations”). Such amounts will be free and clear of any lien under the Trust Indenture and will be governed by the Trust Indenture, and by the Tax Certificate. The Trustee will not be deemed to have any knowledge of the provisions of the Tax Certificate, and will be deemed conclusively to have complied with the Rebate Requirement and its obligations under the Trust Indenture if it follows the directions of the Authority, and will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Authority with the Rebate Requirement and the Tax Certificate.

Additional Payments. In the event the Trustee receives Additional Payments pursuant to the Agreement, such Additional Payments will be applied by the Trustee solely to the payment of any costs in respect of which such Additional Payments were received, and will not be commingled in any way with any other funds received by the Trustee pursuant to the Agreement or the Trust Indenture.

Deposit and Investments of Money in Accounts and Funds.

(a) All money held by the Trustee in any of the accounts or funds established pursuant hereto will be invested in Investment Securities at the Written Request of the Authority filed with the Trustee at least two (2) Business Days in advance of making such investment which will, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Trust Indenture. If no such Written Request of the Authority is received by the Trustee, then, the monies will be held uninvested. Except as otherwise provided in the Trust Indenture, all interest or profits

received on any money in any fund or account held under the Trust Indenture (other than the Rebate Fund) so invested will be deposited in the Interest Account in the Debt Service Fund.

(b) The Trustee or any of its affiliates may act as principal or agent, sponsor, advisor, principal, agent or manager in connection with any investments made by the Trustee under the Trust Indenture. For investment purposes only, the Trustee may commingle the funds and accounts established under the Trust Indenture, but will maintain separate records relating to the investments for fund or account.

(c) The Trustee will not be liable for any loss from any Investment Securities acquired, held or disposed of in compliance with the Trust Indenture.

(d) The Trustee may rely on the investment instructions from the Authority that the instructed investment is an Investment Security for the funds to be invested.

(e) The Trustee may rely conclusively upon the investment direction of the Authority as to the suitability and legality of the directed investments.

Repayment to District. When there are no longer any Bonds Outstanding, and all fees, charges and expenses of the Trustee have been paid or provided for, and all expenses of the Authority relating to the Trust Indenture have been paid or provided for, and all other amounts payable under the Trust Indenture, including without limitation any Rebate Requirement under the Agreement have been paid, and the Trust Indenture has been discharged and satisfied, the Trustee will pay to the District any amounts remaining in any fund established and held under the Trust Indenture.

Covenants of the Authority and the Trustee

Compliance with Trust Indenture and the Agreement. The Authority will not suffer or permit any default by it to occur under the Trust Indenture or under the Agreement, but will faithfully comply with, keep, observe and perform all the agreements and covenants to be observed or performed by it contained in the Trust Indenture, the Agreement and in the Bonds.

Observance of Laws and Regulations. The Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by it, including its right to exist and carry on its respective businesses, to the end that such franchises, rights and privileges will be maintained and preserved and will not become abandoned, forfeited or in any manner impaired.

Tax Covenants.

(a) *General.* The Authority covenants with the Owners that, notwithstanding any other provisions of the Trust Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. The Authority will not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code and applicable Treasury Regulations) in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Bonds.

(b) *Use of Proceeds.* The Authority will not take any action, or fail to take any action, if any such action or failure to take action would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code and applicable Treasury Regulations, and in furtherance thereof, will not make any use of the proceeds of the Bonds or any of the property financed or refinanced with proceeds of the Bonds, or any portion thereof, or any other funds of the Authority, that would cause the Bonds to be “private activity bonds” within the meaning of Section 141 of the Code. To that end, so long as any Bonds are Outstanding, the Authority, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and applicable Treasury Regulations, to the extent such requirements are, at the time, applicable and in effect. The Authority will establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Bonds as “governmental bonds.”

(c) *Arbitrage.* The Authority will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced, or other funds of the Authority, or take or omit to take any action, that would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations, and will not otherwise take any action, or fail to take action, if such action or failure to take action would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and applicable Treasury Regulations. To that end, the Authority will comply with all requirements of Section 148 of the Code and applicable Treasury Regulations to the extent such requirements are, at the time, in effect and applicable to the Bonds.

(d) *Federal Guarantee.* The Authority will not make any use of the proceeds of the Bonds or any other funds of the Authority, or take or omit to take any other action, that would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code, and will not otherwise take any action, or fail to take action, when such action or failure to take action would cause the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(e) *Compliance with Tax Certificate.* In furtherance of the foregoing tax covenants, the Authority covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Trust Indenture as if fully set forth in the Trust Indenture. These covenants will survive payment in full or defeasance of the Bonds.

Accounting Records and Reports.

The Trustee will keep proper accounting records in accordance with the Trustee’s standards in which complete and correct entries will be made of all transactions relating to the receipt, investment, deposit, application and disbursement of the Revenues and the proceeds of the Bonds, and such accounting records will be available for inspection by the Authority and the District at reasonable hours and under reasonable conditions with reasonable notice. Not later than the 15th day of each calendar month, commencing on May 15, 2024, and continuing so long as any Bonds are Outstanding, the Trustee will furnish or cause to be furnished to the Authority a complete statement covering the receipts, investments, deposits, application and disbursements of the Revenues for the immediately preceding calendar month.

Such complete statement will consist of cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Authority. Upon the Authority’s election, such statement will be delivered via the Trustee’s online service and, upon electing such service, paper statements will be provided only upon request. The Authority waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The Authority further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

Amendments to Agreement. The Authority will not consent to the amendment, alteration or modification, in whole or in part, of the Agreement except: (a) to the extent such amendment, alteration or modification will cure an ambiguity, supply an omission, or cure or correct a defect or inconsistent provision in the Agreement; (b) to the extent such amendment, alteration or modification will insert such provisions clarifying matters or questions arising under the Agreement as are necessary or desirable and are not contrary to or inconsistent with the Trust Indenture; (c) if, in the Opinion of Counsel, delivered to the Trustee such amendment, alteration or modification does not materially adversely affect the rights of the Owners; or (d) with the written consent of the Owners of a majority in aggregate principal of the Bonds then Outstanding. Any such written consent will be obtained in the manner provided in the Trust Indenture for amendments to the Trust Indenture. No such amendment, alteration or modification will be effective unless and until there will have been filed with the Trustee an Opinion of Counsel stating that such amendment, alteration or modification has been duly and lawfully entered into by the parties to the Agreement, is authorized or permitted by the Trust Indenture, and is valid and binding upon the parties to the Agreement in accordance with its terms and, if applicable, containing the opinion described in the above subclause (c). For purposes of the Trust Indenture, no change or revision "Exhibit A - Description of the Project" to the Agreement, made pursuant to the terms of the Agreement, will constitute an amendment, alteration or modification of the Agreement.

Recording and Filing. The Authority will, at the expense of the Authority, cause the filing, recording, registering, renewing, refile and rerecording of all such documents, including financing statements (or continuation statements in connection therewith), all in such manner, at such times and in such places as may be required and to the extent permitted by law, in order to fully perfect, preserve and protect the security of the Owners and the rights and interests of the Trustee.

Against Encumbrances. So long as any Bonds are Outstanding, the Authority will not create or suffer to be created any pledge of or lien on the Revenues other than the pledge and lien of the Trust Indenture, and will not issue any bonds, notes or obligations payable from the Revenues, or secured by a pledge of or charge or lien upon the Revenues, except the Bonds. Subject to this limitation, the Authority reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other bonds or other obligations for such purposes.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee (who has no obligation or duty to make such request) or any Owner, the Authority will promptly authenticate and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

The Trustee

The Trustee.

(a) The Bank of New York Mellon Trust Company, N.A., as the Trustee, will receive all money which the Authority is required to deposit with the Trustee under the Trust Indenture and for the purpose of allocating, applying and using such money as provided in the Trust Indenture and for the purpose of paying the principal or Redemption Price of, and interest on the Bonds presented for payment, and for the purpose of canceling all paid or redeemed Bonds as provided in the Trust Indenture. Except during the continuance of an Event of Default, the Trustee undertakes to perform only such duties as are specifically set forth in the Trust Indenture, and no implied covenants, duties or obligations will be read into the Trust Indenture against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will

exercise such of the rights and powers vested in it by the Trust Indenture, and use the same degree of care and skill in their exercise, as a prudent corporate trustee. The Authority agrees that it will at all times maintain a Trustee having a Corporate Trust Office in California.

(b) The Authority may, upon thirty (30) days' prior written notice (unless there exists any Event of Default as defined in the Trust Indenture), remove the Trustee initially appointed and any successor and may appoint a successor or successors by an instrument in writing; provided that any such successor will be a banking association or corporation or trust company doing business in California, having a combined capital (exclusive of borrowed capital) and surplus of at least \$50,000,000 and subject to supervision or examination by a federal or State agency. If such banking association, banking corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then, for the purpose of the Trust Indenture, the combined capital and surplus of such banking association, banking corporation or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the Authority and by mailing to the Owners notice of such resignation. Upon receiving such notice of resignation, the Authority will promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee will become effective only upon the acceptance of appointment by the successor Trustee. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee will have been appointed and will have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby. The Trustee under the Trust Indenture will also be the trustee under each Parity Bonds Trust Indenture.

Liability of Trustee.

(a) The recitals of facts, agreements and covenants in the Trust Indenture and in the Bonds will be taken as recitals of facts, agreements and covenants of the Authority, and the Trustee assumes no responsibility for the correctness of the same and makes no representation as to the sufficiency or validity of the Trust Indenture or of the Bonds, and will not incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it in the Trust Indenture, in the Bonds or in law or equity. The Trustee will not be liable in connection with the performance of its duties under the Trust Indenture except for its own negligence or willful misconduct.

