

PRELIMINARY OFFICIAL STATEMENT DATED JULY __, 2021**NEW ISSUE—BOOK-ENTRY-ONLY****RATINGS:**

[S&P: “__”]

Fitch: “__”]

Moody’s “__”]

(See “RATINGS” herein.)

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Revenue Obligations and requirements of the Internal Revenue Code of 1986, as described herein, the portion of each Installment Payment representing interest and distributed in respect of any Revenue Obligation is excluded from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Special Counsel, the portion of each Installment Payment representing interest and distributed in respect of any Revenue Obligation is not an item of tax preference for purposes of the federal alternative minimum tax. Special Counsel is also of the opinion that, under existing law, the portion of each Installment Payment representing interest and distributed in respect of any Revenue Obligation is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.

[District Logo]

[\$[PAR AMOUNT]*

[DAC Logo]

**ORANGE COUNTY SANITATION DISTRICT
WASTEWATER REFUNDING REVENUE OBLIGATIONS
SERIES 2021A**

Dated: Date of Delivery**Due: as shown on the inside cover**

The \$[PAR AMOUNT]* Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2021A (the “Revenue Obligations”) are **certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in certain installment payments** (the “Installment Payments”), and the interest thereon, to be made by the Orange County Sanitation District (the “District”) pursuant to the Installment Purchase Agreement, dated as of July 1, 2021 (the “Installment Purchase Agreement”), by and between the District and the Orange County Sanitation District Financing Corporation (the “Corporation”). Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the “Master Agreement”), by and between the District and the Corporation, the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as more fully described in the Master Agreement, the “Net Revenues”) as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the “Wastewater System”) remaining after payment of Maintenance and Operation Costs, as further described in “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein. The Installment Purchase Agreement provides that the obligation of the District to pay the Installment Payments, and payments of interest thereon, and certain other payments required to be made in accordance with the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

The proceeds of the Revenue Obligations, together with other funds of the District, will be used to (i) prepay the District’s Wastewater Refunding Revenue Obligations, Series 2011A, maturing on February 1, 2023 through 2026, inclusive, currently outstanding in the aggregate principal amount of \$61,575,000 (the “Refunded 2011A Obligations”), (ii) prepay the District’s Revenue Refunding Certificate Anticipation Notes, Series 2018A, currently outstanding in the aggregate principal amount of \$102,200,000 (the “Refunded 2018A Notes”), and (iii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations. See “REFUNDING PLAN” herein.

Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2022. See “THE REVENUE OBLIGATIONS” herein. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Revenue Obligations. Individual purchases of the Revenue Obligations will be made in book-entry form

* Preliminary, subject to change.

only. Purchasers of Revenue Obligations will not receive physical certificates representing their ownership interests in the Revenue Obligations purchased. The Revenue Obligations will be delivered in denominations of \$5,000 and any integral multiple thereof. Payments of principal and interest evidenced by the Revenue Obligations are payable directly to DTC by U.S. Bank National Association, as trustee (the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Revenue Obligations. See APPENDIX E — "BOOK-ENTRY SYSTEM" herein.

THE OBLIGATION OF THE DISTRICT TO PAY THE INSTALLMENT PAYMENTS, AND THE INTEREST THEREON, AND OTHER PAYMENTS REQUIRED TO BE MADE BY IT UNDER THE INSTALLMENT PURCHASE AGREEMENT IS A SPECIAL OBLIGATION OF THE DISTRICT PAYABLE, IN THE MANNER PROVIDED IN THE INSTALLMENT PURCHASE AGREEMENT, SOLELY FROM NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INSTALLMENT PURCHASE AGREEMENT, 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. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS, OR THE INTEREST THEREON, OR OTHER PAYMENTS REQUIRED TO BE MADE UNDER THE INSTALLMENT PURCHASE AGREEMENT. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS" HEREIN.

This cover page contains information intended for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

BIDS FOR THE PURCHASE OF THE REVENUE OBLIGATIONS WILL BE RECEIVED BY THE DISTRICT UNTIL 10:45 A.M. NEW YORK TIME ON JULY 13, 2021 UNLESS POSTPONED OR CANCELLED AS SET FORTH IN THE OFFICIAL NOTICE INVITING BIDS.

The Revenue Obligations are offered when, as and if executed and delivered and received by _____, as the Initial Purchaser, subject to the approval of Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel and Disclosure Counsel to the District, and certain other conditions. Certain legal matters will be passed upon for the District and the Corporation by Woodruff, Spradlin & Smart, a Professional Corporation, Costa Mesa, California. Public Resources Advisory Group, Los Angeles, California, has served as municipal advisor to the District in connection with the execution and delivery of the Revenue Obligations. It is anticipated that the Revenue Obligations in definitive form will be available for delivery through the book-entry facilities of DTC on or about July __, 2021.

Dated: _____, 2021

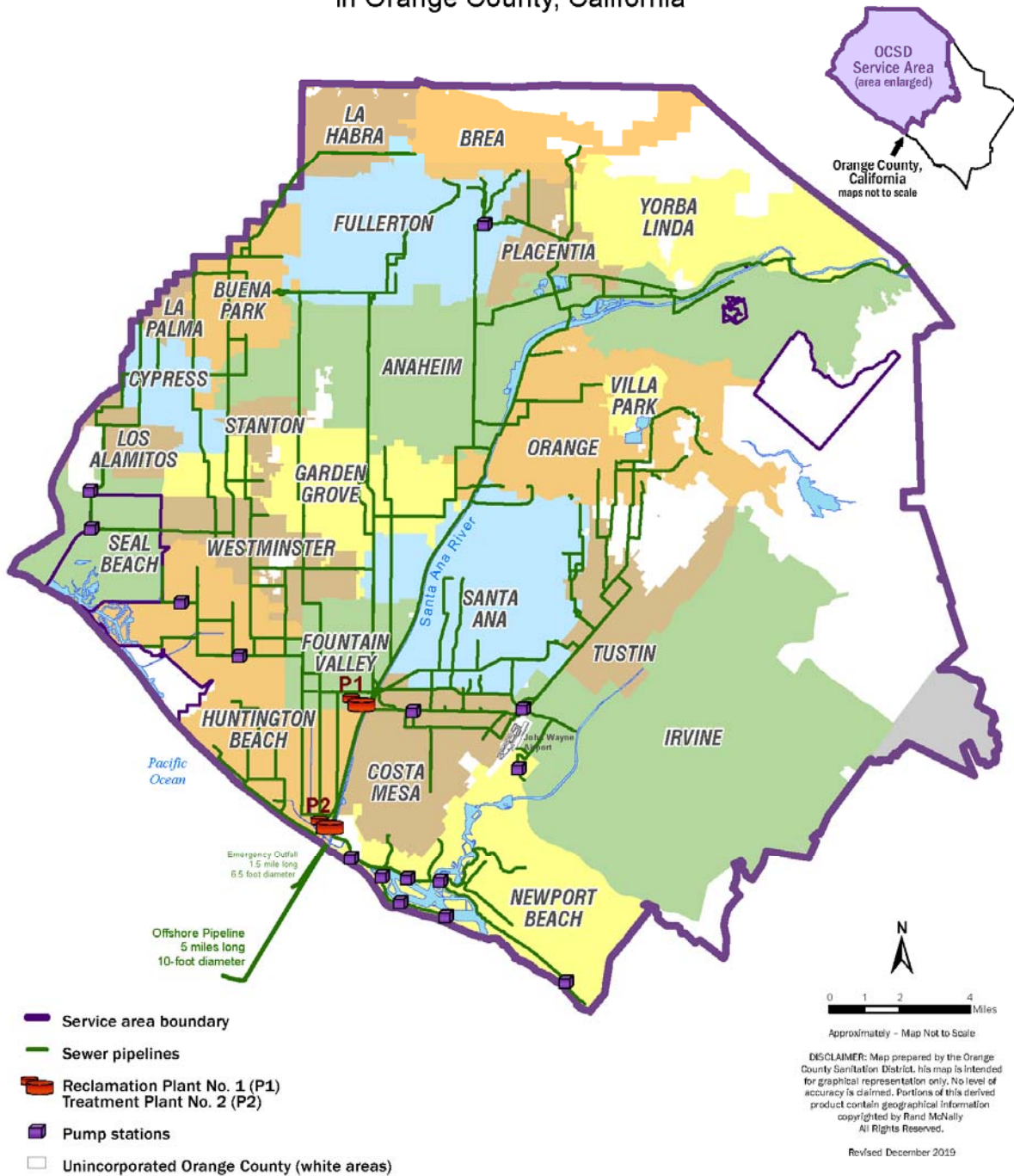
MATURITY SCHEDULE*

<u>Maturity Date</u> <u>(February 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u> <u>(Base No. _____)</u>
	\$	%	%		

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. Copyright © 2021 CUSIP Global Services. All rights reserved. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the registered owners of the Revenue Obligations. None of the District, the Initial Purchaser or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Revenue Obligations or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Revenue Obligations as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Revenue Obligations.

Orange County Sanitation District Service Area and Treatment Plant Locations in Orange County, California



ORANGE COUNTY SANITATION DISTRICT

Board of Directors

David Shawver — (Chairman) — *Stanton*
John Withers — (Vice Chairman) — *Irvine Ranch Water District*

Stephen Faessel — <i>Anaheim</i>	Brad Avery — <i>Newport Beach</i>
Glenn Parker — <i>Brea</i>	Kim Nichols — <i>Orange</i>
Art Brown — <i>Buena Park</i>	Chad Wanke — <i>Placentia</i>
Stacy Berry — <i>Cypress</i>	Johnathan Ryan Hernandez — <i>Santa Ana</i>
Patrick Harper — <i>Fountain Valley</i>	Sandra Massa-Lavitt — <i>Seal Beach</i>
Jesus J. Silva — <i>Fullerton</i>	Ryan Gallagher — <i>Tustin</i>
Steve Jones — <i>Garden Grove</i>	Chad Zimmerman — <i>Villa Park</i>
Kim Carr — <i>Huntington Beach</i>	Robert Ooten — <i>Costa Mesa Sanitary District</i>
Anthony Kuo — <i>Irvine</i>	Andrew Nguyen — <i>Midway City Sanitary District</i>
Rose Espinoza — <i>La Habra</i>	Brooke Jones — <i>Yorba Linda Water District</i>
Marshall Goodman — <i>La Palma</i>	Doug Chaffee — <i>Member of the Orange County Board of Supervisors</i>
Mark Chirco — <i>Los Alamitos</i>	

Executive Management of the District

James Herberg, *General Manager*
Robert Thompson, *Assistant General Manager, Director of Operations & Maintenance*
Lorenzo Tyner, *Assistant General Manager, Director of Finance and Administrative Services*
Kathleen T. Millea, *Director of Engineering*
Celia Chandler, *Director of Human Resources*
Lan Wiborg, *Director of Environmental Services*

Special Services

Special Counsel and Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

District General Counsel

Bradley R. Hogin
Woodruff, Spradlin & Smart, a Professional Corporation
Costa Mesa, California

Municipal Advisor

Public Resources Advisory Group
Los Angeles, California

Trustee

U.S. Bank National Association
Los Angeles, California

Verification Agent

Robert Thomas CPA, LLC
Overland Park, Kansas

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 Revenue Obligations by any 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 has been provided by the Orange County Sanitation District (the "District") and other sources that are believed by the District to be reliable. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the District, the Corporation or the Initial Purchaser in connection with any reoffering.

This Official Statement is not to be construed as a contract with the purchasers of the Revenue Obligations. Statements contained in this Official Statement which involve estimates, projections, 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 facts.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Revenue Obligations referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the District and the Corporation.

In connection with the offering of the Revenue Obligations, the Initial Purchaser in connection with any reoffering may over-allot or effect transactions which stabilize or maintain the market price of the Revenue Obligations at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Initial Purchaser in connection with any reoffering may offer and sell the Revenue Obligations to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Initial Purchaser.

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "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.

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OFFICIAL STATEMENT

[\$[PAR AMOUNT]]* **ORANGE COUNTY SANITATION DISTRICT** **WASTEWATER REFUNDING REVENUE OBLIGATIONS** **SERIES 2021A**

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Revenue Obligations being offered and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the “State”) and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement, the Installment Purchase Agreement and the Master Agreement (each, as hereinafter defined). See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions” herein.

General

This Official Statement, including the cover page and all appendices hereto, provides certain information concerning the sale and delivery of $[\text{PAR AMOUNT}]^*$ aggregate principal amount of the Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2021A (the “Revenue Obligations”), which are **certificates of participation evidencing direct, fractional undivided interests in certain installment payments** (the “Installment Payments”) and the interest thereon, to be made by the Orange County Sanitation District (the “District”) pursuant to the Installment Purchase Agreement, dated as of July 1, 2021 (the “Installment Purchase Agreement”), by and between the District and the Orange County Sanitation District Financing Corporation (the “Corporation”). Unless the context clearly indicates to the contrary, a reference herein to either of the Installment Purchase Agreement or the Revenue Obligations is intended to refer to the corresponding interest in the Installment Purchase Agreement. Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the “Master Agreement”), by and between the District and the Corporation, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues (as defined hereinafter) as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the “Wastewater System”) remaining after payment of Maintenance and Operation Costs, as further described in “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

The Revenue Obligations are to be executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2021 (the “Trust Agreement”), by and among the District, the Corporation and U.S. Bank National Association, as trustee (the “Trustee”). Proceeds from the sale of the Revenue Obligations, together with other funds of the District, will be used to (i) prepay the District’s Wastewater Refunding Revenue Obligations, Series 2011A, maturing on February 1, 2023 through 2026, inclusive, currently outstanding in the aggregate principal amount of \$61,575,000 (the “Refunded 2011A Obligations”), (ii) prepay the District’s Revenue Refunding Certificate Anticipation Notes, Series 2018A, currently

* Preliminary, subject to change.

outstanding in the aggregate principal amount of \$102,200,000 (the “Refunded 2018A Notes”), and (iii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations. See “REFUNDING PLAN” herein.

The Revenue Obligations will be executed and delivered in the form of fully registered certificates of participation, dated as of the date of initial delivery thereof and will mature on February 1 in each such year as set forth on the inside cover page hereof. Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2022. See “THE REVENUE OBLIGATIONS” herein. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Revenue Obligations. The Revenue Obligations will be delivered in denominations of \$5,000 and any integral multiple thereof. So long as the Revenue Obligations are in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Revenue Obligations will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

The District

The District is a public agency responsible for regional wastewater collection, treatment and disposal. The District is the sixth largest wastewater discharger in the United States. The District provides service to an area with a population of approximately 2.6 million people in the northern and central portion of the County of Orange (the “County”), in a service area of approximately 479 square miles, treating an average of 188 million gallons per day (“mg/d”) of wastewater in Fiscal Year 2019-20. See “THE DISTRICT,” “DISTRICT REVENUES” and “FINANCIAL OBLIGATIONS” herein.