(b) The Trustee will not be liable for any error of judgment made in good faith by a responsible officer, unless it will be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Indenture.

(d) The Trustee will be under no obligation to exercise any of the rights or powers vested in it hereby at the request, order or direction of any of the Owners pursuant to the provisions of the Trust Indenture unless such Owners will have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities that may be incurred. The Trustee has no obligation or liability to the Owners for the payment of interest, principal or redemption premium, if any, on the Bonds from its own funds; but rather the Trustee's obligations will be limited to the performance of its duties under the Trust Indenture.

(e) The Trustee will not be deemed to have knowledge of any default under the Trust Indenture or default under the Agreement unless and until it will have actual knowledge thereof or will have received written notice thereof at its Corporate Trust Office. Except as otherwise expressly provided in the Trust Indenture, the Trustee will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Indenture or of any of the documents executed in connection with the Bonds or as to the existence of a default under the Trust Indenture.

(f) The Trustee will be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Trust Indenture, but the Trustee will not be answerable for the professional malpractice of any attorney-at-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of the Trust Indenture, if such attorney-at-law or certified public accountant was selected by the Trustee with due care.

(g) The Trustee will not be concerned with or accountable to anyone for the subsequent use or application of the proceeds of the Bonds and any moneys which will be released or withdrawn in accordance with the provisions of the Trust Indenture.

(h) Whether or not expressly so provided, every provision in the Agreement or in the Trust Indenture, or any related documents relating to the conduct or affecting the liability of or affording protection to the Trustee, will be subject to the provisions of the Trust Indenture.

(i) The Trustee will be fully protected in acting upon any notice, requisition, resolution, request, consent, order, certificate, report, opinion, bond, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Indenture in good faith and in accordance therewith.

(j) Whenever in the administration of its rights and obligations under the Trust Indenture, the Trustee will deem it necessary or desirable that a matter be established or proved prior to taking or suffering any action under the Trust Indenture, such matter (unless other evidence in respect of the Trust Indenture specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority, which Certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

(k) No provision of the Trust Indenture will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Indenture, or in the exercise of its rights or powers.

(l) The Trustee will have no responsibility, opinion or liability with respect to any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the execution and delivery of the Bonds.

(m) All immunities, indemnifications and releases from liability granted in the Trust Indenture to the Trustee will extend to the directors, employees, officers and agents thereof.

(n) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it will be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, so long as such company will meet the requirements set forth in the Trust Indenture, will be the successor to the Trustee and vested with all of the title to the trust estate and all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any paper or further act, anything in the Trust Indenture to the contrary notwithstanding.

(o) The Trustee may become the Owner or pledgee of any Bonds with the same rights it would have if it were not Trustee.

(p) The Trustee may execute any of the trusts or powers of the Trust Indenture and perform any of its duties by or through attorneys, agents or receivers and will not be answerable for the conduct of the same if appointed with due care under the Trust Indenture. The permissive right of the Trustee to do things enumerated in the Trust Indenture shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence or willful default.

(q) In acting or omitting to act pursuant to the Installment Purchase Agreement and any other document executed in connection with the Installment Purchase Agreement or the Trust Indenture, the Trustee will be entitled to all of the rights, immunities and indemnities accorded to it under the Trust Indenture and the Installment Purchase Agreement. Notwithstanding the effective date of the Trust Indenture or anything to the contrary in the Trust Indenture, the Trustee will have no liability or responsibility for any act or event relating to the Trust Indenture which occurs prior to the date the Trustee formally executes the Trust Indenture and commences acting as Trustee under the Trust Indenture.

Amendment of the Trust Indenture

Amendment of the Trust Indenture.

(a) Except as provided in the Trust Indenture, the rights and obligations of the Authority and of the Owners may be amended at any time by a Supplemental Trust Indenture which will become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Indenture, are filed with the Trustee; provided, that, before executing any such Supplemental Trust Indenture, the Trustee may first obtain, at the Authority's expense, an Opinion of Counsel that such Supplemental Trust Indenture is authorized or permitted under the Trust Indenture, and complies with the provisions of the Trust Indenture, on which opinion the Trustee may conclusively rely.

(b) No amendment to the Trust Indenture will (i) extend the stated maturity of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest, or reduce the principal amount of, or reduce any premium payable on the redemption of any Bond, without the express written consent of the Owner of such Bond, or (ii) reduce the percentage of Bonds required for the written consent to any such amendment without the express written consent of the Owners of all Outstanding Bonds, or (iii) modify any rights or obligations of the Trustee without its prior written assent to such amendment.

(c) The Trust Indenture and the rights and obligations of the Authority and of the Owners may also be amended at any time by a Supplemental Trust Indenture which will become binding upon adoption without the consent of any Owners, and only to the extent permitted by law, for any one or more of the following purposes:

(i) to add to the agreements and covenants required in the Trust Indenture to be performed by the Authority or other agreements and covenants thereafter to be performed by the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Indenture or in regard to questions arising under the Trust Indenture which the Authority may deem desirable or necessary and not inconsistent herewith;

(iii) to add to the agreements and covenants required in the Trust Indenture, such agreements and covenants as may be necessary to qualify the Trust Indenture under the Trust Indenture Act of 1939;

(iv) to make any amendments or supplements necessary or appropriate to preserve or protect the exclusion of interest on the Bonds from gross income for federal income tax purposes under the Code, or the exemption of interest on the Bonds from State personal income taxes;

(v) to make such amendments or supplements as may be necessary or appropriate to maintain any then current rating on the Bonds by any of the Rating Agencies;

(vi) to add to the rights of the Trustee; or

(vii) for any purpose that will not materially adversely affect the interests of the Owners, as evidenced by the opinion of counsel delivered pursuant to the Trust Indenture.

Amendment by Mutual Consent. The provisions of the Trust Indenture will not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Events of Default and Remedies of Owners

Default; Events of Default. If any of the following events occurs, it is hereby defined as and declared to be and to constitute a default and an Event of Default:

(a) Failure to make due and punctual payment of any installment of interest upon any Bond when the same will have become due and payable;

(b) Failure to make due and punctual payment of the principal of or premium, if any, on any Bond, whether at the stated maturity thereof, or upon proceedings for redemption thereof or upon the maturity thereof by declaration;

(c) Any representation or warranty made by the Authority in the Trust Indenture or the Bonds will be determined by the Trustee to have been untrue in any material respect when made or any failure by the Authority to observe and perform any covenant, condition or agreement on its part to be observed and performed under the Trust Indenture or the Bonds, other than as referred to in subsections (a) or (b) of the Trust Indenture, for a period of 60 days after written notice specifying such breach or failure and requesting that it be remedied, given to the Authority and the Owners by the Trustee, unless the breach or failure is such that it cannot be corrected within the applicable period, or corrective action is instituted by the Authority within the applicable period and is being diligently pursued, provided that such breach or

failure must be cured within a period of 365 days after written notice of such breach or failure is given to the Authority;

(d) An Agreement Event of Default will have occurred under the Agreement; or

(e) If the Authority will file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction will approve a petition filed with or without the consent of the Authority seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States or America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction will assume custody or control of the Authority or of the whole or any substantial parts of its property.

Acceleration of Maturities. Upon the occurrence of an Event of Default, the Trustee will, or in the case of an Event of Default described in the Trust Indenture, the Trustee may declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same will become and will be immediately due and payable, anything contained in the Trust Indenture or in the Bonds to the contrary notwithstanding.

Upon such acceleration, the Trustee will provide the Owners with a notice of acceleration and the Trustee will take whatever additional action at law or in equity may appear necessary or desirable to the Trustee to collect the money necessary to pay the acceleration price of the Bonds. Thereafter, the Trustee will take such action as is necessary to pay the Bonds out of such moneys at the earliest possible date after providing the Owners with a notice of redemption as provided in the Trust Indenture.

Application of Proceeds Upon an Event of Default. All amounts received by the Trustee pursuant to an Event of Default under the provisions of the Trust Indenture and amounts previously held by the Trustee under the Trust Indenture will be applied by the Trustee in the following order upon presentation of the Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid.

First, to the payment of the fees and expenses of the Trustee, including costs and expenses of the Trustee in declaring such Event of Default and carrying out the provisions of the Trust Indenture including reasonable compensation of its agents, attorneys and counsel; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts will be insufficient to pay the full amount of such interest and principal, then such amounts will be applied in the following order of priority:

(a) to the payment of all installments of interest on the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full;

(b) to the payment of principal of all installments of the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full; and

(c) to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Whenever all principal or Redemption Price of, and interest on all Bonds have been paid and all expenses and charges of the Trustee have been paid, and the final calculation of rebate has been made and the appropriate amount transferred to the Rebate Fund, any balance remaining in all funds and accounts created under the Trust Indenture, except amounts on deposit in the Rebate Fund, will be paid to the District pursuant to the Trust Indenture.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default will happen and be continuing, the Trustee in its discretion may, and will, at the direction of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction, proceed to protect and enforce its rights or the rights of the Owners of Bonds under the Trust Indenture by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Indenture, or in aid of the execution of any power granted in the Trust Indenture, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights and duties under the Trust Indenture.

Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

No Remedy Exclusive. No remedy in the Trust Indenture conferred upon or reserved to the Trustee is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Indenture and the Agreement, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it will not be necessary to give notice other than such notice as may be required in the Trust Indenture or by law.

No Additional Waiver Implied by One Waiver. In the event any provision contained in the Trust Indenture should be breached by a party and thereafter waived by another party, such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Trust Indenture.