Security and Sources of Payment for the Revenue Obligations

The Revenue Obligations, which are certificates of participation, evidence direct, fractional undivided interests in the Installment Payments, and the interest thereon, paid by the District pursuant to the Installment Purchase Agreement. The obligation of the District to pay the Installment Payments and the interest thereon and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided under the Installment Purchase Agreement, solely from Net Revenues, and other funds as provided in the Installment Purchase Agreement. Net Revenues generally consist of all income and revenue received by the District from the operation or ownership of the Wastewater System remaining after payment of Maintenance and Operation Costs, all as further provided in the Master Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement.

The District currently has Outstanding Senior Obligations payable from Net Revenues on a parity with the Installment Payments under the Installment Purchase Agreement. See “ESTIMATED SOURCES AND USES OF FUNDS,” “FINANCIAL OBLIGATIONS – Existing Indebtedness” and “THE DISTRICT” herein and APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement” attached hereto. The District has no Subordinate Obligations currently outstanding.

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services and facilities of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior

Obligations for such Fiscal Year and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement. See “SECURITY AND SOURCE OF PAYMENT FOR THE REVENUE OBLIGATIONS – Rate Covenant” herein.

The obligation of the District to pay the Installment Payments and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

COVID-19 Pandemic

The ongoing spread of the COVID-19 coronavirus pandemic, and responses intended to slow its spread, may result in material adverse impacts to the Wastewater System and its finances. There can be no assurances that the spread of the virus and the related shelter in place orders and social distancing requirements imposed by the State of California, or other State or local mandates and/or other responses intended to slow its spread will not materially adversely impact the revenues received by the Wastewater System, particularly connection fees and other amounts tied to economic activity in the District’s service area.

The District is monitoring the COVID-19 pandemic but is not yet able to fully predict the effect it will have on the financial performance or operations of the Wastewater System. The COVID-19 pandemic and the governmental actions to respond to it resulted in a significant contraction of the national, state and local economies, including a dramatic increase in unemployment rates, and these economies have not fully recovered. In addition, stock markets in the U.S. and globally experienced sharp declines in market value following the onset of the outbreak that were attributed to COVID-19 concerns and, although rebounds in the market have since occurred, increased volatility in the financial markets continues. It is widely expected that global, national and local economies will continue to be negatively affected by the COVID-19 pandemic, at least for some period of time.

To date, the District and its Wastewater System have not experienced any material adverse impact from COVID-19. In light of the pandemic’s negative impacts on its service area, the District deferred a scheduled 1.2% rate increase for fiscal year 2020-21 but expects to implement the 1.2% increases scheduled in each of fiscal years 2021-22 and 2022-23 as approved. The District does not expect the deferred rate increase for fiscal year 2020-21 to have a material adverse effect on its finances or operations.

The District cannot predict (i) the duration or ultimate extent of the COVID-19 pandemic; (ii) to what extent the COVID-19 pandemic may affect the operations and revenues of the Wastewater System in the future; (iii) to what extent the COVID-19 pandemic may ultimately disrupt the local, State, national

or global economy, manufacturing or supply chain, or whether any such disruption will adversely impact Wastewater System the cost, sources of funds, schedule or implementation of any capital improvements, or other Wastewater System operations; (iv) to what extent the District may desire to, or need to, provide customer assistance measures or deferrals, forbearances, adjustments or other changes to its customers or its billing and collection procedures; (v) if and to what extent the COVID-19 pandemic may negatively impact the market value of assets held to fund the District's pension plans, requiring future unanticipated increases in required plan contributions or (vi) whether any of the foregoing may have a material adverse effect on the finances and operations of Wastewater System. Prospective investors should consider that the restrictions and limitations instituted related to COVID-19 may increase (even after they are decreased), and the upheaval to the national and global economies may continue and/or be exacerbated, at least over the near term, and the recovery may be prolonged, and therefore, COVID-19 may adversely impact Wastewater System revenues.

Future ad valorem tax revenues available to pay Installment Payments could be negatively impacted by COVID-19, including because upcoming property tax installments could be deferred, or some taxpayers may be unable to make their property tax payments. As a measure to assist certain taxpayers impacted by COVID-19, on May 6, 2020 the Governor of the State issued Executive Order N-61-20 which waives penalties and interest on property tax installments for residential property occupied by the taxpayer and certain other real property which is used for a small business, subject to certain filing requirements and proof of economic hardship due to COVID-19 or any local, state or federal response to COVID-19. The order applies to taxes not delinquent prior to March 4, 2020, and waives and forgives penalties and interest through May 6, 2021. Negative impacts on ad valorem tax revenue could be offset because the County operates under the Teeter Plan, which shields the District's ad valorem tax revenues from delinquencies; however, the County is under no legal obligation to maintain the Teeter Plan in the future.

Continuing Disclosure

The District has covenanted for the benefit of holders and beneficial owners of the Revenue Obligations (a) to provide certain financial information and operating data (the "Annual Report") relating to the District and the property in the District not later than eight months after the end of the District's Fiscal Year (which currently would be March 1), commencing with the report for the 2020-21 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See "CONTINUING DISCLOSURE" herein and APPENDIX D – "FORM OF CONTINUING DISCLOSURE AGREEMENT."

Miscellaneous

The descriptions herein of the Trust Agreement, the Master Agreement, the Installment Purchase Agreement, the Continuing Disclosure Agreement and any other agreements relating to the Revenue Obligations are qualified in their entirety by reference to such documents. Copies of the Trust Agreement, the Master Agreement and the Installment Purchase Agreement are on file and available for inspection at the corporate trust office of U.S. Bank National Association, Los Angeles, California Attention: Corporate Trust.

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REFUNDING PLAN

A portion of the net proceeds from the sale of the Revenue Obligations, together with other funds of the District, will be used to prepay on August 1, 2021 (the “Prepayment Date”) all of the installment payments to be made by the District in connection with the Refunded 2011A Obligations and the Refunded 2018A Notes. The Refunded 2011A Obligations and the Refunded 2018A Notes are further described in the respective tables below.

Under the terms of the Trust Agreement, dated as of October 1, 2011 (the “2011A Trust Agreement”), by and between the District and U.S. Bank National Association, as successor trustee (the “2011A Trustee”), pursuant to which the Refunded 2011A Obligations were executed and delivered, and an Escrow Agreement, dated as of July 1, 2021 (the “2011A Escrow Agreement”), between the District and the 2011A Trustee, the prepayment of the installment payments related to the Refunded 2011A Obligations will be effected by depositing a portion of the proceeds of the Revenue Obligations, together with other available moneys, into the Escrow Fund established under the 2011A Escrow Agreement (the “2011A Escrow Fund”).

The amounts held in the 2011A Escrow Fund will be sufficient to prepay on the Prepayment Date the unpaid installment payments, without premium, related to the Refunded 2011A Obligations, and through distribution of such prepayment to prepay the Refunded 2011A Obligations, all in accordance with the terms of the 2011A Trust Agreement and the Refunded 2011A Obligations. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein. The amounts deposited in the 2011A Escrow Fund will be held in trust solely for the Refunded 2011A Obligations and will not be available to pay the principal and interest evidenced by the Revenue Obligations or any obligations other than the Refunded 2011A Obligations. Such amounts will be will held uninvested as provided in the 2011A Escrow Agreement.

Under the terms of the Trust Agreement, dated as of November 1, 2018 (the “2018A Trust Agreement”), by and between the District and U.S. Bank National Association, as trustee (the “2018A Trustee”), pursuant to which the Refunded 2018A Notes were executed and delivered, and an Escrow Agreement, dated as of July 1, 2021 (the “2018A Escrow Agreement”), between the District and the 2018A Trustee, the prepayment of the installment payments related to the Refunded 2018A Notes will be effected by depositing a portion of the proceeds of the Revenue Obligations, together with other available moneys, into the Escrow Fund established under the 2018A Escrow Agreement (the “2018A Escrow Fund”).

The amounts held in the 2018A Escrow Fund will be sufficient to prepay on the Prepayment Date the unpaid installment payments, without premium, the unpaid installment payments related to the Refunded 2018A Notes, and through distribution of such prepayment to prepay the Refunded 2018A Notes, all in accordance with the terms of the 2018A Trust Agreement and the Refunded 2018A Notes. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein. The amounts deposited in the 2018A Escrow Fund will be held in trust solely for the Refunded 2018A Notes and will not be available to pay the principal and interest evidenced by the Revenue Obligations or any obligations other than the Refunded 2018A Notes. Such amounts will be will held uninvested as provided in the 2018A Escrow Agreement.

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Refunded 2011A Obligations
Prepayment Price: 100%
Prepayment Date: August 1, 2021

Maturity Date (February 1)	Principal Amount Outstanding	CUSIP Number (68428T)
2023	\$14,435,000	AM9
2024	15,055,000	AN7
2025	15,760,000	AP2
2026	16,325,000	AQ0

Refunded 2018A Notes
Prepayment Price: 100%
Prepayment Date: August 1, 2021

Maturity Date (August 15)	Principal Amount Outstanding	CUSIP Number (68428P)
2021	\$102,200,000	FH3

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the execution and delivery of the Revenue Obligations are presented below.

Sources

Principal Amount of Revenue Obligations	\$
Premium	
Amounts released from 2011A Trust Agreement	
Amounts released from 2018A Trust Agreement	
Total Sources	\$

Uses

Deposit to 2011A Escrow Fund	\$
Deposit to 2018A Escrow Fund	
Costs of Issuance ⁽¹⁾	
Total Uses	\$

⁽¹⁾ Costs of Issuance include, among other things, the Initial Purchaser's discount, fees and expenses of rating agencies, verification agent, Special Counsel and Disclosure Counsel, Municipal Advisor and the initial fees of the Trustee.

THE REVENUE OBLIGATIONS

General

The Revenue Obligations will be prepared in the form of fully registered certificates of participation in denominations of \$5,000 and any integral multiple thereof. The Revenue Obligations will be dated as of the date of initial delivery thereof and will mature on February 1 in such years as set forth on the inside cover page hereof. Interest evidenced by the Revenue Obligations will be payable semiannually on February 1 and August 1 of each year, commencing on February 1, 2022. The Revenue Obligations initially will be delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Revenue Obligations. Individual purchases of the Revenue Obligations will be made in book-entry form only. Purchasers of Revenue Obligations will not receive physical certificates representing their ownership interests in the Revenue Obligations purchased.

The interest evidenced by the Revenue Obligations shall be payable on each Interest Payment Date to and including their respective Principal Payment Dates or prepayment prior thereto, and shall represent the sum of the interest on the Installment Payments coming due on the Interest Payment Dates in each year. The principal evidenced by the Revenue Obligations shall be payable on their respective Principal Payment Dates in each year and shall represent the Installment Payments coming due on the Principal Payment Dates in each year. Each Revenue Obligation shall evidence interest from the Interest Payment Date next preceding its date of execution to which interest has been paid in full, unless such date of execution shall be after a Record Date and on or prior to the following Interest Payment Date, in which case such Revenue Obligation shall evidence interest from such Interest Payment Date, or unless such date of execution shall be on or prior to January 15, 2022, in which case such Revenue Obligation shall represent interest from its date of initial delivery. Notwithstanding, the foregoing, if, as shown by the records of the Trustee, interest evidenced by the Revenue Obligations shall be in default, each Revenue Obligation shall evidence interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for. Interest evidenced by the Revenue Obligations shall be computed on the basis of a 360-day year consisting of twelve 30-day months. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Trust Agreement.”

Payments of principal and interest evidenced by the Revenue Obligations are payable directly to DTC by U.S. Bank National Association, as trustee. Upon receipt of payments of such principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Revenue Obligations. So long as the Revenue Obligations are held in the DTC book-entry system, the interest, principal, purchase price and prepayment premiums, if any, due with respect to the Revenue Obligations will be payable by the Trustee, or its agent, to DTC or its nominee. DTC, in turn, will make payments pursuant to its procedures as described under APPENDIX E – “BOOK-ENTRY SYSTEM” herein.

Prepayment Provisions*

Optional Prepayment. The Revenue Obligations maturing on or after February 1, 20__ are subject to optional prepayment prior to their stated Principal Payment Dates, on any date on or after February 1, 2031, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Installment Payments paid pursuant to the Installment Purchase Agreement or from any other source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Revenue Obligations to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

* Preliminary, subject to change.

Selection of Revenue Obligations for Prepayment. Whenever less than all the Outstanding Revenue Obligations are to be prepaid on any one date pursuant to provisions of the Trust Agreement with respect to optional prepayment of Revenue Obligations, the Trustee shall select the Revenue Obligations to be prepaid among Revenue Obligations with different Principal Payment Dates as directed in a Written Request of the District. Whenever less than all the Outstanding Revenue Obligations with the same stated Principal Payment Date are to be prepaid on any one date in accordance with the Trust Agreement, the Trustee shall select the Revenue Obligations with such Principal Payment Date to be prepaid as directed in a Written Request of the District, or at the discretion of the District by lot in any manner that the Trustee deems fair and appropriate, which decision shall be final and binding upon the District and the Owners. The Trustee shall promptly notify the District in writing of the numbers of the Revenue Obligations so selected for prepayment on such date. For purposes of such selection, any Revenue Obligation may be prepaid in part in Authorized Denominations.

Notice of Prepayment. When prepayment of Revenue Obligations is authorized pursuant to the Trust Agreement, the Trustee shall give notice, at the expense of the District, of the prepayment of the Revenue Obligations. The notice of prepayment shall specify (a) the Revenue Obligations or designated portions thereof (in the case of prepayment of the Revenue Obligations in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Revenue Obligations to be prepaid, (f) the numbers of the Revenue Obligations to be prepaid in whole or in part and, in the case of any Revenue Obligation to be prepaid in part only, the principal evidenced by such Revenue Obligation to be prepaid, and (g) the interest rate and stated Principal Payment Date of each Revenue Obligation to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Revenue Obligation or portion thereof being prepaid the prepayment price and that from and after such date interest evidenced thereby shall cease to accrue and be payable. With respect to any notice of optional prepayment of Revenue Obligations, unless at the time such notice is given the Revenue Obligations to be prepaid shall be deemed to have been paid within the meaning of the Trust Agreement, such notice shall state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys sufficient to pay for the prepayment price of the Revenue Obligations to be prepaid, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District shall not be required to prepay such Revenue Obligations. In the event a notice of prepayment of Revenue Obligations contains such a condition and such moneys are not so received, the prepayment of Revenue Obligations as described in the conditional notice of prepayment shall not be made and the Trustee shall, within a reasonable time after the date on which such prepayment was to occur, give notice to the persons and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there shall be no prepayment of Revenue Obligations pursuant to such notice of prepayment.