Action by Owners. In the event the Trustee fails to take any action to eliminate an Agreement Event of Default, under the Agreement, or an Event of Default under the Trust Indenture, the Owners of a majority in aggregate principal amount of Bonds then Outstanding may institute any suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under the Agreement or the Trust Indenture, but only if such Owners will have first made written request of the Trustee after the right to exercise such powers or right of action will have arisen, and will have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee will have been offered reasonable security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred, and the Trustee will have refused or neglected to comply with such request within 60 days.

Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under the Trust Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production of the Bonds in any related proceeding, and any such proceeding instituted by the Trustee will be brought in its own name as trustee of an express trust, and any recovery of judgment will, after provision of the payment of the reasonable compensation, expenses, disbursements and

advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Bonds, in respect of which such judgment has been recovered.

Waivers of Events of Default. Provided that all payments of interest and principal due and owing on the Bonds have been paid, prior to acceleration of the Bonds the Trustee will, and thereafter the Trustee in its discretion may or, upon the written demand of the Owners of not less than a majority in aggregate principal amount of all Bonds Outstanding will, waive any Event of Default under the Trust Indenture and rescind its consequences; provided, however, that the Trustee may not waive any Events of Default which constitute a breach of a covenant with respect to the tax exempt status of the Bonds. In the case of any such waiver and rescission, the Authority, the Trustee and the Owners will be restored to their former positions and rights under the Trust Indenture, respectively, but no such waiver and rescission will extend to any subsequent or other default, or impair any right consequent thereon. All waivers under the Trust Indenture will be in writing and a copy thereof will be delivered to the Authority and to the District

Defeasance

Discharge of Trust Indenture.

(a) Any or all of the Outstanding Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable and due under the Trust Indenture by the Authority:

(i) by paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(ii) by irrevocably depositing with the Trustee, an escrow agent or other fiduciary, at or before maturity, money or non-callable Defeasance Securities (certified to be sufficient by a report of an Independent Certified Public Accountant delivered to the Trustee to pay or redeem such Bonds) as set forth in subsection (b) below; or

(iii) by delivering to the Trustee, for cancellation by it, all of such Bonds, as set forth in subsection (c) below.

If the Authority shall also pay or cause to be paid all other sums payable and due under the Trust Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the Trust Indenture and the pledge of Revenues and other assets made under the Trust Indenture with respect to such Bonds and all covenants, agreements and other obligations of the Authority under the Trust Indenture with respect to such Bonds shall cease, terminate, become void and be completely discharged and satisfied, except for the Authority's obligations to compensate and indemnify the Trustee under the Trust Indenture, which shall survive. In such event, upon the Written Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee, subject to application of amounts on deposit in the Rebate Fund as provided in the Trust Indenture, shall pay over, transfer, assign or deliver to or upon the order of the District all moneys or securities or other property held by it pursuant to the Trust Indenture which are not required for the payment or redemption of any of such Bonds not theretofore surrendered for such payment or redemption.

(b) Upon the deposit with the Trustee, an escrow agent or other fiduciary, at or before maturity, of money or non-callable Defeasance Securities in the necessary amount to pay or redeem any

Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds and certified to be sufficient by a report of an Independent Certified Public Accountant delivered to the Trustee to pay or redeem such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment.

Whenever in the Trust Indenture or the Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee, or in escrow by an escrow agent or other fiduciary, money or non-callable Defeasance Securities (certified to be sufficient by a report of an Independent Certified Public Accountant delivered to the Trustee) in the necessary amount to pay or redeem any Bonds, the cash or non-callable Defeasance Securities to be so deposited or held may include cash or non-callable Defeasance Securities held in the funds and accounts established pursuant to the Trust Indenture, and shall be in an amount equal to the principal amount of the Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given pursuant to the Trust Indenture, or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the Redemption Price, and all unpaid interest to such date of redemption on such Bonds; provided that the Trustee shall have been instructed (by the terms of the Trust Indenture or the Agreement, or by Written Request of the Authority) to apply such cash or non-callable Defeasance Securities to the payment of such principal or Redemption Price of, and interest on such Bonds.

(c) The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Whenever in the Trust Indenture or the Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee, or in escrow by an escrow agent or other fiduciary, money or non-callable Defeasance Securities (certified to be sufficient by a report of an Independent Certified Public Accountant delivered to the Trustee) in the necessary amount to pay or redeem any Bonds, the cash or non-callable Defeasance Securities to be so deposited or held may include cash or non-callable Defeasance Securities held in the funds and accounts established pursuant to the Trust Indenture, and will be in an amount equal to the principal amount of the Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given pursuant to the Trust Indenture, or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the Redemption Price, and all unpaid interest to such date of redemption on such Bonds; provided that the Trustee will have been instructed (by the terms of the Trust Indenture or the Agreement, or by Written Request of the Authority) to apply such cash or non-callable Defeasance Securities to the payment of such principal or Redemption Price of, and interest on such Bonds.

Notice of Deposit of Money or Defeasance Securities. If money or non-callable Defeasance Securities are deposited with and held by the Trustee, an escrow agent or other fiduciary as hereinabove provided, the Trustee shall within 10 business days after such cash or non-callable Defeasance Securities shall have been so deposited, mail a notice, first class postage prepaid, to the Owners at the addresses listed on the registration books kept by the Trustee pursuant to the Trust Indenture, setting forth (a) the date fixed for redemption of the Bonds, (b) a description of the cash or non-callable Defeasance Securities so held, and that (c) the Trust Indenture has been released in respect of such Bonds in accordance with the provisions thereof.

Unclaimed Moneys. Anything contained in the Trust Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the principal or Redemption Price of, and interest on any of the Bonds which remain unclaimed for 2 years after the date when the principal or Redemption Price of, and interest on such Bonds have become payable, will, at the written request of the Authority, be repaid by the Trustee (without liability for interest) to the District as its absolute property free from trust, and the Trustee will be released and discharged with respect to these moneys and the Owners will look only to the District for the payment of the principal or Redemption Price of, and interest on such Bonds; provided, however, that before being required to make any such payment to the District, the Trustee will, at the Written Request of the Authority, and at the expense of the Authority, mail a notice to the Owners of the Bonds so payable that such moneys remain unclaimed and that, after a date named in such notice, which date will not be less than 30 days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned to the District.

APPENDIX B
DISTRICT AUDITED FINANCIAL STATEMENTS

**SANTA CRUZ COUNTY
SANITATION DISTRICT**

**A COMPONENT UNIT OF
THE COUNTY OF SANTA CRUZ**

**BASIC FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

**SANTA CRUZ COUNTY SANITATION DISTRICT
JUNE 30, 2023**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Santa Cruz County Sanitation District
Santa Cruz, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying basic financial statements of the Santa Cruz County Sanitation District (the District), a component unit of the County of Santa Cruz (the County), as of and for the fiscal year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2023, and the respective changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control relating to the District. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023, on our consideration of the County's internal control over financial reporting relating to the District and on our tests of the County's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance relating to the District. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance relating to the District.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2023

**SANTA CRUZ COUNTY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2023**

INTRODUCTION

This section of the Santa Cruz County Sanitation District's (the District) annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended June 30, 2023. Please read it in conjunction with the District's basic financial statements following this section.

THE FINANCIAL HIGHLIGHTS

- The assets of the District exceeded liabilities at the close of the 2022/2023 fiscal year by \$146,745,863 (net position). Of this amount, \$15,117,916 (unrestricted) may be used to meet ongoing obligations to citizens and creditors, and \$131,627,947 is the net investment in capital assets.
- The District's total net position increased by \$3,551,916. This is an increase of \$1,340,534 from the prior fiscal year's change in net position. This increase is primarily attributable to a \$2,590,871 increase in charges for services and a \$1,022,864 increase in investment income offset with an increase in expenses of \$2,367,495.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: (1) Government-wide financial statements, and (2) Notes to the basic financial statements. Fund financial statements are not included in the basic financial statements because all activities of the District are accounted for within a single enterprise fund. Enterprise funds are accounted for using the accrual method of accounting. Required Supplementary Information is included in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business.

The statement of net position presents information on all District assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether or not the financial position of the District is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period.

Both of these government-wide financial statements would distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). However, there are no governmental activities in the District.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$146,745,863 at the close of the most recent fiscal year. Further detail is provided in the following table:

Condensed Statements of Net Position

	2023	2022	Increase (Decrease) \$	Increase (Decrease) %
Assets				
Current assets	\$ 18,715,109	\$ 20,172,845	\$ (1,457,736)	-7.2%
Capital assets, net	151,498,053	146,302,682	5,195,371	3.6%
Other noncurrent assets	17,860,273	20,008,924	(2,148,651)	-10.7%
Total Assets	188,073,435	186,484,451	1,588,984	0.9%
Liabilities				
Current liabilities	4,866,296	5,560,836	(694,540)	-12.5%
Noncurrent liabilities	36,461,276	37,729,668	(1,268,392)	-3.4%
Total Liabilities	41,327,572	43,290,504	(1,962,932)	-4.5%
Net Position				
Net investment in capital assets	131,627,947	107,272,683	24,355,264	22.7%
Unrestricted	15,117,916	35,921,264	(20,803,348)	-57.9%
Total Net Position	\$ 146,745,863	\$ 143,193,947	\$ 3,551,916	2.5%

The significant changes in the District's net position are summarized as follows:

- Cash and investments decreased by \$1,457,736 from the prior fiscal year. Further information is presented in the Statement of Cash Flows.
- Capital assets, net increased by \$5,195,371 from the prior fiscal year. Further information is presented under the Capital Assets and Debt Administration section of this Management's Discussion and Analysis.
- Current liabilities decreased by \$694,540 from the prior fiscal year due to the timing of projects.
- Noncurrent liabilities have decreased by \$1,268,392. Further information is presented under the Capital Assets and Debt Administration section of this Management's Discussion and Analysis.