The Trustee shall, at least 20 but not more than 60 days prior to any prepayment date, give notice of prepayment to the respective Owners of Revenue Obligations designated for prepayment by first-class mail, postage prepaid, at their addresses appearing on the registration books maintained by the Trustee as of the close of business on the day before such notice of prepayment is given.

The actual receipt by the Owner of any notice of such prepayment shall not be a condition precedent to prepayment, and neither failure to receive such notice nor any defect therein shall affect the validity of the proceedings for the prepayment of such Revenue Obligations or the cessation of interest evidenced thereby on the date fixed for prepayment.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price of the Revenue Obligations to be prepaid are held by the Trustee,

then on the prepayment date designated in such notice, the Revenue Obligations so called for prepayment shall become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by the Revenue Obligations so called for prepayment shall cease to accrue, such Revenue Obligations shall cease to be entitled to any benefit or security hereunder and the Owners of such Revenue Obligations shall have no rights in respect thereof except to receive payment of the prepayment price thereof. The Trustee shall, upon surrender for payment of any of the Revenue Obligations to be prepaid, pay such Revenue Obligations at the prepayment price thereof, and such moneys shall be pledged to such payment. See “ – Notice of Prepayment” above regarding cancellation of prepayment where notice of prepayment is given but moneys for the payment of the prepayment price of the Revenue Obligations to be prepaid are not held by the Trustee on the prepayment date designated in such notice.

SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS

Installment Payments

Pursuant to the Installment Purchase Agreement, the Project will be reacquired by the District from the Corporation. The District has covenanted to, subject to any rights of prepayment under the Installment Purchase Agreement, pay to the Corporation, solely from Net Revenues and from no other sources, the Purchase Price in Installment Payments, with interest thereon, as provided in the Installment Purchase Agreement. Pursuant to the Master Agreement, the District has established and declared the conditions and terms upon which obligations such as the Installment Purchase Agreement, and the Installment Payments and the interest thereon payable under the Installment Purchase Agreement, will be incurred and secured. The obligation of the District to make the Installment Payments, and payments of interest thereon, and other payments required to be made by it under the Installment Purchase Agreement, solely from Net Revenues, is absolute and unconditional, and until such time as the Installment Payments, payments of interest thereon, and such other payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the Installment Purchase Agreement), the District has covenanted that it will not discontinue or suspend any Installment Payments when due, whether or not the Project 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, and such Installment Payments, payments of interest thereon, and other payments shall not be subject to reduction whether offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or any cause whatsoever. The District’s obligation to make Installment Payments from Net Revenues is on a parity with the District’s obligation to make payments with respect to its Outstanding Senior Obligations. See “Net Revenues” below. Pursuant to the Trust Agreement, the Corporation has assigned to the Trustee for the benefit of the Owners of the Revenue Obligations substantially all of its rights, title and interest in and to the Installment Purchase Agreement, including its right to receive Installment Payments and the interest thereon.

The District has certain Existing Senior Obligations Outstanding payable from Net Revenues on a parity with the Installment Payments under the Installment Purchase Agreement. The term “Existing Senior Obligations” as used in this Official Statement refers to the Installment Purchase Agreements relating to the District’s currently Outstanding Senior Obligations, as set forth on Table 16 under the caption “FINANCIAL OBLIGATIONS – Existing Indebtedness” herein. The term “Senior Obligations” as used in this Official Statement refers to the Existing Senior Obligations and to any additional Senior Obligations, such as the Installment Purchase Agreement, that may be made payable on a parity basis to the Installment Payments as provided in the Master Agreement. Senior Obligations, together with any Subordinate Obligations payable on a subordinate basis to the Installment Payments incurred as provided in the Master Agreement, are referred to collectively as the “Obligations.” The District has no Subordinate Obligations currently outstanding. See “FINANCIAL OBLIGATIONS — Existing

Indebtedness” herein and APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” attached hereto.

The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement and Master Agreement, is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement, and does not constitute a debt of the District, the State or any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District, the State or any political subdivision thereof, is pledged to the payment of the Installment Payments, or the interest thereon, or other payments required to be made under the Installment Purchase Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS” herein.

Available Funds of the District

As Senior Obligations under the Master Agreement, the Installment Payments are payable from and secured by a pledge of Net Revenues. Should Net Revenues prove insufficient, the Installment Purchase Agreement further provides that the Installment Payments are payable from any other lawfully available funds of the District. The primary lawfully available funds of the District are its reserve funds, other than trustee-held amounts required to be in any Obligation Reserve Fund securing certain of the District’s Senior Obligations, as described in the Master Agreement. At June 30, 2020, the District’s Debt Service Required Reserves totaled \$94 million, of which \$0 were trustee-held amounts in Obligation Reserve Funds under the Master Agreement. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Master Agreement” attached hereto. District reserve funds are maintained in accordance with the District’s reserve policy. See “DISTRICT REVENUES – Reserves.” Available reserves at June 30, 2020 were approximately \$881 million. See “DISTRICT REVENUES — Reserves,” “— Summary of Operating Data” and “— Projected Operating Data.”

Net Revenues

The District is obligated to make Installment Payments from, among other things, Net Revenues as provided in the Master Agreement, which consist of Revenues remaining after payment of costs paid by the District for maintaining and operating the Wastewater System (“Maintenance and Operation Costs”). Revenues are defined in the Master Agreement to mean, for any period, all income and revenue received by the District during such period from the operation or ownership of the Wastewater System, determined in accordance with generally accepted accounting principles, including all fees and charges received during such period for the services of the Wastewater System, investment income received during such period (but only to the extent that such investment income is generally available to pay costs with respect to the Wastewater System, including Maintenance and Operation Costs), Net Proceeds of business interruption insurance received during such period, *ad valorem* taxes received during such period, payments under the Agreement Acquiring Ownership Interests, Assigning Rights and Establishing Obligations, entered into on February 13, 1986, and amendment No. 1 thereto dated December 10, 1986 (the “IRWD Agreement”), by and between predecessor County Sanitation District No. 14 of Orange County and the Irvine Ranch Water District (the “IRWD”) received during such period and all other money received during such period howsoever derived by the District from the operation or ownership of the Wastewater System or arising from the Wastewater System (including any standby or availability charges), but excluding (a) Capital Facilities Capacity Charges, (b) payments received under Financial

Contracts, and (c) refundable deposits made to establish credit and advances or contributions in aid of construction (which, for purposes of the Master Agreement, shall not include payments under the IRWD Agreement); provided, however, that (i) Revenues shall be increased by the amounts, if any, transferred during such period from the Rate Stabilization Account to the Revenue Account and shall be decreased by the amounts, if any, transferred during such period from the Revenue Account to the Rate Stabilization Account, and (ii) Revenues shall include Capital Facilities Capacity Charges collected during such period to the extent that such Capital Facilities Capacity Charges could be properly expended on a Capital Facilities Capacity Charge Eligible Project for which the proceeds of Senior Obligations were used or are available to be used. Any Federal Subsidy payments received by the District will constitute Revenues as defined in the Master Agreement. See “DISTRICT REVENUES — Additional Revenues” herein.

The District’s obligation to make the Installment Payments from its Net Revenues is on a parity with the District’s obligation to make payments with respect to its other outstanding obligations described as Senior Obligations and all Reimbursement Obligations with respect to Senior Obligations, as provided in the Master Agreement. The Installment Purchase Agreement constitutes a Senior Obligation and, as such, is subject to the provisions of the Master Agreement and is afforded all of the advantages, benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. Pursuant to the Master Agreement, the District pledges all Net Revenues to the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations, and the Net Revenues will not be used for any other purpose while any of the Senior Obligations or Reimbursement Obligations with respect to Senior Obligations remain unpaid; provided, however, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Master Agreement. This pledge constitutes a first lien on the Net Revenues for the payment of the Senior Obligations and Reimbursement Obligations with respect to Senior Obligations. The term “Senior Obligations” generally means all revenue bonds or notes (including bond anticipation notes and commercial paper) of the District authorized, issued, executed and delivered under and pursuant to applicable law, the Installment Purchase Agreement, and all other contracts (including financial contracts) or leases of the District authorized and executed by the District under and pursuant to applicable law, including, without limitation, installment, lease or other payments which are, in accordance with the provisions of the Master Agreement, payable from Net Revenues on a parity with the payments under the Master Agreement.

The District may at any time incur Subordinate Obligations payable on a subordinate basis to the Installment Payments as provided in the Master Agreement; provided, however, that prior to incurring such Subordinate Obligations, the District shall have determined that the incurrence thereof will not materially adversely affect the District’s ability to comply with the requirements of the Master Agreement. The District may at any time incur Reimbursement Obligations with respect to Subordinate Obligations. For a description of the District’s Outstanding Senior Obligations and Subordinate Obligations, see “FINANCIAL OBLIGATIONS — Existing Indebtedness” herein. There are currently no Subordinate Obligations or Reimbursement Obligations with respect to Subordinate Obligations outstanding.

The District may, in connection with the incurrence of Subordinate Obligations, pledge Net Revenues to the payment of Subordinate Obligations and Reimbursement Obligations with respect to Subordinate Obligations; provided, however, that such pledge, and any lien created thereby, shall be junior and subordinate to the pledge of, and lien on, Net Revenues for the payment of Senior Obligations and Reimbursement Obligations with respect to Senior Obligations.

Rate Stabilization Account

To avoid fluctuations in its fees and charges of the Wastewater System, from time to time the District may deposit in the Rate Stabilization Account from Net Revenues such amounts as the District

deems necessary or appropriate. From time to time, the District may also transfer moneys from the Rate Stabilization Account to the Revenue Account to be used by the District, first to pay all Maintenance and Operations Costs as and when the same shall be due and payable. In addition, any such amount transferred from the Rate Stabilization Account to the Revenue Account by the District is included as Revenues for any period, but such transferred amount is excluded from determining Operating Revenues for any period. Revenues will be decreased by the amounts, if any, transferred from the Revenue Account to the Rate Stabilization Account. There are presently no funds in the Rate Stabilization Account.

Allocation of Revenues

To carry out and effectuate the pledge of Net Revenues under the Master Agreement as described above, the District agrees and covenants that all Operating Revenues received by the District will be deposited when and as received in the Revenue Account. Additionally, amounts may, from time to time as the District deems necessary or appropriate, be transferred from the Rate Stabilization Account and deposited in the Revenue Account, as described above under “— Rate Stabilization Account” above. The District will pay from the Revenue Account all Maintenance and Operations Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operations Costs, the payment of which is not immediately required) as and when the same shall be due and payable.

After having paid, or having made provisions for the payment of, Maintenance and Operations Costs, the District shall set aside and deposit or transfer, as the case may be, from the Revenue Account such amounts at such times as provided in the Master Agreement in the following order of priority:

- (1) Senior Obligation Payment Account;
- (2) Senior Obligation Reserve Funds (the Revenue Obligations are not secured by any Reserve Fund);
- (3) Subordinate Obligation Payment Account;
- (4) Subordinate Obligation Reserve Funds; and
- (5) Rate Stabilization Account.

Amounts required or permitted to be deposited or transferred as described in items 2, 3, 4 and 5 above, shall not be so deposited or transferred unless the District shall have determined that there will be sufficient Net Revenues available to make the required deposits or transfers on the dates on which such deposits or transfers are required to be made as described above. So long as the District has determined that Net Revenues will be sufficient to make all of the deposits or transfers required to be made pursuant to items 1, 2, 3, 4 and 5 above, on the dates on which such deposits or transfers are required to be made, Net Revenues on deposit in the Revenue Account may from time to time be used for any purpose for which the District funds may be legally applied. For additional information, see APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement.”

Rate Covenant

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may

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

In addition, the District has covenanted in the Master Agreement to prepare and adopt an annual budget for the Wastewater System for each Fiscal Year. Such budget will set forth in reasonable detail the Revenues anticipated to be derived in such Fiscal Year and the expenditures anticipated to be paid or provided for therefrom in such Fiscal Year, including, without limitation, the amounts required to pay or provide for the payment of the Obligations during such Fiscal Year, the amounts required to pay or provide for the payment of Maintenance and Operations Costs during such Fiscal Year and the amounts required to pay or provide for the payment of all other claims or obligations required to be paid from Revenues in such Fiscal Year, and will show that Revenues and Net Revenues will be at least sufficient to satisfy the requirements of the Master Agreement. On or before September 1 of each Fiscal Year, the District will file with the Trustee a copy of the adopted budget for such Fiscal Year. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” for additional information.

The District has an established reserve policy with seven distinct reserve criterion which together comprise the District’s reserve fund target. Over a ten fiscal year period, these criterion requirements collectively result in a year-ending reserve total for each fiscal year projected not to fall below \$484 million as indicated in the District’s ten-year cash flow forecast for fiscal years 2020-21 through 2029-30. At its election, the District may use unrestricted reserves to help satisfy the rate covenant described above. See “DISTRICT REVENUES — Reserves” herein.

Limitations on Issuance of Additional Obligations

Senior Obligations. The District may at any time incur Senior Obligations in addition to the Existing Senior Obligations payable from Net Revenues as provided in the Master Agreement on a parity with all other Senior Obligations theretofore incurred but only subject to the following conditions under the Master Agreement:

- (1) Upon the incurrence of such Senior Obligations, no Event of Default will be continuing under the Master Agreement; and
- (2) Subject to the provisions of the Master Agreement, the District will have received either one of the following:
 - (i) A Written Certificate of the District certifying that, for a 12 consecutive calendar month period during the 24 consecutive calendar month period ending in the calendar month prior to the incurrence of such Senior Obligations (which 12 consecutive calendar month period will be specified in such certificate or certificates):
 - (A) Net Revenues, as shown by the books of the District, will have amounted to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and
 - (B) Net Operating Revenues, as shown by the books of the District, will have amounted to at least 100% of Maximum Annual Debt Service on all

Obligations to be outstanding immediately after the incurrence of such Senior Obligations.

For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred, but which, during all or any part of such 12 consecutive calendar month period, were not in effect, (y) customers added to the Wastewater System subsequent to such 12 consecutive calendar month period but prior to the date such Senior Obligations are incurred, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations; or

- (ii) A certificate or certificates from one or more Consultants which, when taken together, project that, for each of the two Fiscal Years next succeeding the incurrence of such Senior Obligations:
 - (A) Net Revenues will amount to at least 125% of Maximum Annual Debt Service on all Senior Obligations to be outstanding immediately after the incurrence of such Senior Obligations, and
 - (B) Net Operating Revenues will amount to at least 100% of Maximum Annual Debt Service on all Obligations to be outstanding immediately after the incurrence of such Senior Obligations.

For purposes of demonstrating compliance with the foregoing, Net Revenues and Net Operating Revenues may be adjusted for (x) any changes in fees and charges for the services of the Wastewater System which have been adopted and are in effect on the date such Senior Obligations are incurred or will go into effect prior to the end of such two Fiscal Year period, (y) customers expected to be added to the Wastewater System prior to the end of such two Fiscal Year period, and (z) the estimated change in available Net Revenues and Net Operating Revenues which will result from the connection of existing residences or businesses to the Wastewater System within one year following completion of any project to be funded or any system to be acquired from the proceeds of such Senior Obligations. For purposes of preparing the certificate or certificates described above, the Consultant may rely upon financial statements prepared by the District that have not been subject to audit by an independent certified public accountant if audited financial statements for the period are not available.

See also “FINANCIAL OBLIGATIONS – Existing Indebtedness” herein. The District is not required to comply with the provisions described above in paragraph (2) if the Senior Obligations being incurred are Short-Term Obligations excluded from the calculation of Assumed Debt Service pursuant to clause (H) of the definition thereof. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Definitions” herein.

The determination of Net Revenues for use in the calculation described above is more fully described in APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master

Agreement — *Senior Obligations*” attached hereto. The District is not required to comply with the provisions described in paragraph (2) above for such portion of Senior Obligations incurred for the purpose of providing funds to refund or refinance Senior Obligations if (i) upon such refunding or refinancing, debt service on such refunded or refinanced Obligations, or debt service on bonds, notes or other obligations of an entity other than the District, the debt service on which is payable from Obligation Payments for such Obligations (the “Related Bonds”), will no longer be included in the calculation of Assumed Debt Service either because such Obligations, or the Related Bonds of such Obligations, will have been paid in full or because such debt service is disregarded pursuant to clause (L) of the definition of Assumed Debt Service, and (ii) Assumed Debt Service in each Fiscal Year for the portion of such Senior Obligations incurred for the purpose of providing funds to refund or refinance such Obligations is less than or equal to 105% of Assumed Debt Service in such Fiscal Year for such Obligations being refunded or refinanced (assuming for such purposes that debt service on such refunded or refinanced Obligations, or debt service on the Related Bonds of such Obligations, is not disregarded pursuant to clause (L) of the definition of Assumed Debt Service). See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” attached hereto for additional information. The District may at any time incur Reimbursement Obligations with respect to Senior Obligations.

Subordinate Obligations. The District may at any time incur Subordinate Obligations upon satisfaction of the conditions provided in the Master Agreement. See APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” herein for a description of such conditions. There are currently no Subordinate Obligations outstanding.

Insurance

The District will procure and maintain or cause to be procured and maintained casualty insurance on the Wastewater System with responsible insurers, or provide self- insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Wastewater System) as are usually covered in connection with facilities similar to the Wastewater System. The District will procure and maintain such other insurance which it will deem advisable or necessary to protect its interests and the interests of the Corporation. See “THE DISTRICT — Risk Management” and APPENDIX C — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — Master Agreement” herein.

Allocation of Installment Payments

Set forth in Table 1 are the principal and interest payments on the Revenue Obligations. Also set forth are the payments due on Existing Senior Obligations, including the Refunded 2011A Obligations and the Refunded 2018A Notes.

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Table 1
Payments Relating to the Revenue Obligations
and Existing Senior Obligations of the District
As of June 1, 2021

Fiscal Year Ending June 30	Installment Payments Relating to Revenue Obligations		Other Senior Obligations⁽¹⁾		Total
	Principal	Interest	Principal	Interest	
2022	\$	\$	\$	\$	\$
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
Total	\$	\$	\$	\$	\$

⁽¹⁾ Includes payments with respect to the Refunded 2011A Obligations and the Refunded 2018A Notes, all of which are to be refunded with the proceeds of the Revenue Obligations. See “REFUNDING PLAN” herein.

THE DISTRICT

Background

The District is managed by the Board of Directors, whose members are appointed by 25 member cities and agencies which are serviced by the District. The District is a public agency responsible for construction and maintenance of a major portion of the wastewater collection, treatment and disposal facilities within its boundaries and is the sixth largest wastewater collection, treatment and recycling agency in the United States of America. The District provides service to an area with a population of approximately 2.6 million people in the northern and central portion of the County by treating an average of 188 million mg/d of wastewater in Fiscal Year 2019-20. The District serves approximately 81% of the County population in approximately 479 square miles, or approximately 60% of the County’s area. Local sanitary districts, water districts and cities are responsible for local sewers in the District’s service area. The District reuses more than 65% of the total wastewater flow that it receives.

The service area which comprises the District was originally formed in 1954 pursuant to the County Sanitation District Act, as amended, Section 4700 *et seq.* of the Health and Safety Code of the State. The District's service area originally consisted of seven independent special districts in the County which were each responsible for matters relating to their individual districts. These special districts were jointly responsible for the treatment and disposal facilities which they each used. The seven independent districts were successors to the Joint Outfall Sewer Organization, which was formed in 1923 among the Cities of Anaheim, Santa Ana, Fullerton, and Orange, and the sanitary districts of Placentia, Buena Park, La Habra, and Garden Grove. The Joint Outfall Sewer Organization constructed a treatment plant and outfall in the early 1920s to serve its members. It was reorganized in 1947 and 1948 into seven county sanitation districts – District Nos. 1, 2, 3, 5, 6, 7 and 11. These prior districts were formed based on engineers' analyses of the gravity flows in the service area. District No. 13 was formed in 1985 and District No. 14 was added in 1986. These districts were co-participants in a Joint Agreement which provided for the joint construction, ownership, and operation of the prior districts' joint facilities.

In April 1998, at the request of the Board of Directors of the District (the "Board of Directors"), the Board of Supervisors of the County of Orange (the "County Board") passed Resolution No. 98-140 approving the consolidation of the then existing nine special districts into a new, single sanitation district, to be known as the Orange County Sanitation District. This action was designed to simplify governance structures, reduce the size of the Board of Directors, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The consolidation was effective on July 1, 1998.

Pursuant to Resolution No. 98-140 and Government Code Section 57500, the prior districts transferred and assigned all of their powers, rights, duties, obligations, functions and properties to the District, and the District assumed all obligations of the prior districts which were several and not joint including, without limitation, their obligations to repay the then outstanding certificates of participation. The boundaries of the nine predecessor special districts were initially used by the District to delineate separate revenue areas (the "Revenue Areas") for budgeting and accounting purposes and in order to facilitate the imposition of fees and charges imposed by the District. See "DISTRICT REVENUES – Sewer Service Charges" herein.

Organization and Administration

The District is independent of and overlaps other political jurisdictions. There are many governmental entities, including the County, that operate within the District's jurisdiction. These entities are exclusively responsible for the administration of their own fiscal affairs, and the District is not entitled to operating surpluses of, or responsible for operating deficits of, any of the other entities.

The 25-member Board of Directors is composed of representatives from 20 cities, four special districts and a member representing the County. Several board committees, made up of members of the Board of Directors, consider topics for action by the Board of Directors and make recommendations to the Board of Directors. The Chair and the Vice Chair of the Board of Directors are elected every year by a majority of the Board of Directors, and serve at the pleasure of a majority of the Board of Directors.

The District has a general manager, outside general counsel, and administrative and operating staff, with offices located at Reclamation Plant No. 1 in Fountain Valley, California. The District currently employs an administrative and operating staff of approximately 600 under the direction of its General Manager, James Herberg.

James Herberg, P.E., is the General Manager of the District and has served in this capacity since April 2013. During his more than 29 years with the District, he has held the positions of Assistant General

Manager, Director of Engineering, and Director of Operations and Maintenance. Mr. Herberg has more than 35 years of experience in the water and wastewater industries, including six years at the Orange County Water District with whom the District has partnered on the Groundwater Replenishment System project.

Robert Thompson, P.E., is an Assistant General Manager and the Director of Operations and Maintenance. He has worked for the District since 1995. Mr. Thompson has served as manager in several departments with the District, including Information Technology, Operations and Maintenance, and Engineering. He has had a lead role in creating and maintaining engineering, programming, tagging and asset standards for the District.

Lorenzo Tyner is an Assistant General Manager and the Director of Finance and Administrative Services. Mr. Tyner joined the District in 2005 after serving as Los Angeles Unified School District Budget Director and Deputy Chief Financial Officer. Mr. Tyner has more than 25 years of public finance and budgeting experience, working in large government organizations including the City of Los Angeles and the Los Angeles County Metropolitan Transportation Authority and private sector experience with IBM Global Services and TRW Space and Defense.

Kathleen T. Millea, P.E., is the District's Director of Engineering. Ms. Millea has worked for the District since 1995. She has served in several engineering roles during her tenure there, including Operations and Maintenance Process Engineer, Resident Construction Engineer, Project Manager, Project Management Office Supervisor, and Planning Manager. Ms. Millea managed the District's Capital Improvement Program Master Plan. Ms. Millea previously worked for the City of Los Angeles, Bureau of Sanitation.

Celia Chandler is the District's Director of Human Resources. Ms. Chandler joined the District in 2015. Ms. Chandler has more than 20 years of experience in all aspects of Human Resources in both public and private sector organizations, most recently serving as the Director of Academic Labor Relations for the California State University system. Ms. Chandler previously worked in large government organizations including the City of Corona, the City of Murrieta and the County of Riverside, and with private sector company Stone & Webster Engineering Services Company.

Lan Wiborg is the District's Director of Environmental Services. Ms. Wiborg joined the District in 2019. Ms. Wiborg has more than 20 years of water and wastewater utility experience and most recently served as the City of San Diego's Deputy Public Utilities Director of Long-Range Planning and Water Resources, where she oversaw water resource development and planning, watershed protection, water conservation, climate change adaptation, and grid-scale pumped hydropower energy storage programs.

Services

The District owns and operates regional wastewater collection, treatment, and disposal facilities for the metropolitan area in the northern and central portion of the County. The District receives wastewater from the collection systems of the cities, sanitary districts and unincorporated areas of the County located within the District. See "THE DISTRICT – Service Areas" herein.

Generally, local agency systems collect wastewater from residential and industrial customers and convey the wastewater to District trunk sewer pipelines for conveyance to the District's wastewater treatment plants.

The District's staff is responsible for operating and maintaining the District's infrastructure, although some work is performed by external contractors.

Currently, the District has established supply contracts for all chemicals necessary to the operation and maintenance of the facilities of the District. The District has sufficient standby systems in the event of equipment failures or system outages.

Service Area

The map on the inside cover of this Official Statement shows the District's boundaries and selected cities located within the District. District boundaries were originally established in 1947 and 1948 based on drainage basins. As the existing cities have grown and new areas have incorporated, city limits have come to overlap District boundaries. The District currently serves an approximately 479 square-mile area including 23 of the County's 34 cities and various unincorporated areas of the County. The District serves a population of approximately 2.6 million residents.

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Set forth in Table 2 below is a list of the cities and unincorporated areas currently served by the District and their estimated populations as of January 1, 2020.

Table 2
Estimated Populations of Cities and Unincorporated Areas
Served by the Orange County Sanitation District
As of January 1, 2020

<u>City</u>	<u>Population</u>
Anaheim	357,325
Brea	45,629
Buena Park	81,998
Costa Mesa	114,778
Cypress	49,272
Fountain Valley	55,878
Fullerton	141,863
Garden Grove	174,801
Huntington Beach	201,281
Irvine	281,707
La Habra	63,371
La Palma	15,492
Los Alamitos	11,567
Newport Beach	85,780
Orange	140,065
Placentia	51,494
Santa Ana	335,052
Seal Beach	24,992
Stanton	39,077
Tustin	80,382
Villa Park	5,766
Westminster	92,421
Yorba Linda	<u>68,650</u>
Cities Subtotal ⁽¹⁾	2,518,641
Unincorporated Areas (estimated) ⁽²⁾	<u>70,370</u>
Total	<u><u>2,589,011</u></u>

⁽¹⁾ Demographic Research Unit, State of California Department of Finance.

⁽²⁾ Center for Demographic Research, California State University, Fullerton.

Employees

As of March 15, 2021, the District had a total of approximately 618 employees. The majority of the District employees are represented by recognized employee organizations, which include the following: the Orange County Employees Association (“OCEA”), representing administrative/clerical, technical services and engineering employees since 1979, the International Union of Operating Engineers – Local 501 (“Local 501”), representing operations and maintenance employees since October 1985, and the Supervisory and Professional Management Group (“SPMT/AFSCME”), representing employees within the Supervisor Group and Professional Group since 1991. The total number of represented employees as of March 15, 2021 was 575, and is broken down as follows: 97 employees represented by OCEA, 200 employees represented by Local 501, and 278 employees represented by SPMT/AFSCME. In

August 2019, the District reached final agreement with all bargaining units on the current set of labor contracts that will expire on June 30, 2022. Historically, the District has experienced positive and collaborative working relationships with each organization and has not endured any work stoppages since its formation in 1998.

Retirement Plan

The District participates in the Orange County Employees Retirement System (“OCERS”), a cost-sharing multiple-employer defined benefit pension plan, which is governed and administered by a nine-member Board of Retirement. OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits.

All full-time and part-time District employees participate in OCERS. Contributions are based on an OCERS actuarial-determined rate structure and age at time of employment; contributions are deducted on a pre-tax basis. Most employees do not pay into Social Security with the exception of 1.45% of gross income, which is paid into the Medicare portion of Social Security. The amount of the retirement allowance is based upon the member’s age at retirement, the member’s “final compensation” as defined in Section 31462 of the Retirement Law of 1937, the total years of service under OCERS, and the employee’s classification as a Plan B, G, H or U member. Plan U applies to all full-time and part-time employees hired on or after January 1, 2013. Plan B applies to supervisor and professional employees hired on or after October 1, 2010, Local 501 employees hired on or after July 1, 2011 and OCEA employees hired on or after August 1, 2011. Plan G applies to employees hired before September 21, 1979. Plan H applies to employees hired on or after September 21, 1979 and prior to the eligibility dates for Plan B or Plan U. Plan G and H provide 2.5% of final compensation per year of service at age 55. Plan B provides 1.667% of final compensation per year of service at age 57.5, and Plan U provides 2.5% at 67. “Final compensation” is the highest consecutive 12 months of compensation for Plan G members and the highest consecutive 36 months of compensation divided by three for Plan B, H, and U members. Benefits fully vest under the OCERS retirement plan upon reaching five years of service. Employees who retire at or after age 50 with ten or more years of service are eligible to receive an annual retirement allowance, but at a reduced benefit for those employees retiring prior to age 67 for Plan U members, 57.5 for Plan B members, or prior to age 55 for Plan G and H members. OCERS also provides death and disability benefits.