Analysis of Net Position

The largest portion of the District's net position (\$131,627,947) (89.70%) reflects its net investment in capital assets (e.g., pumping stations, transmission systems, mobile equipment, other equipment, sewage treatment plant, and construction in progress), less related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay these debts must be provided from other sources, since the capital assets themselves cannot be used to liquidate these debts.

The remaining balance of the District's net position (\$15,117,916 (10.30%)) is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2023	2022	Increase (Decrease) \$	Increase (Decrease) %
Revenues				
Program Revenues				
Charges for services	\$ 31,679,491	\$ 29,088,620	\$ 2,590,871	8.9%
General Revenues				
Aid from other government agencies	189,673	104,436	85,237	81.6%
Investment income	1,101,758	78,894	1,022,864	1296.5%
Gain on sale of capital assets	9,409	-	9,409	100.0%
Total Revenues	<u>32,980,331</u>	<u>29,271,950</u>	<u>3,708,381</u>	<u>12.7%</u>
Expenses				
Sanitation District	<u>29,428,415</u>	<u>27,060,568</u>	<u>2,367,847</u>	<u>8.8%</u>
Total Expenses	<u>29,428,415</u>	<u>27,060,568</u>	<u>2,367,847</u>	<u>8.8%</u>
Change in Net Position	3,551,916	2,211,382	1,340,534	60.6%
Net Position, Beginning	<u>143,193,947</u>	<u>140,982,565</u>	<u>2,211,382</u>	<u>1.6%</u>
Net Position, Ending	<u><u>\$ 146,745,863</u></u>	<u><u>\$ 143,193,947</u></u>	<u><u>\$ 3,551,916</u></u>	<u><u>2.5%</u></u>

Analysis of Changes in Net Position

The District's change in net position was \$3,551,916 for the current fiscal year. This is an increase of \$1,340,534 from the prior fiscal year's change in net position. This increase is primarily attributable to a \$2,590,871 increase in charges for services and an increase in investment income of \$1,022,864, offset with an increase in expenses of \$2,367,847.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's net capital assets as of June 30, 2023, amounted to \$151,498,053. These net capital assets include pumping stations, transmission systems, mobile equipment, other equipment, sewage treatment plant, and construction in progress.

The net increase in the District's capital assets (net book value) for the current period was \$5,195,371, or 3.6%.

Major capital asset events during the current fiscal year included the following:

- Increase to construction in progress amounted to \$6,202,398.
- Pumping station systems increased by \$470,318, which included construction in progress completions of \$301,622.
- The majority of the remaining changes in capital assets were additions of \$4,697,977 offset by depreciation expense of \$6,175,322.

The District's capital assets are presented below by type to illustrate changes from the prior fiscal year:

	2023	2022	Increase (Decrease) \$	Increase (Decrease) %
Pumping station systems	\$ 62,687,756	\$ 62,217,438	\$ 470,318	0.8%
Transmission systems	149,658,708	146,341,547	3,317,161	2.3%
Sewage treatment plant	35,924,625	35,924,625	-	0.0%
Construction in progress	12,797,564	6,595,166	6,202,398	94.0%
Mobile equipment	5,071,342	4,846,534	224,808	4.6%
Other equipment	3,817,570	2,661,562	1,156,008	43.4%
Total cost	269,957,565	258,586,872	11,370,693	4.4%
Less accumulated depreciation	(118,459,512)	(112,284,190)	6,175,322	5.5%
Capital assets, net	<u>\$ 151,498,053</u>	<u>\$ 146,302,682</u>	<u>\$ 5,195,371</u>	<u>3.6%</u>

Additional information on the District's capital assets can be found in Note 3 on page 18 of this report.

Long-Term Debt

At June 30, 2023, the District had total long-term debt outstanding of \$37,729,698 (including current portion of \$1,268,422) as compared to \$39,029,969 (including current portion of \$1,300,301) at the prior year-end. The decrease is primarily the result of payments of \$1,300,271 on existing debt. Please see Note 4 on page 18 for additional information.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Cruz County Auditor-Controller, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

BASIC FINANCIAL STATEMENTS

**SANTA CRUZ COUNTY SANITATION DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>2023</u>
ASSETS	
Current Assets:	
Cash and investments with County Treasurer, unrestricted	\$ 18,715,109
Total Current Assets	<u>18,715,109</u>
Noncurrent Assets:	
Cash and investments with Fiscal Agent, restricted	17,860,273
Capital assets, net	<u>151,498,053</u>
Total Noncurrent Assets	<u>169,358,326</u>
Total Assets	<u>188,073,435</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	3,461,530
Accrued bond interest	136,344
Loans payable, current portion	<u>1,268,422</u>
Total Current Liabilities	<u>4,866,296</u>
Noncurrent Liabilities:	
Loans payable, net	<u>36,461,276</u>
Total Noncurrent Liabilities	<u>36,461,276</u>
Total Liabilities	<u>41,327,572</u>
NET POSITION	
Net investment in capital assets	131,627,947
Unrestricted	<u>15,117,916</u>
Total Net Position	<u>\$ 146,745,863</u>

The accompanying notes are an integral part of these basic financial statements.

**SANTA CRUZ COUNTY SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	<u>2023</u>
OPERATING REVENUES	
Charges for services	<u>\$ 31,679,491</u>
OPERATING EXPENSES	
General and administrative	6,894,506
Services and supplies	15,054,640
Depreciation	<u>6,175,322</u>
Total Operating Expenses	<u>28,124,468</u>
Operating Income	<u>3,555,023</u>
NONOPERATING REVENUES (EXPENSES)	
Aid from other government agencies	189,673
Investment income	1,101,758
Bond interest and related fees	(1,303,947)
Gain on sale of capital assets	<u>9,409</u>
Total Nonoperating Revenues (Expenses)	<u>(3,107)</u>
Change in Net Position	3,551,916
Net Position - Beginning	<u>143,193,947</u>
Net Position - Ending	<u><u>\$ 146,745,863</u></u>

The accompanying notes are an integral part of these basic financial statements.

**SANTA CRUZ COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	<u>2023</u>
Cash Flows from Operating Activities:	
Cash receipts from customers	\$ 31,679,491
Cash paid to suppliers for goods and services	(12,655,633)
Cash paid for interfund services used	<u>(9,945,296)</u>
Net Cash Provided by Operating Activities	<u>9,078,562</u>
Cash Flows from Noncapital Financing Activities:	
Subsidy from other government agencies	<u>189,673</u>
Net Cash Provided by Noncapital Financing Activities	<u>189,673</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(11,370,693)
Proceeds from sale of assets	9,409
Issuance of debt	-
Principal paid on capital debt	(1,318,352)
Interest paid on capital debt	<u>(1,296,744)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(13,976,380)</u>
Cash Flows from Investing Activities:	
Interest and investment income, net	<u>1,101,758</u>
Net Cash Provided by Investing Activities	<u>1,101,758</u>
Net Decrease in Cash and Investments	(3,606,387)
Cash and Investments, Beginning	<u>40,181,769</u>
Cash and Investments, Ending	<u><u>\$ 36,575,382</u></u>
Reconciliation of Cash and Cash Investments to the Statement of Net Position	
Cash and investments with County Treasurer, unrestricted	\$ 18,715,109
Cash and investments with Fiscal Agent, restricted	<u>17,860,273</u>
	<u><u>\$ 36,575,382</u></u>

The accompanying notes are an integral part of these basic financial statements.

**SANTA CRUZ COUNTY SANITATION DISTRICT
STATEMENT OF CASH FLOWS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	<u>2023</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 3,555,023
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,175,322
Changes in assets and liabilities:	
Accounts payable	<u>(651,783)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 9,078,562</u></u>

The accompanying notes are an integral part of these basic financial statements.

**SANTA CRUZ COUNTY SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Santa Cruz County Sanitation District (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Description of the Reporting Entity

The District is managed by the Santa Cruz County Department of Public Works (Department) under the direction of the District Board of Directors. Among other assignments, the Department provides management, administration, engineering, maintenance, and construction services for the District. In addition, other Santa Cruz County (County) services provided to the District are:

1. Collection, by the Treasurer-Tax Collector, of sewer charges included on the customers' tax bills.
2. Collection of connection fees by the Planning Department.
3. Providing of investment services by the Treasurer.
4. Providing of legal services by the County Counsel.

The Department recovers its administrative costs from a 3.0% to 10.0% overhead surcharge on all services performed. Other charges related to construction and acquisitions of sewage processing facilities have been capitalized in the accompanying financial statements once the improvements or acquisitions have been completed.

The District's financial statements are presented as an enterprise fund and as a discretely presented component unit in the County's financial statements, pursuant to GASB Statement No. 61.

The District does not have employees. All employees are employees of the Department. The County charges the District a weighted labor rate for work performed on behalf of the District.

B. Measurement Focus, Basis of Accounting, and Basis of Presentation

The basic financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as property taxes and investment income, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District has elected to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure unless they contradict or conflict with GASB Statement No. 61.

The District's accounting records are a part of the County's centralized accounting system.

C. Cash and Investments

The District maintains all of its cash and investments with the County Treasurer in an investment pool. On a monthly basis the County Treasurer allocates interest to participants based upon their average daily balances. Investments in the investment pool are highly liquid, as deposits and withdrawals can be made at anytime without penalty. The County does not impose any maximum investment limit. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County for the entire investment pool. The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis of accounting.