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. The District contributes a portion of the employee’s contribution to OCERS for members of Plans G and H based on a percentage of the covered employee’s base salary. Members of Plans U and B do not receive any contributions toward employee contribution to OCERS. As of the December 31, 2019 valuation, OCERS had an aggregate Unfunded Actuarial Accrued Liability (“UAAL”) of \$5.9 billion, and a funded ratio of 73.17 %.

Set forth in Table 3 below is a current comparison of the District’s required contributions to OCERS for Fiscal Years 2015-16 through 2019-20 and estimated actual contributions for Fiscal Year 2020-21.

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Table 3
Orange County Sanitation District
District Required Contributions to OCERS for Fiscal Years 2015-16 through 2019-20 and
Projected Required Contributions for Fiscal Year 2020-21

<u>Fiscal Year</u>	<u>Rate</u> ⁽¹⁾	<u>District Required Contributions</u>
2015-16	20.17%	\$12,222,849
2016-17	12.38	7,709,734
2017-18	11.51	7,525,655
2018-19	11.24	7,769,431
2019-20	12.54	8,739,661
2020-21 ⁽²⁾	12.08	8,490,385

⁽¹⁾ Required contribution as a percent of covered payroll. Rate includes both (1) the portion attributable to the normal contribution and (2) the portion attributable to amortization of UAAL (the “UAAL Rate”), if any. Combined rate for all Plans. Actuarial valuation as of December 31, 2019 assumed an investment return of 7.00%, net of administrative and investment expenses.

⁽²⁾ Estimated actual.

Source: Orange County Sanitation District.

As of September 4, 2019, the District’s total UAAL (excluding the normal contribution) was \$8,116,226. On September 9, 2019, the District contributed \$8,116,226 to OCERS in full satisfaction of its UAAL and accrued interest on the UAAL through the payment date that is due and payable by District to OCERS as part of its total contribution for the period July 1, 2020 through and including June 30, 2021.

As of December 31, 2018, an additional UAAL attributable to District on the books of OCERS totaled \$30,232,235 (“Deferred UAAL”), representing the District’s allocated share of OCERS’ net deferred investment losses. The Deferred UAAL is projected to be due and payable by the District in amortizing installments commencing July 2021. The amortizing installments of District’s Deferred UAAL in any future year may be more or less than the total unfunded actuarial accrued liability attributable to the District in such future year (“Actual Future UAAL”).

On November 1, 2019, the District contributed \$29,883,774 toward its Deferred UAAL, and OCERS established a UAAL deferred account on its books and records for the purpose of recording and accounting. The UAAL deferred account will offset the District’s losses, if any, as they arise in the future, to continue decreasing its UAAL Rate in those future valuations. The UAAL deferred account will not be used for the District’s normal contribution.

As of December 31, 2019, the date of the most recent actuarial valuation completed by OCERS, the District’s past UAAL was \$0. The balance in the District’s UAAL deferred account as of December 31, 2019 before any transfers out was about \$30.7 million. On December 31, 2019, a transfer of \$18.6 million was made from this account to pay off the District’s Actual Future UAAL (fully offsetting the actuarial losses during 2019). The balance in the District’s UAAL deferred account as of December 31, 2019 after the transfer out is about \$12.1 million and may be applied to the District’s Actual Future UAAL (but not normal contributions) in later periods.

The District has satisfied its past normal contributions from other funds, and currently intends to continue that practice.

For the Fiscal Year ended June 30, 2020, total payroll costs of District employees covered by OCERS was \$71,395,906.

The District's retirement program includes Additional Retiree Benefit Account ("ARBA") benefits. ARBA benefits provide a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCERS medical plan. Benefits vest upon retirement. The District pays 100% of the cost for the ARBA plan and utilizes a pay-as-you-go method for funding the plan. The District paid \$888,120 in ARBA benefits during Fiscal Year 2019-20.

For more information regarding OCERS and the District's retirement plan as of June 30, 2020, see Note 5 to the Comprehensive Annual Financial Report of the Orange County Sanitation District for the Year Ended June 30, 2020 set forth in Appendix A. The Comprehensive Annual Financial Reports of the Orange County Employees Retirement System are available on the OCERS website at <http://www.ocers.org>. The information on such website is not incorporated herein by such reference or otherwise. The District cannot predict whether the OCERS investment portfolio will experience additional losses in the future; however, any future losses could result in material increases in the District's required contributions.

Other Post-Employment Benefits

In June 2015, Governmental Accounting Standards Board ("GASB") issued Statement No. 75, which requires state and local governmental employers to recognize a liability as the employees earn benefits by providing services for its post-employment benefits other than pension benefits (known as other post-employment benefits or "OPEB") and to recognize total OPEB liability if the OPEB is not administered through a trust that meets the specified criteria. Changes to OPEB liability are recognized immediately as OPEB expenses or deferred outflows/inflows of resources. The statement replaces the requirements of Statement No. 45. The District adopted Statement No. 75 for the fiscal year beginning July 1, 2017, as required of GASB. According to the District's actuary, Demsey Filliger & Associates (the "Actuary"), the unfunded OPEB liability as of July 1, 2020 was approximately \$2.5 million. The District does not believe that its OPEB liability will have a material impact on its operational results.

Risk Management

As of the date hereof, the District has in force basic all risk property and casualty insurance, including theft, fire, flood, terrorism and boiler and machinery losses at its plants and pump stations. The District is self-insured for portions of workers' compensation, property damage and general liability. The self-insurance portion of workers' compensation is \$1,000,000 per person per occurrence with outside excess insurance coverage to the statutory limit. The self-insured portion for property damage covering fire and other disasters is \$500,000 per occurrence (for most perils) with outside excess insurance coverage to \$800,000,000. The self-insured portion for property damage covering flood is \$500,000 per occurrence with outside excess insurance coverage to \$100 million. The District also maintains outside comprehensive boiler and machinery insurance and business interruption insurance with \$100,000,000 limits and a \$500,000 self-insured retention.

The District is self-insured for general liability coverage up to \$750,000 per occurrence, with excess general liability coverage up to \$40 million. The District is self-insured for pollution liability coverage up to \$75,000 per loss, with outside pollution liability insurance coverage up to \$10 million. In

addition, the District has limited earthquake insurance partially covering several key structures; beyond that, the District relies on a combination of self-insurance and District reserves for all property damage from the perils of seismic activity as well as the expectation that some disaster relief funds may be available from the Federal Emergency Management Agency (“FEMA”) to address any resulting damage. See “DISTRICT REVENUES – Reserves” and “– Integrated Emergency Response Program.” There is no assurance that, in the event of a significant seismic event, a combination of self-insurance, District reserves or FEMA assistance would be available or sufficient for the repair or replacement of the affected property.

The District carries cyber liability coverage up to \$2,000,000 per occurrence, with a self-insured retention of \$100,000 per claim.

During the past five fiscal years there have been no settlements in excess of covered amounts. Claims against the District are primarily processed by outside claim administrators or the District’s General Counsel. The District believes that there are no unrecorded claims as of June 30, 2020 that would materially affect the financial position of the District.

For information regarding the District’s insurance coverage as of June 30, 2020, see Note 1 to the Comprehensive Annual Financial Report of the Orange County Sanitation District for the Year Ended June 30, 2020 set forth in Appendix A.

Existing Facilities

The Wastewater System currently consists of two wastewater plant facilities, an influent metering and diversion structure, 15 off-plant pump stations, various interplant pipelines and connections, and the ocean outfall facilities. The District’s Wastewater System includes approximately 388 miles of sewers within 12 trunk sewer systems, two discharge outfalls and two emergency weir outlets. The existing treatment plants have a rated primary treatment capacity of 376 mg/d, including standby capacity.

Reclamation Plant No. 1 (“Plant No. 1”) is located in the City of Fountain Valley, approximately four miles inland of the Pacific Ocean and adjacent to the Santa Ana River. Influent wastewater entering Plant No. 1 passes through a flow metering and diversion structure, mechanical bar screens, grit chambers, and primary basins, before going to one of two air activated sludge processes, or trickling filters, and secondary basins. Up to 135 mg/d of secondary treated effluent can be diverted to a plant owned by the Orange County Water District (the “OCWD”) for tertiary treatment prior to reclamation and groundwater recharge. See “ - Groundwater Replenishment System” below.

Solids treatment at Plant No. 1 includes co-thickening of primary and secondary sludge, followed by anaerobic digestion process and centrifuge dewatering of digested sludge to produce Class-B biosolids. Digester gas produced at Plant No. 1 is collected, cleaned, compressed, and transferred via a closed piping system, to the Central Power Generation Facility, as a renewable fuel for energy generation. In addition, Plant No. 1 includes facilities for odor control and chemical addition to support the aforementioned.

Treatment Plant No. 2 (“Plant No. 2”) is located in the City of Huntington Beach, 1,500 feet from the Pacific Ocean, at the mouth of the Santa Ana River. Raw sewage flow entering Plant No. 2 passes through a flow metering structure, mechanical bar screens, and grit removal chambers. Flow then passes through primary basins before being split between the oxygen activated sludge secondary treatment facility or the trickling filters/solids contact basins, where it is discharged directly to the ocean via the outfall pumping system.

Solids treatment at Plant No. 2 includes in-basin thickening of primary sludge, dissolved air flotation thickening of waste activated sludge and secondary sludge, anaerobic sludge digestion, and centrifuge dewatering. Plant No. 2 also has facilities for odor control and chemical addition. Digester gas produced at Plant No. 2 is collected, compressed, cleaned, and distributed to a Central Power Generation System as a renewable fuel for energy generation.

The District employs several phases in the treatment of wastewater. The first phase, preliminary treatment, removes debris such as eggshells, sand and other non-biodegradable items. See also “ - Biosolids Management” below. In the next phase, primary treatment, wastewater is pumped to large settling basins. The liquids are separated from the remaining solids which settle or float as the wastewater passes through large settling basins called clarifiers. The settled solids are sent to solids treatment facilities. All of the wastewater received by the District is sent to secondary treatment for further processing. During secondary treatment, the wastewater is treated with naturally occurring bacteria to remove most of the remaining dissolved and suspended microscopic organic solids. The treated wastewater from both plants is mixed together at Plant No. 2, where it is then pumped through the ocean outfall pipe that extends five miles offshore.

The ocean outfall system includes three discharge structures: Outfall No. 1, Outfall No. 2, and the Santa Ana River Emergency Overflow Weirs. Outfall No. 2 serves as the primary ocean outfall, discharging treated wastewater approximately five miles offshore at a depth of approximately 200 feet. It began service in 1971 and is currently undergoing planned assessment and rehabilitation activities to ensure its reliability for many years to come. Outfall No. 1 serves as an emergency outfall. It was originally constructed in 1954 and was later modified in 1965. It is located over a mile offshore at a depth of approximately 65 feet and serves as a primary backup to Outfall No. 2. This outfall can only be used in the case of an emergency or during planned maintenance activities. The Outfall System has two Santa Ana River Emergency Overflow Weirs at Plant No. 2, which discharge directly to the Santa Ana River. These weirs are for extreme emergency used only and serve as a secondary backup to the primary outfall facilities, ensuring the safety and welfare of the community at large.

Set forth in Table 4 below are the treatment plants’ approximate treatment capacities.

Table 4
Wastewater System Treatment Capacities
(mg/d)
As of June 30, 2020

	2019-20 <u>Actual Flows</u>	Primary Treatment <u>Capacity</u>	Secondary Treatment <u>Capacity</u>
Plant No. 1	119	208	182
Plant No. 2	<u>69</u>	<u>168</u>	<u>150</u>
Aggregate Treatment	<u>188</u>	<u>376</u>	<u>332</u>

Source: Orange County Sanitation District.

The District also has the capability to divert a portion of the influent flow from Plant No. 1 to Plant No. 2 through interplant connections. A portion of the flow destined for Plant No. 2 can also be diverted to Plant No. 1. Another interplant facility allows gas generated during solids treatment to be transported between Plant No. 1 and Plant No. 2 and allows digester gas (which is used as fuel for many

of the facilities' engines) from one plant to be used at the other to balance the supply and demand, which results in efficient gas utilization.

Permits, Licenses and Other Regulations

The District is subject to laws, rules and permits issued by federal, state, regional and local regulatory bodies. The Wastewater System is subject to regulations imposed by the 1972 Clean Water Act, as amended (the "Clean Water Act"), the California Environmental Quality Act of 1970, as amended ("CEQA") and the federal Clean Air Act. Regulatory requirements to conform with these laws are primarily administered by the United States Environmental Protection Agency (the "EPA"), the California Air Resources Board, the Santa Ana Regional Water Quality Control Board ("RWQCB"), and the South Coast Air Quality Management District ("AQMD"). These agencies regulate the standards of quality of water or air that can be discharged or emitted from the treatment plants and their processes. The Clean Water Act directs the EPA to monitor and regulate the discharge of pollutants into the waters of the United States, including a requirement that all wastewater treatment plants provide primary and secondary treatment. In 1977 Congress amended the Clean Water Act to allow modification (so-called "waivers") of secondary treatment standards for certain ocean dischargers, if they could demonstrate to the satisfaction of the EPA that no adverse environmental impacts would occur. The District currently has all applicable permits and licenses necessary to operate its facilities.

Since the passage of the Clean Water Act the District has discharged treated wastewater into the Pacific Ocean under a permit issued by the EPA and the RWQCB. The discharge permit included a modification under the Section 301(h) provisions of the Clean Water Act, allowing for less than full secondary treatment based on an ocean discharge of sufficient depth, distance, and dilution. The permit was initially issued in 1985 and was the first modified Section 301(h) permit issued to a major wastewater treatment facility. The permit was re-issued on May 6, 1998 and expired on June 8, 2003.

On July 17, 2002, the Board of Directors adopted Resolution No. OCSD 02-14, "Establishing the Policy for Level of Treatment of Wastewater Discharged into the Ocean." This resolution established the District's policy to treat all wastewater discharges into the ocean to secondary treatment standards, thereby providing for continued public safety, marine ecosystem protection, and water reclamation opportunities. To implement this policy, the District's staff was directed to immediately proceed with the planning, design, and implementation of treatment methods that will allow the District to meet Clean Water Act secondary treatment standards with the expressed purposes of eliminating the need for the permit modification received under Section 301(h). The District completed these improvements ahead of schedule in December 2012 at a total capital improvement cost of \$537.8 million.