D. Restricted Cash with Fiscal Agents

Restricted cash with fiscal agents is comprised of funds reserved for capital projects and debt service.

E. Inventories

Inventories consist of materials and supplies which are valued using the FIFO method (first-in, first-out).

F. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, improvements other than buildings, machinery and equipment, autos and trucks, equipment under capitalized leases, and infrastructure assets (e.g., roads, bridges, traffic signals, and similar items), are reported in the Government-Wide Financial Statements. County policy has set the capitalization threshold for reporting capital assets at \$5,000 for equipment and vehicles and \$25,000 for infrastructure, buildings, and structures. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at their estimated market value on the date donated.

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Infrastructure	4-65 years
Buildings and structures	10-50 years
Equipment and vehicles	3-15 years

For infrastructure systems, the County elected to use the "Basic Approach" as defined by GASB Statement No. 34 for infrastructure reporting.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets (Continued)

The County defines infrastructure as the basic physical assets that allow the County to function. The assets include streets, bridges, sidewalks, drainage systems, etc. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction-related debt incurred during the period of construction is capitalized as a cost of the constructed assets.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of the operations.

G. Net Position

In the Statement of Net Position, net position is classified in the following categories:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Position – This amount is restricted by external creditors, grantors, contributions, or laws or regulations of other governments.

Unrestricted Net Position – This amount consists of all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

H. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. Effect of New Governmental Accounting Standards Board Pronouncements

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2021. There was no impact on the basic financial statements due to the implementation of this statement.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. There was no impact on the basic financial statements due to the implementation of this statement.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. There was no impact on the basic financial statements due to the implementation of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Effect of New Governmental Accounting Standards Board Pronouncements (Continued)

GASB Statement No. 99 – Omnibus 2022. The requirements of this statement are effective as follows:

- The requirements related to extension of the use of the London Interbank Offered Rate (LIBOR), accounting for Supplemental Nutrition Assistance Program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance.
- The requirements related to leases, public-private and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

There was no impact on the basic financial statements due to the implementation of this statement.

J. Future Governmental Accounting Standards Board Pronouncements

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 100 – Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62. For fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The District has not fully judged the effect of the implementation of GASB Statement No. 100 as of the date of the financial statements.

GASB Statement No. 101 – Compensated Absences. The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The District has not fully judged the effect of the implementation of GASB Statement No. 101 as of the date of the financial statements.

NOTE 2 – CASH AND INVESTMENTS

A. Cash and Investments

Cash and investments are presented on the Statement of Net Position as follows at June 30, 2023:

Cash and investments with County Treasurer, unrestricted	\$ 18,715,109
Cash and investments with Fiscal Agent, restricted	<u>17,860,273</u>
Total	<u><u>\$ 36,575,382</u></u>

B. Cash Held with the Santa Cruz County Treasurer

The District pools cash from all sources and all funds except “Cash and investments with fiscal agents” with the County Treasurer so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. The Santa Cruz County Treasury Oversight Committee oversees the Treasurer’s investments and policies.

The California Government Code requires California banks and savings and loan associations to secure the County’s cash deposits by pledging securities as collateral. This code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County’s name.

NOTE 2 – CASH AND INVESTMENTS (Continued)**B. Cash Held with the Santa Cruz County Treasurer** (Continued)

The market value of pledged securities must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

C. Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Percentage Investment in One Issuer
Local agency bonds	5 Years	0.1	None
U.S. Treasury obligations	5 Years	1	None
U.S. Government Agency obligations	5 Years	1	0.25
Bankers' acceptances	180 Days	0.4	0.1
Commercial paper	270 Days	0.25	0.1
Negotiable certificates of deposit	5 Years	0.3	0.1
Bank deposit	5 Years	0.1	0.1
Repurchase agreements	1 Year	1	0.1
Medium-term notes	5 Years	0.3	0.1
Mutual funds/money market mutual funds	N/A	0.2	0.1
Local Agency Investment Fund (LAIF)	N/A	\$75 million	None
Joint Powers Authority investment fund	None	0.25	0.1
Supranationals	5 Years	0.3	0.1

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value. The fair value of investments correlates to changes in interest rates. When interest rates increase, an investment portfolio will see a decrease in fair value, as prior securities were purchased at lower yields. Inversely, when interest rates decrease, an investment portfolio will see an increase in fair value, as prior securities were purchased at higher yields. The prior reporting period saw a significant increase in interest rates, which resulted in a material unrealized decrease of \$32,494,816 in fair value of pool investments at June 30, 2022. During the current reporting period interest rates remained high. The unrealized decrease in the fair value of investment decreased from \$32,494,816 to \$25,566,028 at June 30, 2023, a change of \$6,938,788. The change has been recorded in the financial statements of all funds with equity in pooled cash and investments in the County Treasury. The County has the full intent and ability to hold investments to maturity and does not expect to realize the decrease in fair value.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

D. Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its Investment Policy.

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Concentration of Credit Risk

At June 30, 2023, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium-term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

F. Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At fiscal year-end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

G. Local Agency Investment Fund (LAIF)

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2023, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables. %

As of June 30, 2023, the County had \$10,348 invested in LAIF, which had invested none of the pool investment funds in Structured Notes and Asset-Backed Securities, just as in the previous fiscal year. LAIF provided a fair value factor of 0.984828499 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair value of LAIF, as the fair value adjustment was considered immaterial.

H. Investment in County Investment Pool

The District is an involuntary participant in the County Investment Pool that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County for the entire County portfolio. The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on a fair market value basis.

The County Treasurer's Investment Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1 – Investments reflect prices quoted in active markets,

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active, and

Level 3 – Investments reflect prices based upon unobservable sources.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023, is as follows:

	Balance July 1, 2022	Additions	Deletions	Transfers	Balance June 30, 2023
Nondepreciable assets:					
Construction in progress	\$ 6,595,166	\$ 7,366,600	\$ (9,954)	\$ (1,154,248)	\$ 12,797,564
Total nondepreciable assets	6,595,166	7,366,600	(9,954)	(1,154,248)	12,797,564
Depreciable assets:					
Pumping stations	62,217,438	168,696	-	301,622	62,687,756
Transmission systems	146,341,547	2,464,535	-	852,626	149,658,708
Sewage treatment capacity rights	35,924,625	-	-	-	35,924,625
Mobile equipment	4,846,534	224,808	-	-	5,071,342
Other equipment	2,661,562	1,156,008	-	-	3,817,570
Total depreciable assets	251,991,706	4,014,047	-	1,154,248	257,160,001
Accumulated depreciation:					
Pumping stations	(29,303,975)	(1,101,265)	-	(268,322)	(30,673,562)
Transmission systems	(56,235,972)	(3,515,005)	-	(1,011,015)	(60,761,992)
Sewage treatment capacity rights	(21,659,656)	(985,340)	-	1,279,337	(21,365,659)
Mobile equipment	(3,394,178)	(211,709)	-	-	(3,605,887)
Other equipment	(1,690,409)	(362,003)	-	-	(2,052,412)
Total accumulated depreciation	(112,284,190)	(6,175,322)	-	-	(118,459,512)
Depreciable assets, net	139,707,516	(2,161,275)	-	1,154,248	138,700,489
Total capital assets, net	\$ 146,302,682	\$ 5,205,325	\$ (9,954)	\$ -	\$ 151,498,053

The District owns 47% of capacity rights of the City of Santa Cruz (City) Treatment Plant. Operation and maintenance of these treatment and outfall facilities are the responsibility of the City, with the District paying its proportionate share based on actual levels of flow. The District's investment in the City Treatment Plant is included in the District's capital assets.

Depreciation expense for the District for the fiscal year ended June 30, 2023, was \$6,175,322.

NOTE 4 – LONG-TERM DEBT

The following is a summary of long-term liabilities transactions for the fiscal year ended June 30, 2023:

Description	Beginning Balance July 1, 2022	Additions/ Adjustments	Deletions	Ending Balance June 30, 2023	Amounts Due Within One Year	Amounts Due in More Than One Year
Loans Payable:						
State Water Resources Control Board 2009	\$ 6,916,867	\$ -	\$ (617,391)	\$ 6,299,476	\$ 632,826	\$ 5,666,650
State Water Resources Control Board 2020	4,918,745	-	(130,665)	4,788,080	133,017	4,655,063
IBank	6,706,936	-	(154,134)	6,552,802	159,498	6,393,304
Bonds Payable:						
2022 Green Bond	19,945,000	-	(380,000)	19,565,000	325,000	19,240,000
2022 Green Bond Premium	542,421	-	(18,081)	524,340	18,081	506,259
Total Loans and Bonds Payable, Net	\$ 39,029,969	\$ -	\$ (1,300,271)	\$ 37,729,698	\$ 1,268,422	\$ 36,461,276

A. State Water Resources Control Board Loan 2009

During 2009, the District entered into a Project Finance Agreement (Agreement) with the State Water Resources Control Board (SWRCB) to finance the Aptos Transmission Main Relocation Project. Under this Agreement, the SWRCB has agreed to loan the District a total of \$16,725,699. As of June 30, 2023, the District had a balance of \$6,299,476 in loan disbursements pursuant to this Agreement. Pursuant to the Agreement, the interest rate is 2.5% and the District began making payments to repay the loan in the 2013/2014 fiscal year.

NOTE 4 – LONG-TERM DEBT (Continued)**B. State Water Resources Control Board Loan 2020**

During 2020, the District entered into a Construction Installment Sale Agreement (Agreement) with the SWRCB to finance the Soquel Pump Station Force Main Replacement Project. Under this Agreement, the SWRCB has agreed to loan the District a total of \$5,000,000. As of June 30, 2023, the District had a balance of \$4,788,080 in loan disbursements pursuant to this Agreement. Pursuant to the Agreement, the interest rate is 1.8% and the District began making payments to repay the loan in the 2022/2023 fiscal year.

C. California Infrastructure and Economic Development Bank (IBank) Loan

In April 2019, the District entered into an Installment Sale Agreement (IBank Loan Agreement) with IBank to reduce the frequency of Sanitary Sewer Overflows (SSO) and, wherever possible, prevent SSO while meeting all applicable regulatory requirements by replacing old and deteriorated sewer lines prior to their failure. Under this IBank Loan Agreement, IBank has agreed to loan the District a total of \$7,000,000. Pursuant to the IBank Loan Agreement, the interest rate is 3.46% with the first principal payment due on August 1, 2020, with a loan maturity date of August 1, 2048. As of June 30, 2023, the District had a balance of \$6,552,082 in loan distributions pursuant to this IBank Loan Agreement.

D. Santa Cruz County Capital Financing Authority Revenue Bonds, Series 2022 (Green Bonds)

On June 1, 2022, the Santa Cruz County Capital Financing Authority issued Green Revenue Bonds for \$19,945,000. The bonds were issued in varying types. There are 14 serial bonds and 6 term bonds issued at a premium (the bonds). Serial bonds mature annually on June 1 between 2023 and 2036. The interest rate on the serial bonds is 5%. There are six term bonds. The first term bond, for \$1,265,000, was issued at an interest rate of 5% and matures on June 1, 2038. The second term bond for \$1,385,000, was issued at an interest rate of 4% and matures on June 1, 2040. The third term bond for \$1,500,000, was issued at an interest rate of 4% and matures on June 1, 2042. The fourth term bond for \$2,485,000, was issued at an interest rate of 4.125% and matures on June 1, 2045. The fifth term bond for \$2,810,000, was issued at an interest rate of 4.125% and matures on June 1, 2048. The sixth term bond for \$4,320,000 was issued at an interest rate of 4.25% and matures on June 1, 2052. The bonds were issued to finance wastewater improvements, specifically 5 separate components that make up the wastewater improvement project. As of June 30, 2023, the District had an outstanding balance of \$19,565,000.

The annual requirements to amortize to maturity all long-term debt outstanding including interest payable are as follows:

Fiscal Year Ended June 30,	Revenue Bonds		Loans Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 325,000	\$ 870,669	\$ 925,341	\$ 467,640	\$ 1,250,341	\$ 1,338,309
2025	345,000	854,419	949,075	443,810	1,294,075	1,298,229
2026	360,000	837,169	973,439	419,349	1,333,439	1,256,518
2027	380,000	819,169	998,449	394,237	1,378,449	1,213,406
2028	400,000	800,169	1,820,560	1,103,141	2,220,560	1,903,310
2029-2033	2,305,000	3,681,594	4,887,643	1,280,668	7,192,643	4,962,262
2034-2038	2,950,000	3,043,844	2,200,024	803,314	5,150,024	3,847,158
2039-2043	3,680,000	2,304,294	2,531,996	466,929	6,211,996	2,771,223
2044-2048	4,500,000	1,489,931	1,719,205	136,560	6,219,205	1,626,491
2049-2052	4,320,000	468,563	634,626	22,982	4,954,626	491,545
Sub-Total	19,565,000	\$ 15,169,821	\$ 17,640,358	\$ 5,538,630	37,205,358	\$ 20,708,451
Unamortized Premium	524,340			Unamortized Premium	524,340	
Total Revenue Bonds	\$ 20,089,340			Total	\$ 37,729,698	

NOTE 5 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The District is included within the terms of the County's insurance coverage. The County is self-insured for its general and auto liability, workers' compensation, and property coverage. The County has chosen to establish risk-financing internal service funds, where assets are set aside for claim settlements associated with the above risk of loss up to certain limits. Excess coverage is provided by the Public Risk Innovation, Solutions, and Management (PRISM) Program (formerly known as the California State Association of Counties Excess Insurance Authority), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties and public entities.

As of June 30, 2023, the workers' compensation self-insured retention is \$500,000.

The unpaid claims liability included in each of the County's Self-Insurance Internal Service Funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. It is the County's practice to obtain full actuarial studies bi-annually. Annual premiums are charged by each self-insurance fund using various allocation methods which include actual costs, claims experience, claims exposures, and number of participants.

Management is not aware of any claims pending against the District. There have been no reductions in the District's insurance coverage from the prior year and no settlement amounts have exceeded commercial insurance coverage.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

There are various claims and legal actions pending against the District for which no provision has been made in the accompanying basic financial statements. In the opinion of the District's management, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the District.

The District has received Federal grants for specific purposes that are subject to review and audit by the Federal government. Although such audits could result in expenditure disallowance under grant terms, the required reimbursements, if any, are not expected to be material.

As of June 30, 2023, in the opinion of District Management, there were no outstanding matters that would have a significant effect on the financial position of the District.

NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 20, 2023, which is the day the financial statements were available to be issued. Management did not identify any subsequent financial events.



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

To the Board of Directors of the
Santa Cruz County Sanitation District
Santa Cruz, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Santa Cruz County Sanitation District (the District), a component unit of the County of Santa Cruz (the County), as of and for the fiscal year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 20, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 20, 2023

**SANTA CRUZ COUNTY SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023**

CURRENT YEAR SCHEDULE OF FINDINGS AND QUESTIONED COSTS

None noted.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None noted.

APPENDIX C

ECONOMIC PROFILE FOR THE COUNTY OF SANTA CRUZ

Introduction

The County is situated at the northern tip of Monterey Bay, 65 miles south of San Francisco, 35 miles north of Monterey, and 35 miles south of the Silicon Valley. The County is the gateway to the Monterey Bay National Marine Sanctuary, has 29 miles of beaches and includes seven state parks and seven state beaches. It is the second smallest county in California in land area, containing a total of 440 square miles. There are four incorporated cities in the County of Santa Cruz: Capitola, Santa Cruz, Scotts Valley and Watsonville.

Analysis prepared by the Santa Cruz County Workforce Development Board identified five major economic clusters that contribute significantly to the regional economy: education and knowledge creation; tourism, recreation, and hospitality; healthcare; retail; and agriculture and food.

The services sector is the largest economic sector in the County and includes a wide range of activity: hotels, other lodging places, business and finance services, personal services, automotive repairs services, amusement and recreation, and health services.

The University of California (the “University”) established its Santa Cruz campus in 1965. The University is structured into ten independent undergraduate colleges and offers graduate study in numerous academic fields. The Lick Observatory, a multi-campus research facility for astronomers, is headquartered at the University. The 2,000-acre campus, set among redwood groves and meadows, lies on the northwest boundary of the City of Santa Cruz.

New information technologies and the County’s proximity to Silicon Valley are factors that contribute to growth in the areas of computer, networking services, and software development, and the County’s location on the Monterey Bay National Marine Sanctuary contributes to growth in marine sciences’ research and development.

Agriculture is an important industry in the region. The gross value of crops has increased steadily in recent years, as some segments of the industry have adapted successfully to changing consumer tastes, adopted new technologies and taken advantage of growing overseas markets.

Santa Cruz County continues to be an important vacation and recreation area. Miles of coastline and accessible beaches border one of the nation’s largest marine sanctuaries, an amusement park and other attractions, acres of redwood forest land, several State parks and beaches, U-pick farms, wineries, and the presence of a diverse music and art scene, all in close proximity to the Bay Area.

In addition to traditional commercial and retail businesses, Santa Cruz County has been home to many recreation and personal lifestyle businesses started by local entrepreneurs with nationally-recognized brands and products, including O’Neill Wetsuits, Santa Cruz Skateboards, Annieglass, Driscoll Berries, Santa Cruz Guitar Company, Santa Cruz Bicycles, Blix Electric Bikes, Martinelli’s and Joby Aviation.

The County also has a diverse and productive arts community anchored by the Tannery Arts Center in Santa Cruz, the Visual, Applied and Performing Arts Division at Cabrillo College, and the Digital Arts and New Media Program at the University of California, Santa Cruz.

Population

The following table shows the January 1 State of California Department of Finance estimates of total population in the County of Santa Cruz and the State of California for each year since 2019, and the change from the previous year.

TABLE NO. C-1
COUNTY OF SANTA CRUZ AND STATE OF CALIFORNIA
POPULATION

January 1 <u>Year</u>	<u>COUNTY OF SANTA CRUZ</u>		<u>STATE OF CALIFORNIA</u>	
	<u>Population</u>	<u>Percentage</u> <u>Change</u>	<u>Population</u>	<u>Percentage</u> <u>Change</u>
2019 ⁽¹⁾	271,822	(0.6)%	39,605,361	0.2%
2020 ⁽¹⁾	270,373	(0.5)	39,648,938	0.1
2021 ⁽²⁾	265,466	(1.8)	39,286,510	(0.9)
2022 ⁽²⁾	264,912	0.2	39,078,674	(0.5)
2023 ⁽²⁾	262,051	(1.1)	38,940,231	(0.4)

Source: (1) *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2011-2021, with 2010 Census Benchmark"* Sacramento, California, May 2021.

(2) *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2021-2023, with 2020 Census Benchmark"* Sacramento, California, May 2023.

Per Capita Personal Income

Per capita personal income information for County of Santa Cruz, the State of California and the United States are summarized in the following table.