Following the determination by the Board of Directors in July 2002 to implement full secondary treatment standards, the District withdrew the waiver that applied at that time and prepared a National Pollutant Discharge Elimination System ("NPDES") Permit Application to meet secondary treatment standards. The District submitted its application to the EPA and the RWQCB in December 2002. The NPDES permit was approved by the EPA and became effective on October 31, 2004, with the EPA requiring that the District meet secondary treatment levels in accordance with a time schedule order.

The District renewed its permit in 2009 and 2012 and met the time schedule order in 2012. The District's current NPDES permit became effective on July 20, 2012, with a July 19, 2017 expiration date. Federal regulations require permittees to apply for a new application at least 180 days prior to the then-current permit expiration date. The District timely submitted a renewal application in December 2016. Currently, the District is operating under an administrative extension of its existing NPDES permit. On February 2, 2021, EPA and RWQCB issued a public notice to comment on the District's draft NPDES permit. The District has been in frequent contact with EPA and RWQCB regarding the permit renewal

process. Delays in the renewal were attributed to EPA's backlog of permit renewals and limited resources. RWQCB is scheduled to hold a public hearing on June 18, 2021 for permit adoption. The District expects its NPDES permit to be renewed in 2021. Prior to such renewal, the existing NPDES permit remains valid.

The District is also subject to the requirements of the Federal Clean Air Act, which mandates attainment with national ambient air quality standards for criteria pollutants (ozone, particulate matter, carbon monoxide, lead, nitrogen dioxide, and sulfur dioxide). Air pollutants cause adverse effects on human health and environment. The AQMD is the local air pollution control agency charged with implementing the Federal Clean Air Act. In addition to mandated criteria pollutants, the AQMD also implements numerous federal and State requirements related to the toxic air pollutants which can cause cancer or other severe localized health effects. For example, the State's Air Toxic Hot Spots Act requires facilities to conduct health risk assessments and notify the neighboring communities if the health risk exceeds the regulatory thresholds.

Pursuant to AQMD's requirements, the District must obtain permits before sewage treatment improvement projects can be constructed and operated. Such permits are project-specific and may contain conditions that govern design criteria, operating parameters, and emissions standards. Most of the District's treatment facilities are enclosed to capture and treat emissions to ensure regulatory emissions standards are met and to minimize odor impact to the neighboring communities. The District's treatment plants are also subject to the requirements of Title V of the Federal Clean Air Act amendments. The Title V permit is a single air quality permit for a facility that consolidates and replaces all of the air permits for individual pieces of equipment previously issued by the local air quality district. The permit contains all applicable local, state, and federal requirements, including periodic self-certification of compliance and mandatory self-reporting of permit deviation.

All Title V permit-related reporting and documents submitted to the AQMD must be signed by the highest official – in this case, the General Manager. The Title V program also demands facilities to organize and conduct extensive training of the staff involved, including the field operation and maintenance staff. Another Title V important feature is a possibility of the public active participation and intervention in the cases of potential emission limits and monitoring violations. The District Title V permits did not receive any negative public responses or comments during the required public review period. The District received initial Title V permits for the treatment plants in January 2009. Title V permits are issued for a five-year period. Title V permits for both plants were re-issued on April 16, 2014, and again in September 2020 (Plant No. 1) and October 2020 (Plant No. 2).

The District is currently operating under a Regular Variance issued by AQMD in January 2021. The Regular Variance applies to the Resource Recovery System No. 1 (Central Generation Internal Combustion Engine No. 1 at Plant 1) which is currently going through an extensive rebuild and maintenance overhaul after many years of operation. Due to the length, complexity and difficulties encountered with the overhaul, the annual ammonia slip testing deadline could not be met as the engine is currently in a non-operable condition and testing cannot be conducted unless the engine is operable. The District is in the process of finalizing a contract with a new firm to take over the overhaul and refurbishment process of the subject engine. The Regular Variance has a final compliance date of no later than April 28, 2022. There are no excess emissions associated with the granting of the Regular Variance. The District does not expect the overhaul of Resource Recovery System No. 1 (Central Generation Internal Combustion Engine No. 1 at Plant 1) or compliance with the Regular Variance to have a material adverse effect on its finances or operations.

District Planning

The Board of Directors has adopted a comprehensive strategic plan regarding the District's service levels and operational needs (the "Strategic Plan"). The Strategic Plan is updated annually to continue reviewing a five-year horizon (each, a "Five-Year Strategic Plan"). See "THE DISTRICT — Five-Year Strategic Planning." In December 2017, the Board of Directors adopted a Facilities Master Plan (the "Master Plan") for the District. The Master Plan also incorporates and implements the levels of services defined by the Board of Directors that are included in the Strategic Plan.

Capital Improvement Program

The Master Plan identified a phased 20-year program of capital improvement projects ("CIP") that will allow the District to maintain reliability and accommodate future growth, as well as meet future regulatory requirements, level of service goals, and strategic initiatives. With this phased 20-year program as a starting point, the Asset Management Program within the Planning Division continues assessing the condition of the District's existing assets and systems to ensure that they can provide the necessary level of service. The District expects to accomplish the following under the CIP over the next 20 years:

- Major rehabilitation or replacement of facilities and components used in all stages of the treatment process - preliminary, primary, secondary, and solids treatment, outfall pumping and discharge system, and central generation at both treatment plants;
- Implementation of the recommendations of the Biosolids Master Plan to address seismic risks, to produce higher quality biosolids and accept food waste;
- Relocation of the District headquarters complex;
- Upgrade of the Supervisory Control and Data Acquisition ("SCADA") system and network at Plant No. 2, replacement of the process control systems, uninterruptible power supply ("UPS") system, and electrical power distribution system at both treatment plants;
- Implementation of the recommendations of the Climate Resiliency Study and Seismic Evaluation Study to withstand or adapt to adverse conditions such as heavy rains, flooding, sea level rise, earthquakes, tsunamis, extreme heat, wildfires and electrical grid interruptions;
- Replacement or rehabilitation of plant-wide infrastructures, such as buried process piping, tunnels and junction structures;
- Replacement or rehabilitation of District's outlying pumping stations, including the abandonment and/or demolition of two pump stations;
- Rehabilitation of aging trunk sewers and manholes;
- Reduction of fence line odor to levels that minimize odor complaints; and
- Safety improvements at both treatment plants.

The CIP is reviewed, validated and updated annually to ensure that the project scopes of work and cost estimates are up-to-date. Through the budget validation process, each project's schedule, staff resources, total project costs, cash flow and risks are assessed to confirm the budgetary requirements. The

most recent CIP validation effort (the “2020 CIP Validation Study”) resulted in revisions to the CIP. The CIP currently consists of includes 70 active and future capital projects, five programs, such as the Planning Studies Program and Small Construction Program, and budget for capital equipment purchases with a total CIP budget authority of \$4.18 billion. Set forth in Table 5 below is a summary of total CIP outlays, net of savings and deferrals, over the fiscal years 2020-21 through 2029-30. Of this ten-year, \$2.7 billion portion of the CIP program, \$165 million of CIP outlays is budgeted in Fiscal Year 2020-21. Also budgeted in a separate contra line item are anticipated offsetting CIP savings and deferrals of \$17 million, thereby reducing the net budgeted outlays to \$148 million for Fiscal Year 2020-21.

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Table 5
Net Capital Improvement Program Outlays
Fiscal Years 2020-21 through 2029-30

<u>Project</u>	<u>Cost</u>
Rehabilitation and Replacement	\$2,093,639,817
Additional Capacity	110,951,560
Regulatory	17,569,354
Strategic Initiatives	478,847,269
Future Rehabilitation and Replacement	346,009,000
CIP Savings and Deferrals	<u>(301,001,000)</u>
Total Validated Capital Improvement Program	<u>\$2,746,016,000</u>

Source: 2020 CIP Validation Study, Orange County Sanitation District.

Groundwater Replenishment System

The District has taken a multi-jurisdictional approach to planning for capital facilities because many of the methods for reducing or managing flows involve other jurisdictions. One such project is the Groundwater Replenishment System (the “GWRS”). In March 2001, the District entered into an agreement with the OCWD to design and construct the GWRS. The capital cost of this Phase was shared equally (50% shares) by each agency. The GWRS is a joint effort by the two agencies to provide reclaimed water for replenishment of the Orange County Groundwater Basin and to augment the seawater intrusion barrier. The GWRS became operational in January of 2008 producing 70 mgd of highly purified water. The Initial Expansion of the GWRS broke ground in January 2012 to add approximately 30 mgd of production capacity and was completed in June 2015, resulting in purifying 100% of the treated wastewater from the District’s Fountain Valley-based Plant No. 1. The Initial Expansion of the GWRS was funded solely by the OCWD. In 2016, the District and the OCWD completed a \$2 million joint study to explore the Final Expansion of the GWRS which would increase GWRS capacity by an additional 30 MGD. The study identified an implementation plan to convey secondary effluent from the District’s Plant No. 2 in Huntington Beach using new and existing infrastructure to support the GWRS Final Expansion. The GWRS Final Expansion will be funded solely by the OCWD. The District currently has two active projects supporting the GWRS Final Expansion. The costs of these projects will be reimbursed by the OCWD. The Final Expansion of the GWRS is expected to be online in 2023.

Biosolids Management

Through the treatment of wastewater, the District recovers and treats nutrient-rich, organic matter (solids) to produce biosolids. Consistent with the regulations of the U.S. Environmental Protection Agency (“EPA”) and the regulations in place at the end-use sites, the District’s biosolids are recycled through composting, fertilizing non-food farm fields (land application), and disposed in a landfill for methane gas recovery. The District’s goal is to ensure our biosolids management strategies align with existing market conditions and continue a sustainable, reliable and economical biosolids management program that provides environmentally-sound practices and meets federal, State and local regulatory requirements.

The District’s biosolids averaged about 550 tons per day (“tpd”) in Fiscal Year 2019-20, with a total expenditure of 92% of the \$13.2 million budgeted, at an annual average cost per ton of \$58.32 for hauling and management at offsite locations, as described in the following table. Such costs had increased during Fiscal Year 2017-18, but stabilized as new solids centrifuge facilities were fully commissioned and reduced biosolids hauling and management costs. In addition, the Irvine Ranch Water District (the

“IRWD”) is commissioning solids processing facilities that have reduced District biosolids production as those IRWD facilities have become incrementally operational. Previously, the IRWD was estimated to account for 5-10% of biosolids produced at Plant No. 1. The District estimates IRWD will account for 5% for each of fiscal year 2021-22 and fiscal year 2022-23. The IRWD facilities are expected to be fully operational in 2021. The District may experience another drop in biosolids production when the IRWD facilities become fully operational, though impacts will not be known precisely until the IRWD facilities become fully operational.

Biosolids Management Contracts

<u>Contractor</u>	<u>Location(s)</u>	<u>Product</u>	<u>Contract Term</u>	<u>Current tons per day managed (approximate)</u>	<u>Estimated cost per ton with fuel (March 2021)</u>
Synagro Nursery Products	San Bernardino County, CA, and Kern County, CA	Compost	Expires 12/26/21; five (5) one-year renewal options remaining	210 tpd ⁽¹⁾	\$58.03
Liberty Compost	Kern County, CA	Compost	Expires 12/15/21; four (4) one-year renewal options remaining	100 tpd	\$58.56
Inland Empire Regional Composting Facility (hauled by Denali Water Solutions)	Rancho Cucamonga, CA	Compost	Expires 6/30/24; two (2) one-year renewal options remaining	30 tpd	\$75.31
Tule Ranch, AgTech	Yuma County, AZ	Land application	Expires 10/31/22; with no renewal options remaining	210 tpd	\$60.11

⁽¹⁾ Of this amount, on average, about 140 tpd is diverted to San Bernardino County and about 70 tpd is diverted to Kern County.

The District’s contractors provide back-up biosolids management capacity in California and Arizona that includes compost, land application, lime stabilization before land application, and landfill. Together, these options have the additional available capacity to manage more than ten times the District’s daily biosolids production to ensure sustainable, consistent and reliable operations. The District’s biosolids management contracts do not guarantee biosolids tonnage and are typically interim-term contracts with five (5) one-year renewal options, for a maximum contract term of 10 years.

In May 2017, the District completed its Biosolids Master Plan that included an evaluation of existing solids handling facilities, assessment of solids treatment alternatives, recommendations for future capital facilities’ improvements, identification of alternatives biosolids products that meet sustainable and beneficial reuse markets, and plans for a high-strength organic (food waste slurry) co-digestion facility. The Biosolids Master Plan will serve as the District’s solids roadmap through construction of new Plant No. 2 facilities over the next 15 years.

The 2019 Strategic Plan recognized several regulatory processes with potential impacts to the biosolids program including increased opportunities to manage biosolids in California, food waste management, and the potential for future regulations of constituents of emerging concern (i.e., substances that may prompt future regulations to address associated health, environmental or other concerns) limiting biosolids recycling. The District is investigating a demonstration project to thermally treat biosolids and thereby remove constituents of emerging concern in case of future regulatory requirements.

Urban Runoff

Recognizing that County beaches were being affected by pollution carried by urban runoff, the Board of Directors adopted a number of resolutions agreeing to accept dry weather urban runoff into the sewer system. In June 2002, Assembly Bill 1892 amended the District's charter to formally allow the diversion and management of dry weather urban runoff flows. Resolution No. 01-07, adopted March 28, 2001, declared that the District will initially waive fees and charges associated with authorized discharges of dry weather urban runoff to the sewer system until the total volume of all runoff discharges exceeds four million gallons per day ("mg/d") calculated on a monthly average. For the first 12 years of the Urban Runoff Program, the average monthly flow averages remained less than the four mg/d threshold, thus avoiding user fee costs being assessed to the diversion permittees. In 2012, the District received a number of diversion proposals to deal with bacteria and selenium loading to the upper Newport Bay. The discharge from the additional proposed diversions combined with the existing diversion flows would eventually exceed the four mg/d fee threshold. On June 12, 2013, the Board of Directors adopted Resolution No. 13-09 expanding the waiver of fees or charges on the treatment of dry weather urban runoff from four mg/d to ten mg/d. According to the Board of Directors, the change was necessary not only to protect the County's coastal resources, but also to provide an economic benefit to the local economy by helping to keep the County's beaches open.

The Dry Weather Urban Runoff Program is administered by the District's Resource Protection Division, which issues a discharge permit for each of the diversion structures. The permit functions as a control mechanism that specifically prohibits storm runoff and authorizes discharge only during periods of dry weather. The permit also establishes specific discharge limits, constituent monitoring, and flow metering requirements. The District conducts quarterly sampling and analysis of the urban runoff discharges to ensure discharge limit compliance with the various regulated constituents.