TABLE NO. C-2
PER CAPITA PERSONAL INCOME
COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA AND UNITED STATES
2018 – 2022

<u>Year</u>	<u>County of Santa Cruz</u>	<u>State of California</u>	<u>United States</u>
2018	\$65,704	\$61,508	\$53,786
2019	70,129	64,919	56,250
2020	77,181	70,647	59,765
2021	85,554	76,614	64,143
2022	86,365	77,036	65,473

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The County is located in the Santa Cruz-Watsonville Metropolitan Statistical Area (“MSA”). The industry sectors with the largest declines as a result of the Pandemic shelter in place orders were Leisure and Hospitality and Government.

The historical employment in the Santa Cruz-Watsonville MSA is presented in the following table. The data below is shown annually for the month of February.

TABLE NO. 5
SANTA CRUZ-WATSONVILLE MSA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾

<u>Industry</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Government	22,600	20,600	21,900	19,600	19,500
Other Services	5,400	4,200	4,600	5,300	4,700
Leisure and Hospitality	14,200	9,200	11,900	14,100	14,200
Educational and Health Services	18,300	17,200	17,300	18,400	19,200
Professional and Business Services	10,900	10,300	10,700	10,800	9,600
Financial Activities	3,300	3,200	3,300	3,200	3,300
Information	700	500	600	600	600
Transportation, Warehousing and Utilities	1,700	1,900	2,000	2,100	2,000
Service Producing					
Retail Trade	11,600	11,000	11,000	11,000	10,600
Wholesale Trade	3,300	3,100	3,300	3,600	3,100
Manufacturing					
Nondurable Goods	3,200	3,100	3,300	3,600	3,400
Durable Goods	3,700	4,000	4,200	4,300	4,400
Natural Resources, Mining and Construction	<u>4,600</u>	<u>4,600</u>	<u>4,800</u>	<u>5,000</u>	<u>5,100</u>
Total Nonfarm	103,500	92,900	98,900	101,600	99,700
Farm	<u>4,500</u>	<u>4,500</u>	<u>3,200</u>	<u>3,200</u>	<u>3,300</u>
Total (all industries)	<u>108,000</u>	<u>97,400</u>	<u>102,100</u>	<u>104,800</u>	<u>103,000</u>

⁽¹⁾ Annually, as of February.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, “*Industry Employment & Labor Force - by month.*”

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Major Employers

The major employers operating within the County as of June 30, 2023 are shown in Table No. C-4.

TABLE NO. C-4
COUNTY OF SANTA CRUZ
MAJOR EMPLOYERS

<u>Name of Company</u>	<u>of Employees ⁽¹⁾</u>	<u>Product/Service</u>
University of California at Santa Cruz	1,000-4,999	Education
Pajaro Valley Unified School District	1,000-4,999	Education
County of Santa Cruz	1,000-4,999	County Services
Dominican Hospital	1,000-4,999	Hospital
Granite Rock	500-999	Excavating Contractors
Poly Inc/Plantronics	500-999	Telephone Apparatus Mfg.
Watsonville Community Hospital	500-999	Hospital
Source Naturals	500-999	Vitamin Manufacturer
Santa Cruz Health Center	500-999	Clinics
Monterey Mushrooms	500-999	Agriculture
Larse Farms Inc.	500-999	Agriculture

⁽¹⁾ Number of Employees reflects an average range based on California Employment Development Department data.

Source: County of Santa Cruz Annual Comprehensive Financial Report.

Transportation

Six major State highways connect the County with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz Mountains into Santa Clara County. The City of Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route. Highway 236 provides access to Big Basin State Park.

Air cargo and passenger flight services are provided at the Norman Y. Mineta San José International Airport, 32 miles northeast; Monterey Peninsula Airport, 43 miles south; and San Francisco International Airport, 60 miles north. Watsonville Municipal Airport provides private and executive air transportation facilities and air cargo.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of April 30, 2024, is executed and delivered by the Santa Cruz County Sanitation District (the “District”) in connection with the issuance of Santa Cruz County Capital Financing Authority (“the Authority”) Revenue Bonds, Series 2024 (Green Bonds) (the “Bonds”) in the aggregate principal amount of \$28,200,000*.

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District 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 District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“*Disclosure Representative*” means the Treasurer of the District, or such person’s designee, or such other officer or employee of the District as the District shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” means Harrell & Company Advisors, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

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

“*Listed Events*” 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 Authority and the District 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) *Delivery of Annual Report.* The District shall, or shall cause the Dissemination Agent to, not later than the March 31 occurring after the end of each fiscal year of the District, commencing with the report for the 2023-24 fiscal year, which is due not later than March 31, 2025, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

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

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than 5 Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b) of this Section 3 for providing the Annual Report to EMMA), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance.* If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall in a timely manner send a notice to EMMA in an electronic format prescribed by the MSRB. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in a timely manner in an electronic format prescribed by the MSRB.

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

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

(a) *Financial Statements.* Audited financial statements of the District for the most recently completed fiscal year, 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 District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* The Annual Report for each fiscal year shall also include the following information for the most recently completed fiscal year:

- (i) description of any outstanding indebtedness payable from Net Revenues issued during such fiscal year;
- (ii) a statement as to whether or not the County has eliminated the Teeter Plan since the date of the previous Annual Report with respect to distribution of the sewer charges collected on the tax roll;
- (iii) Update of Table No. 3 – Annual Sewer Variable and Fixed Charges;

- (iv) Update of Table No. 9 – Net Revenues and Debt Service Coverage;
- (v) Use of proceeds of the Bonds in the form of Exhibit G to the Official Statement and final list of projects funded once all proceeds of the Bonds have been spent;
- (vi) Statement of Net Position; and
- (vii) Statement of Revenues, Expenses and Changes in Net Position.

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

If the document included by reference is a final official statement, it must be available from EMMA.

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

Section 5. Reporting of Listed Events.

(a) The District 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 District or other obligated person.

- (13) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District 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.
- (15) Incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material.
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties.

(b) The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsection (a)(8) 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 District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a Bond call), (a)(10), (a)(13), (a)(14) and (a)(15) 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 District 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 District obtains knowledge of the occurrence of any of these Listed Events, the District 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 District 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 District 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 District has assumed jurisdiction over substantially all of the assets or business of the District, 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 District, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental District having supervision or jurisdiction over substantially all of the assets or business of the District.

(e) The term financial obligation means a (1) debt obligation; (2) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (3) guarantee of (e)(1) or (e)(2). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

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

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations and further provided that the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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) *Compliance as of Issue Date.* 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) *Consent of Holders; Non-impairment Opinion.* 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 District 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(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District 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 District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate,

the District 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 District 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 District 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 District 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 be entitled to the protections and limitations afforded to the Trustee under the Indenture. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which 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 District hereunder, and shall not be deemed to be acting in any fiduciary capacity for the District, the Bond holders or any other party. The obligations of the District 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 District 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 District, 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: _____

SANTA CRUZ COUNTY SANITATION DISTRICT

By: _____
Edith Driscoll,
Treasurer

AGREED AND ACCEPTED:
HARRELL & COMPANY ADVISORS, LLC,
as Dissemination Agent

By: _____

APPENDIX E

FORM OF BOND COUNSEL OPINION

_____, 2024

Santa Cruz County Capital Financing Authority
Santa Cruz, California

Santa Cruz County Sanitation District
Santa Cruz, California

\$ _____
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
REVENUE BONDS
SERIES 2024 (GREEN BONDS)

Ladies and Gentlemen:

We have acted as bond counsel to the Santa Cruz County Capital Financing Authority (the “Authority”), and in such capacity have examined a record of proceedings related to the issuance of the Authority’s \$ _____ principal amount of Revenue Bonds, Series 2024 (Green Bonds) (the “Bonds”). The Bonds are being issued pursuant to (i) Article 4 of Chapter 5, Division 7, Title 1 of the Government Code of the State of California, commencing with Section 6584, (ii) resolutions adopted by the Board of Directors of the Santa Cruz County Sanitation District (the “District”) on March 7, 2024, and the Board of Directors of the Authority on March 12, 2024 (together, the “Resolutions”), (iii) the Installment Purchase Agreement, dated as of April 1, 2024 (the “Installment Purchase Agreement”), by and between the Authority and the District, and (iv) the Trust Indenture, dated as of April 1, 2024 (the “Trust Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee. Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Trust Indenture.

In our capacity as bond counsel, we have reviewed originals or copies certified or otherwise identified to our satisfaction of such documents, certificates, opinions and other matters as we deemed necessary or appropriate to render the opinions set forth herein. In rendering the opinions set forth below, we have relied upon certifications and representations of the Authority and the District with respect to certain material facts solely within the knowledge of the Authority and the District, without undertaking to verify the same by independent investigation. Further, we have assumed, but have not independently verified, the genuineness of all documents, certificates and opinions presented to us, including the signatures on such documents.

We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Indenture and the Installment Purchase Agreement. This opinion is limited to the laws of the State of California and federal law.

Based on the foregoing, and in reliance thereon, and subject to the limitations and qualifications herein specified, as of the date hereof, under existing law, we are of the opinion that:

1. The Bonds constitute valid and binding obligations of the Authority, payable solely from Revenues and secured by a pledge of Revenues and certain funds and accounts held under the Trust

Indenture. Revenues consist primarily of certain installment payments to be made by the District pursuant to the Installment Purchase Agreement.

2. The Trust Indenture has been duly and validly authorized, executed and delivered by the Authority and, assuming the Trust Indenture constitutes a legal, valid and binding obligation of the Trustee, constitutes a legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms.

3. The Installment Purchase Agreement has been duly and validly authorized, executed and delivered by the Authority and the District and constitutes a legal, valid and binding obligation of the Authority and the District, enforceable against the Authority and the District, respectively, in accordance with its terms.

4. Assuming compliance by the Authority and the District with certain covenants in the Trust Indenture, the Installment Purchase Agreement, the Tax Certificate and other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986 (the “Code”) regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. We can give no opinion or assurance about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (the “Service”). Failure to comply with the covenants and requirements described above may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

5. Interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. We express no opinion regarding the applicability of the corporate alternative minimum tax to the adjusted financial statement income of any owner of the Bonds.

6. Interest on the Bonds is exempt from personal income taxes imposed by the State of California.

We express no opinion regarding other federal or State of California tax consequences caused by the ownership of, or the accrual or receipt of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Trust Indenture, the Installment Purchase Agreement or other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP with respect to the exclusion from gross income of the interest on the Bonds.

The opinions expressed in paragraphs 1, 2 and 3 above are qualified to the extent the enforceability of the Bonds, the Trust Indenture and the Installment Purchase Agreement may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. The enforceability of the Bonds, the Trust Indenture and the Installment Purchase Agreement are subject to the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing, to the possible unavailability of specific performance or injunctive relief,

regardless of whether considered in a proceeding in equity or at law, and to the limitations on legal remedies against governmental entities in the State of California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds.

Our opinions are not a guarantee of a result, but represent our legal judgment based upon our review of existing statutes, regulations, published rulings and court decisions and the covenants of the Authority and the District described above. No ruling has been sought from the Service with respect to the matters addressed in the opinions expressed in paragraphs 4 and 5 above, and our opinions are not binding on the Service.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

APPENDIX F

THE BOOK-ENTRY 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 Bonds (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 such 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 and distributions 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 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.

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APPENDIX G

THE COUNTY'S GREEN BOND GUIDANCE AND DISTRICT'S EXPECTED GREEN BOND PROJECTS

The District anticipates funding or reimbursing CIP expenditures for the Wastewater System projects identified in the table below using proceeds of the Series 2024 Bonds. These projects were selected using the County's Guidance for Issuing Green Bonds, which was approved by the County's Board of Supervisors on March 12, 2024 . A complete copy of the County's Green Bond Guidance is attached hereto.

The County's criteria are presented below in a numbered list for easier reference in the table on the following page.

1. Maintain water quality
2. Improve water use efficiency, including conservation through reduced water loss
3. Improve biodiversity and ecosystem quality
4. Protect against flooding
5. Reduce pollution
6. Improve resilience (adaptation) to climate change
7. Reduce the combustion of fossil fuels
8. Reduce greenhouse gas emissions
9. Implement "reduce, reuse, recycle" practices in preference to raw materials
10. Adhere to sustainable purchasing guidelines
11. Carbon Sequestration

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EXPECTED GREEN BONDS PROJECTS

Project Name	Short Description	County Green Bond Criteria	Amount to be Funded
Eddy Lane Sewer Relocation	Replace 800 linear feet of deteriorating public gravity sewer mains and manholes.	Protect against flooding	\$ 1,300,000
Soquel Village Sewer Rehabilitation - Phase 2	Replace 7,600 linear feet of deteriorating public sewer mains and manholes.	Protect against flooding	9,050,000
Seacliff/Rio Del Mar Sewer Rehabilitation Project	Rehabilitate 2,300 linear feet of sewer mains.	Protect against flooding	2,700,000
Hidden Beach Pump Station Bypass	Install an emergency bypass at the Hidden Beach Pump Station.	Improve resiliency	600,000
Emergency Bypass Improvements 2024/25	Improve vault valve access and provide for installation of emergency bypass equipment for the Capitola and Soquel Pump Stations.	Improve resiliency	610,000
D.A. Porath Valve Replacement and Emergency Bypass	Install an emergency bypass at the Eastcliff Pump Station and replace deteriorated valve on discharge line.	Improve resiliency	1,300,000
Capitola Pump Station Roof/Drainage Improvements	Repair roof and improve drainage to protect existing infrastructure.	Improve resiliency	400,000
West Seacliff Rehabilitation - Phase 1	Rehabilitate 5,000 linear feet of sewer mains.	Protect against flooding	8,670,000
Upper Rodeo Sewer Trunkline Project	Line 4,900 linear feet of sewer line and replace 450 feet of sewer line.	Protect against flooding	2,650,000
East Cliff Drive Sewer Replacement Project	Replace/rehabilitate 1,400 linear feet of sewer trunkline and collection main.	Protect against flooding	500,000
Arana Sewer Trunkline Replacement Project	Replace 2,400 linear feet of deteriorating public gravity sewer mains and manholes.	Protect against flooding	1,220,000
Total			\$29,000,000

The proceeds of the Series 2024 Bonds (exclusive of amounts applied to pay costs of issuance and other costs related to the issuance of the Series 2024 Bonds are to be allocated to costs of the projects identified above. Some of the proceeds of the Series 2024 Bonds may be applied to reimburse the District for prior expenditures made in connection with the projects identified above.

The County's Green Bond Guidance follows on the page after the Form of Green Bond Project Report.

FORM OF GREEN BOND PROJECT REPORT

\$ _____
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
REVENUE BONDS, SERIES 2024
(GREEN BONDS)

Date of issuance: _____, 2024
CUSIP:

NOTICE IS HEREBY GIVEN, that as of June 30, __, the Santa Cruz County Sanitation District has financed the following projects with the above-referenced bonds (the “Bonds”):

<u>Project Name</u>	<u>Proceeds Spent Prior Fiscal Years</u>	<u>Proceeds Spent Current Fiscal Year</u>	<u>Total</u>	<u>Percent</u>
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This notice is to provide interested parties with information regarding the use of proceeds of the Bonds.
[Once all proceeds of the Bonds have been spent, no further updates will be provided.] [All proceeds of the Bonds have been spent; no further updates on the projects or the use of the Bonds will be provided.]

Dated:

Guidance for Issuing Green Bonds

This Guidance for Issuing Green Bonds is the framework the County and its related entities will use when issuing bonds labeled as green bonds. As adopted by the County Board of Supervisors in the 2021-23 Operational Plan, it is the goal of the County to “support and strengthen efforts for clean air and water, conservation, renewable energy, recycling and reuse and increase resilience to climate change impacts, including sea-level rise and changing weather patterns.” To achieve these goals, the County’s strategy is to (1) work with partner agencies, private water users, residents and the agricultural community to sustainably manage water resources to meet human and environmental needs, (2) pursue policies and programs to encourage recycling and waste reduction, and reduce emissions and the carbon footprint, and (3) advance policies and programs that reduce impacts from and increase community resiliency to climate hazards.

Sustainability and resilience, as embodied in the County’s Climate Action and Adaption Plan (CAAP) and its State of the Water Report, seeks to support environmental, economic, and social needs in a responsible manner to meet the needs of tomorrow. This approach seeks to minimize waste; conserve water, energy, and natural resources; promote long-term economic viability; and promote the safety and well-being of the County employees, communities, and customers.

The County commitment to sustainability and resilience can be underscored by promoting the development of the green bond market through the responsible use of green bonds to finance its qualifying capital projects. This Guidance offers criteria that the County and its related entities will use to evaluate projects for green bond financing that demonstrate a meaningful, 10 quantifiable commitment to sustainability and resilience.

Green bonds are part of a broader trend to incorporate environmental, social and governance (ESG) factors into investment decisions. The market for ESG investments continues to evolve and there are multiple proposed standards or frameworks related to ESG investing or sustainable development, including the following:

- Green Bond Principles from the International Capital Market Association
- Sustainable Development Goals from the United Nations
- Climate Bonds Taxonomy from the Climate Bonds Initiative

As of the date of this Guidance, there is no single green bond standard mandated by a regulatory body nor universally accepted by investors. Accordingly, the County and its related entities will implement its own set of green bond criteria, presented in the first column in the table on the following page. Projects identified as eligible for green bond financing by the County and its related entities will be anticipated to further one or more of these criteria.

Where relevant, the table on the following page also maps the County and its related entities’ criteria to principles, targets or green bond categories identified by the above-referenced frameworks to provide additional transparency to investors and the public. The mapping is shown only for additional context and no representation is made that the projects that fall under the County and its related entities criteria will necessarily fit the mapped criteria from other frameworks.

In selecting projects for green bond financing, County staff will focus on the projects that best meet the County and its related entities’ green bond criteria.

Offering statements should provide project information and identify the most relevant criteria the project is expected to satisfy. Additionally, if debt is issued to prefund projects, the County and its

related entities will produce annual transparency reports on the use of proceeds of the green bonds. When debt is issued to reimburse the County and its related entities for existing projects or capital expenses, no further reporting on use of proceeds is necessary.

This Guidance can also be used, if appropriate, for refunding bonds, if information on the original projects funded by the bonds is sufficiently detailed for the evaluation criteria to be effectively used.

The County's criteria for selecting projects for the green bond designation are as follows:

Santa Cruz County Green Bond Criteria	Green Bond Principles from the International Capital Market Association
Maintain water quality	Sustainable water and wastewater management
Improve water use efficiency, including conservation through reduced water loss	Sustainable water and wastewater management
Improve biodiversity and ecosystem quality	Terrestrial and aquatic biodiversity; Environmentally sustainable management of living natural resources and land use
Protect against flooding	Sustainable water and wastewater management
Reduce pollution	Pollution prevention and control
Improve resilience (adaptation) to climate change	Climate change adaptation
Reduce the combustion of fossil fuels	Energy efficiency; Pollution prevention and control
Reduce greenhouse gas emissions	Energy efficiency; Pollution prevention and control
Implement "reduce, reuse, recycle" practices in preference to raw materials	Circular economy adapted products, production technologies and processes
Adhere to sustainable purchasing guidelines	Circular economy adapted products, production technologies and processes
Carbon sequestration	Circular economy adapted products, production technologies and processes