There are currently 21 active urban runoff diversion structures; three owned and operated by the County of Orange, 11 owned and operated by the City of Huntington Beach, three owned and operated by the City of Newport Beach, three owned and operated by the IRWD, and one owned and operated by PH Finance (present owner of the Pelican Point Resort). The Mid Big Canyon Diversion in the City of Newport Beach became the most recent addition to the urban runoff program with its completion in 2017. To control bacteria loading to the Lower Newport Bay, the City of Newport Beach is currently in the design stage on a fourth diversion in an area known as the Arches. The City of Santa Ana constructed the Delhi Channel Diversion, but an agreement and permit regarding receipt of the discharge of urban runoff from that location remains under discussion with the County of Orange. Built to control bacteria and selenium loading to the Upper Newport Bay, this diversion is projected to contribute an additional 2.0 mg/d of urban runoff. The District continues to work with the Orange County Public Works Department to prioritize existing and proposed diversion projects to ensure that the District's limited capacity is effectively utilized to improve coastal water quality.

Integrated Emergency Response Program

In recognition of the potential damage which could occur in the event of a major earthquake, flood, or other disaster, the District implemented an Integrated Emergency Response Program (the

“IERP”) in 1979. The IERP contains policies, plans and procedures preparing for, and responding to, emergencies. The District also analyzed disaster preparedness issues and policies within the Master Plan, and within a 1994 report titled Fault Rupture Hazard Investigation – Wastewater Treatment Plant No. 2 (the “1994 Report”).

In 2020, the District updated the IERP to align with standards set by the Federal Emergency Management Agency’s National Incident Management System (NIMS). The IERP is organized into Functional and Situational Annexes which guide the District’s response to man-made and natural disasters. Functional Annexes align with the Federal Emergency Management Agency Emergency Support Functions (ESFs). Functional Annexes include logistics, communications, operations, maintenance, engineering, emergency management, cybersecurity, recovery, environmental, health and medical services, hazardous materials response, security, and public affairs. These are discipline-specific groups that develop Functional Annexes to describe goals, objectives, operational concepts, capabilities, organizational structures and replaced policies and procedures. Situational Annexes are developed for each of the hazard responses that are likely or could possibly occur at the District. Situational Annexes include earthquake, power outage, pandemic event, fire, tsunami, atmospheric hazard, hazardous materials spill or release, man-made physical disruption, man-made technological disruption, flood, landslide, coastal erosion, extreme weather, severe storm, high winds, severe thunderstorm, and drought. These Annexes stipulate certain actions to be taken by individuals at the time of the incident.

The disaster preparedness plan included in the Master Plan reviewed two possible major earthquake scenarios: an 8.3 Richter magnitude (“M”) earthquake on the southern San Andreas fault system and an M 7.0 earthquake on the Newport-Inglewood fault zone, which includes Plant No. 2. An M 8.3 earthquake on the southern San Andreas fault, while on the whole more destructive than the M 7.0 Newport-Inglewood fault, may result in less damage to the District’s service area due to the distance of the fault from most of the service area. However, the Master Plan stated that damage from such a major earthquake on the San Andreas fault would be extensive. Also, the Master Plan indicated that an M 7.0 earthquake on the Newport-Inglewood fault within five miles of the District’s sewerage facilities could cause major destruction to those facilities. The disaster preparedness plan in the Master Plan indicated that it would not be economically feasible to upgrade all of the existing sanitary sewerage facilities to survive an earthquake of this magnitude along the Newport-Inglewood fault.

The Master Plan analyzed the vulnerability of the sanitary sewerage facilities and operations of the District and planned a risk reduction program wherein the vulnerability of many of the District’s sanitary sewerage facilities to an earthquake could be reduced by recommended retrofit construction measures. The Master Plan also recommended that designs of existing major structures which were constructed prior to development of current seismic design standards be reviewed and the structures strengthened, if necessary.

Since the Master Plan and the 1994 Report, the District has completed retrofitting where deemed appropriate. Pursuant to the Master Plan, all recent and future projects have been, and will be, designed to the same high earthquake code standards as set for other essential services, such as hospitals and fire stations. Many of the older buildings analyzed in the Master Plan have been replaced by structures built after 1989.

The Army Corps of Engineers’ “All-River Plan” has mitigated any future flooding of the Santa Ana River system and potential threats to the District’s Wastewater System. Also, both Plant No. 1 and Plant No. 2 are built to federal standards.

The IERP addresses vulnerabilities from natural and man-made hazards including but not limited to floods, high flow events, tsunamis (large ocean waves generated by seismic activity), earthquakes, and

hazardous material releases. No assurance can be given that any such events would not have a material adverse impact on the Wastewater System.

The District's High Flow Emergency Response Plan is included as an Annex in the IERP. This plan is based on a color code system from blue to yellow to orange to red and then purple that identifies specific actions to be taken by staff in response to expected and actual increasing flow coming into the District's treatment plants and collection sewers. The District believes that wastewater collection, treatment and disposal systems typically undertaken in anticipation of normal wet weather should be able to withstand, for example, an "expected/average" El Nino event without significant disruption. While no assurances can be given, the District believes that the likelihood of a system failure is low due to the operational readiness of all of its equipment and the District's high level of equipment redundancy.

The Strategic Plan and IERP makes recommendations regarding fire protection of the Wastewater System. Most of the structures at Plant No. 1 and Plant No. 2 are constructed of fire-resistant materials. The IERP describes the procedures needed to respond to a possible disaster. For more information regarding emergency response policies, the disaster preparedness plan described in the IERP can be reviewed at the District's offices.

Five-Year Strategic Planning

The District maintains a Strategic Plan to address service levels and operational needs over a five-year horizon. The Strategic Plan envisions an organizational culture that adheres to the District's core values and makes efficient and effective use of all available resources. The District is committed to focusing efforts on customer service, protecting public health and the environment, fiscal responsibility, communications, partnering with others, and creating the best possible workforce.

The Strategic Plan is broken down into four broad categories with fourteen topic areas that define District responsibilities and services.

These areas are:

- **Business Principles**
 - Budget Control and Fiscal Discipline - prudently manage the public funds that the District collects
 - Asset Management - assess and manage the collection system and treatment plant systems and assets to improve resilience and reliability while lowering lifecycle costs
 - Cybersecurity - maintain adequate cybersecurity techniques that protect computer assets, networks, programs, data, and industrial control equipment from unauthorized access or attacks
 - Property Management - identify and protect all District property rights to assure that assets are not encumbered or encroached upon so that the facilities may be properly operated, maintained, upgraded, and replaced
- **Environmental Stewardship**
 - Energy Independence - strive to be a net energy exporter; maximize electrical, thermal, and methane gas generation; minimize energy utilization using sound engineering and financial principles

- Climate and Catastrophic Event Resiliency - design, maintain and operate valuable wastewater assets that withstand or adapt to adverse conditions in a reasonable manner that is both cost-effective and sustainable for present and future generations
- Food Waste Treatment - collaborate with local agencies and waste haulers to find ways to beneficially reuse food waste to assist cities in our service area in meeting their diversion requirements while increasing the District's energy production
- Water Reuse - seek to beneficially reuse all reclaimable water for potable, industrial, irrigation and environmental uses
- Environmental Water Quality, Stormwater Management and Urban Runoff - partner with storm water permittees to accept up to 10 million gallons per day of dry weather urban runoff at no charge in order to improve water quality in streams, rivers and beaches as long as the constituents within the flow do not adversely impact the District's worker safety, treatment processes, reuse initiatives, or permit compliance
- Wastewater Management
 - Chemical Sustainability - identify chemicals key to District operation, investigate the market risks for those chemicals and devise strategies to mitigate identified risks to availability and pricing
 - Biosolids Management - remain committed to a sustainable biosolids program and beneficially reuse biosolids
 - Constituents of Emerging Concern - partner with other agencies, associations, and institutions to support the use of sound science to inform policy and regulatory decisions on constituents of emerging concern at the federal, state, and regional levels
- Workplace Environment
 - Resilient Staffing - attract and retain high-quality talent to support its mission and continue to be an industry leader
 - Safety and Physical Security - ensure the safety and security of employees, contractors and visitors through standard practices, policies, and procedures that support a safe and secure environment, provide an appropriate level of security and safeguard the District's property and physical assets

Climate Issues

Numerous scientific studies on climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures, including droughts, will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution. Sea levels will continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Coastal and low-lying areas like portions of the District's service area and facility locations are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. Certain of these coastal areas are also at elevated risk to damage from tsunamis.

The District commissioned a study titled Climate Resiliency Study in 2018 to provide a comprehensive analysis of climate-related, site-specific risk assessments of the District's facilities using available climate predictions, industry standards, and geographical information systems. A purpose of the study was to help improve the resiliency of District facilities and incorporate adaptation strategies in the design and construction of future projects.

District policy aims to design, maintain, and operate wastewater assets that withstand or adapt to adverse conditions in a reasonable manner that is both cost-effective and sustainable for present and future generations. These adverse conditions include heavy rains, flooding, sea level rise, earthquakes, tsunamis, extreme heat and wildfires.

The vulnerability assessment identified Plant No. 2 and a few pump stations located along the coast and by flood channels to be vulnerable to tsunami and flooding due to sea-level rise. At Plant No. 2, the recommendation is to install a flood wall along Brookhurst Street and the Talbert Marsh to protect the plant against a 100-year flood (with sea-level rise projected to 2070) as well as a tsunami up to 10 feet. As for the pump stations, the recommendation is to employ building-level adaptations such as stop logs over doors and watertight hatches to protect vulnerable equipment inside the pump stations. These recommended improvements are underway, with implementation planned in phases over time. The budget for the implementation of these recommendations have been incorporated into the District's 20-year Capital Improvement Program.

While the District's efforts aim to improve the resiliency of its facilities, natural disasters and other natural forces are not entirely predictable and may, nonetheless, result in material damage to District facilities with material costs to repair.

Climate change and natural forces may damage other property in the District's service area or impose new or larger economic costs, leading to negative impacts on the local economy. As a result, the District may experience negative impacts on service revenues and ad valorem tax revenues or increased District costs that could have a material adverse effect on the business operations or financial condition of the District.

Additionally, climate change and other environmental concerns have led, and may continue to lead, to new laws and regulations at the federal and state levels (including but not limited to air, water, hazardous substances and waste regulations) that could have a material adverse effect on the operations and financial condition of the District.

DISTRICT REVENUES

Sewer Service Charges

General. The District has the power to establish fees and charges for services of the Wastewater System. Such fees and charges are established by the District's Board of Directors and are not subject to review or approval by any other agencies. In Fiscal Year 1997-98, a Rate Advisory Committee (the "RAC") was established comprised of representatives from industrial, commercial and residential users. The goal of the RAC was to examine the then-current rate structure and, if needed, develop recommendations for change. The RAC analyzed the District's rate structure to determine whether its then current sewer service user fees (now known as "Sewer Service Charges") were equitable among residential and industrial customers. This review resulted in a proposal to expand the number of non-residential user categories from one to 23 and to provide for gradual rate increases in seven of the nine Revenue Areas. The Sewer Service Charges for those categories were based on the average flow and strength of wastewater discharged for each property type and remain currently in use.

The Board of Directors establishes the annual sanitary sewer service charges by ordinance. The sanitary sewer service charge ordinances are adopted by a two-thirds vote of the Board of Directors as required under law after conducting a noticed public hearing in compliance with Proposition 218. See “LIMITATIONS ON TAXES AND REVENUES – Article XIIC and Article XIID of the California Constitution.”

The District collects Sewer Service Charges from property owners through the semi-annual property tax bill distributed by the County throughout the District, except in Revenue Area No. 14. Pursuant to the IRWD Agreement, the District receives quarterly fee payments from the IRWD which directly collects fees from customers through a monthly billing procedure in Revenue Area No. 14.

The District currently participates in the County’s Teeter Plan under which the District receives annually 100% of the secured property tax levies to which it otherwise is entitled, regardless of whether the County has actually collected the levies.

The District has covenanted in the Master Agreement to fix, prescribe and collect fees and charges to satisfy certain coverage requirements as further described under “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS – Rate Covenant” herein.

Residential and Commercial Sewer Service Charges. In December 2017, the Board of Directors authorized a Proposition 218 notice on proposed rate increases for each year over the next five years. Pursuant to the adoption of Ordinance No. OCSD-49 on March 28, 2018, the District established residential Sewer Service Charges, except within Revenue Area No. 14, based on the cost of services and facilities provided to each customer of the District. The noticed public hearing held in connection with the adoption of this ordinance considered an increase in the single family residential rate, the underlying rate for all of the District’s sewer service charges, of 1.2% for Fiscal Year 2018-19 through Fiscal Year 2022-23. These increases were approved by the Board through the adoption of Ordinance No. OCSD-49. The District deferred the approved 1.2% rate increase for fiscal year 2020-21 as a COVID-19 relief measure but expects to implement the 1.2% increases scheduled in each of fiscal years 2021-22 and 2022-23 as approved. Set forth in Table 6 below is a comparison of the past and projected Sewer Service Charge rate for single family residences (“SFRs”) for the fiscal years shown.

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Table 6
Annual Sewer Service Charges
Single Family Residence Rate
Fiscal Years 2013-14 through 2022-23

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>	<u>Percentage Change</u>
2013-14	\$308	-
2014-15	316	2.6
2015-16	322	1.9
2016-17	327	1.6
2017-18	331	1.2
2018-19	335	1.2
2019-20	339	1.2
2020-21	339	0
2021-22	343	1.2
2022-23	347	1.2

Source: Orange County Sanitation District.

The District expects to conduct a rate study in the first calendar quarter of 2022 for the fiscal years beginning on and after July 1, 2023.

Set forth in Table 7 below are the total average annual Sewer Service Charges for SFRs within the District, together with comparable total average annual charges for wastewater service within the jurisdictions of certain other cities and districts within the State as of July 1, 2020.

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Table 7
Comparison of Total Sewer Service Charges
For Single-Family Residences
As of July 1, 2020

<u>Entity</u>	<u>Average Dry Weather Flow (mg/d)⁽³⁾</u>	<u>Annual Sewer Service Charge⁽¹⁾</u>	<u>Treatment Level⁽²⁾⁽³⁾</u>	<u>Collection Responsibility⁽³⁾</u>	<u>Property Tax Income⁽³⁾</u>
City of Los Angeles	332	\$636	4	Yes	No
City of San Diego	140	573	4	Yes	No
Sacramento	99	444	4	No	Yes
East Bay MUD	53	439	4	No	Yes
Orange County Sanitation District ⁽⁴⁾	182	339	3	Yes	Yes
Los Angeles County	N/A	213	4	No	Yes

(1) Source: Information obtained from respective entities listed.

(2) Treatment Level Categories:

“1” – Primary treatment.

“2” – Advanced primary or primary with some secondary treatment.

“3” – Secondary treatment.

“4” – Advanced secondary or secondary with some tertiary treatment.

“5” – Tertiary treatment.

(3) Source: Wastewater User Charge Survey Report by the California State Water Resources Control Board.

(4) The District’s Annual Sewer Service Charge for Fiscal Year 2020-21 is \$339.

The District’s SFR rate of \$339 for Fiscal Year 2020-21 remains below the average annual sewer rate of about \$574 according to a calendar year 2018 survey (the latest available) of 547 agencies encompassing all 58 counties in California conducted by the State Water Resources Control Board.

Industrial Sewer Service Charges. The District charges industrial Sewer Service Charges to customers discharging high-strength or high-volume wastes into the sewer systems. Customers subject to industrial Sewer Service Charges are billed directly by the District. The fee charged to each customer is based on the customer’s sewage volume, the concentration of suspended solids and biochemical oxygen demand. Total industrial Sewer Service Charges in Fiscal Year 2019-20 were approximately \$12.8 million. Industrial Sewer Service Charges are applied to both operating and capital funds. The Sewer Service Charge increases described above are necessary to meet the District’s cash flow needs arising from the addition of disinfection treatment and other operating requirements.

Additional Revenues

The District has several sources of additional revenue, including property taxes, Capital Facilities Capacity Charges, capacity rights, permit and inspection fees and interest earnings.

Property Taxes. The District receives approximately 2.5% of the one percent County ad valorem property tax levy, based on the allocation procedure under State law. Property tax revenues were \$88.4 million in Fiscal Year 2015-16, \$88.3 million in Fiscal Year 2016-17, \$94.2 million in Fiscal Year 2017-18, \$99.5 million in Fiscal Year 2018-19 and \$104.5 million in Fiscal Year 2019-20. The District currently estimates that its property tax receipts will increase by approximately 2.0% each year through Fiscal Year 2023-24. The apportionment of the ad valorem tax is pursuant to the Revenue Program adopted in April 1979 to comply with regulations of the Environmental Protection Agency, the State Water Resources Control Board and Board of Directors’ policy.

Capital Facilities Capacity Charges. Capital Facilities Capacity Charges (commonly referred to as connection fees) are one-time fees with two components, paid at the time property is developed and connected to the Wastewater System. The fees are imposed by the District pursuant to Section 5471 of the California Health and Safety Code and are levied to pay a portion of the District's capital costs and for access to capacity in the Wastewater System. The District currently has Capital Facilities Capacity Charges of \$4,973 per residential unit (three-bedroom); however, under the current industrial use ordinance, additional Capital Facilities Capacity Charges can be imposed on industrial users who place larger than average demand on the Wastewater System. Member cities and sanitary districts collect Capital Facilities Capacity Charges for the District when building permits are issued. Capital Facilities Capacity Charges are reviewed annually to reflect the changes in the value of the Wastewater System to which a new customer is connecting.

On December 15, 1999, the Board of Directors approved District Ordinance No. OCS D 11 (the "1999 Ordinance") which established a comprehensive Capital Facilities Capacity Charge. The 1999 Ordinance, effective as of January 1, 2000, renamed connection fees as Capital Facilities Capacity Charges and provided a more equitable schedule of fees among industrial, commercial and residential users. Pursuant to the 1999 Ordinance, Capital Facilities Capacity Charges were revised for high demand industrial users in five incremental increases from 1999 through 2001. For a summary of historical and projected revenues derived from Capital Facilities Capacity Charges, see Table 14 and Table 15 below.

Pursuant to an agreement with the IRWD, the IRWD is not required to pay Capital Facilities Capacity Charges and, in exchange, the IRWD provides funding to the District for the construction costs of certain wastewater collection, transmission, treatment and disposal facilities to be used by the IRWD and is obligated to make certain payments to the District for certain services arising from the Wastewater System (including any standby or availability charges).

Sale of Capacity. The District has entered into agreements with the Santa Ana Watershed Project Authority ("SAWPA") whereby wastewater from Upper Santa Ana River Basin dischargers can be transported through the District's Santa Ana River Interceptor to the District's wastewater treatment facilities. This program was developed in the early 1970s. The agreements establish control mechanisms regarding the quality of wastes deposited into the Wastewater System. At the present time, SAWPA has purchased and paid for 30 mg/d of maximum regulated flow capacity rights in the District's Santa Ana River Interceptor and 17 mg/d of monthly average flow capacity in the District's wastewater treatment plants. Projected revenues from SAWPA range from \$2.6 million to \$3.0 million over the next five years. Additional treatment plant capacity can be purchased in increments at the District's current replacement cost.

Federal Subsidy Payments. In connection with the District's Revenue Obligations, Series 2010A (the "2010A Revenue Obligations") and the District's Revenue Obligations, Series 2010C (the "2010C Revenue Obligations"), issued as "Build America Bonds," the District was scheduled to receive certain federal subsidy payments of approximately \$5.1 million annually through 2031 and lesser amounts thereafter until 2044. Subsidy payments with respect to the 2010A Revenue Obligations and the 2010C Revenue Obligations constitute Revenues as defined in the Master Agreement. In its financial reports, the District accounts for subsidy payments received in connection with the 2010A Revenue Obligations and the 2010C Revenue Obligations as a reduction in interest expense with respect to such obligations.

For the 2010A Revenue Obligations and the 2010C Revenue Obligations to be and remain Build America Bonds, the District must comply with certain covenants and establish certain facts and expectations with respect to the 2010A Revenue Obligations and the 2010C Revenue Obligations, the use and investment of proceeds thereof and the use of property financed thereby. Thus, it is possible that the District may not receive the federal subsidy payments due to the District's noncompliance. The federal

subsidy payments are also subject to offset against amounts that may, for unrelated reasons, be owed by the District to any agency of the United States of America.

On March 1, 2013, the federal government announced the implementation of certain automatic spending cuts known as the sequester (the “Sequester”). As a result of the Sequester, aggregate federal subsidy payments for the 2010A Revenue Obligations and the 2010C Revenue Obligations were reduced by amounts ranging from \$220,679 to \$376,498 in each federal fiscal year ended September 30, 2013 through 2020, with annualized reduction rates ranging from 5.9% to 8.7%. The federal government has announced that the federal subsidy payments for the federal fiscal year ended September 30, 2021 through September 30, 2030 will be 5.7%.

The District is obligated to make all payments with respect to the 2010A Revenue Obligations and the 2010C Revenue Obligations from Revenues as defined in the Master Agreement, regardless of whether it receives the full amount of federal subsidy payments. The District cannot predict whether future reductions in federal subsidy payments will occur due to the Sequester. However, the District does not believe that any reduction in federal subsidy payments will have a material adverse effect on the District’s ability to pay the 2010A Revenue Obligations or the 2010C Revenue Obligations.

Wastewater Treatment History

The wastewater flows for Fiscal Year 2015-16 through Fiscal Year 2019-20 were 183 mg/d, 188 mg/d, 185 mg/d, 191 mg/d and 188 mg/d, respectively. The highest flow rate experienced was in January 2017 where peak flow of 586 mg/d was recorded. There were no sewer failures or overflows during these events. See “THE DISTRICT – Integrated Emergency Response Program.”

Customers

The historical number of customers served by the District for the Fiscal Years 2015-16 through Fiscal Year 2019-20 and the projected number of customers served by the District for the Fiscal Years 2020-21 through 2024-25, identified in equivalent dwelling units (“EDUs”), are set forth in Table 8 below. As discussed below, sewer service charges are based on the expected amount of wastewater flow for a single family dwelling.

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**Table 8
Historical and Projected Equivalent Dwelling Units
Fiscal Years 2015-16 through 2024-25**

<u>Fiscal Year</u>	<u>Historical EDUs⁽¹⁾</u>	<u>Fiscal Year</u>	<u>Projected EDUs</u>
2015-16	924,944	2020-21	923,730
2016-17	932,232	2021-22	926,501
2017-18	930,174	2022-23	929,281
2018-19	918,640	2023-24	932,069
2019-20	918,608	2024-25	932,069

Source: Orange County Sanitation District.

⁽¹⁾ Presentation in the Statistical Section of the District’s Comprehensive Annual Financial Report set forth in Appendix A includes EDUs that equate to total Sewer Service Charge collections rather than levies.

Set forth in Table 9 below are the number of residential and commercial customers and industrial customers and the approximate percentages of Sewer Service Charge revenues derived from the combined residential and commercial use and industrial use for the last five fiscal years.

**Table 9
Number of Accounts and Revenues by Customer Class
for the Fiscal Years 2015-16 through 2019-20
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Residential/Commercial</u>			<u>Industrial</u>		
	<u>Number of Equivalent Single-Family Dwellings</u>	<u>Total Revenue</u>	<u>Percentage of Sewer Service Charge Revenues</u>	<u>Number of Customer Accounts</u>	<u>Total Revenue</u>	<u>Percentage of Sewer Service Charge Revenues</u>
2015-16	863,317	\$278.0	96%	450	\$12.6	4%
2016-17	859,869	281.2	95	466	13.8	5
2017-18	871,338	288.4	94	473	17.9	6
2018-19	871,312	291.9	97	476	9.4	3
2019-20	904,886	306.8	96	473	12.8	4

Source: Orange County Sanitation District.

The EDUs set forth in Table 9 relate to total Sewer Service Charge collections while the EDUs set forth in Table 8 relate to total Sewer Service Charge Levies.

Set forth in Table 10 below are the ten largest principal sewer service customers of the District for the Fiscal Year ended June 30, 2020.

Table 10
Largest Principal Sewer Service Customers of the District
for the Fiscal Year Ended June 30, 2020

<u>User</u>	<u>Sewer Service Charges</u>
House Foods America Corp. (West)	\$1,595,677
Stremicks Heritage Foods, LLC	782,334
Pulmuone Wildwood, Inc.	778,107
Newport Fab, LLC (TowerJazz Semiconductor)	589,702
House Foods America Corp. (East)	415,677
MCP Foods, Inc.	408,862
Nor-Cal Beverage Co. Inc. (Main)	396,810
California State University-Fullerton	332,746
Patriot Wastewater, LLC (Freedom CWT)	313,793
Van Law Food Products, Inc.	306,275

Source: Orange County Sanitation District.

Assessed Valuation

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Due to changes in assessment required under State Constitution Article XIII A, the County assessment roll no longer purports to be proportional to market value. See “LIMITATIONS ON TAXES AND REVENUES” herein. Generally, property can be reappraised upward to market value only upon a change in ownership or completion of new construction. The assessed value of property that has not incurred a change of ownership or new construction must be adjusted annually to reflect inflation at a rate not to exceed 2% per year based on the State consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, the assessed value must be reduced temporarily to reflect market value. For the definition of full cash value and more information on property tax limitations and adjustments, see “LIMITATIONS ON TAXES AND REVENUES” herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property.

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Set forth in Table 11 below is a five-year history of assessed valuations in the District for the fiscal years shown.

Table 11
Assessed Valuations of Property in the District
Fiscal Years 2016-17 through 2020-21
(\$ in Billions)

<u>Fiscal Year</u>	<u>Value</u>	<u>Percent Change</u>
2016-17	\$391.8	5.26%
2017-18	416.3	6.26
2018-19	443.1	6.44
2019-20	468.7	5.77
2020-21	494.2	5.45

Source: County of Orange Auditor-Controller.

Tax Levies and Delinquencies

Property taxes are based on assessed valuation which is determined as described under “DISTRICT REVENUES – Assessed Valuation” herein. In accordance with the California Revenue and Taxation Code, the County tax collector collects secured tax levies for each Fiscal Year. Property taxes on the secured roll are due in two installments, on November 1 and February 1. The District currently participates in the County’s Teeter Plan under which the District receives annually 100% of the secured property tax levies and Sewer Service Charges to which it otherwise is entitled, regardless of whether the County has actually collected the levies. This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the District’s general fund receives the full amount of secured property taxes levied each year on its behalf and, for so long as such plan remains in effect, the participating entities, such as the District, no longer experience delinquent taxes. The County’s general fund is the designated recipient of future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

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Set forth in Table 12 below is a five-year history of the District’s *ad valorem* total property tax and Sewer Service Charge levies.

Table 12
Total Property Tax and Sewer Service Charge Levies
in the District for Fiscal Years 2015-16 through 2019-20
(In Thousands)

<u>Fiscal Year</u>	<u>Total Property Tax and Sewer Service Charge Levy</u>
2015-16	\$371,502
2016-17	381,226
2017-18	386,538
2018-19	394,641
2019-20	401,604

Source: County of Orange Auditor-Controller.

Budgetary Process

The District’s operating fund budget relies on revenues from Sewer Service Charges and property taxes, both of which are collected on the property tax bill, as previously described under the captions “— Sewer Service Charges” and “— Additional Revenues.” The District receives tax revenues from the County in eight allocations, with the largest receipts in December and April. The District operates on a Fiscal Year beginning each July 1. The operating fund budgets include funds to cover the dry period of each tax year, i.e., the period from the beginning of the Fiscal Year until the first taxes are received. The dry-period requirement is budgeted at one-half of the annual operating fund budgeted expenditures. The District uses the accrual method of accounting in its budgets. The District has conformed to its budgets for the last five fiscal years and is conforming to its budget for the current fiscal year.

The District’s annual budget preparation process begins in January of each year and concludes in June upon its adoption. The General Manager reviews the final operating budgets and then distributes them to the Directors and District Committees for consideration. The Board of Directors then adopts the proposed annual budgets, with any revisions, in June of each year.

Budgetary control is exercised at the individual Department level and administrative policies provide guidelines on budget transfers and the authorization necessary to implement transfers. A budget adjustment is a transfer which does not change the total appropriated amount and does not require Board of Directors action. Approval may be granted by the General Manager or the Department Head in certain circumstances. Department Heads have the discretion to reappropriation funds between certain line items within a division but may not exceed total appropriated amounts for each department. They may also transfer staff across divisional lines. The General Manager and Board of Directors must approve additional capital outlay items.

A budget amendment is an adjustment to the total appropriated amount which was not included in the original budget. These supplemental appropriations require formal action by the Board of Directors. Prior year reserves or fund balances may be appropriated to fund items not previously included in the adopted budget. Reserves or fund balances exceeding minimum amounts required by fiscal policies may be appropriated if it is determined to be in the best interest of the District. Directors may also appropriate reserves in case of emergencies or unusual circumstances.

Reserves

The District has an established reserve policy with seven distinct reserve criterion which together comprise the District’s reserve fund target. Collectively, these individual criterion requirements average \$520 million a year over the current ten-year cash flow forecast to support the operation and maintenance of the District’s \$10.8 billion in assets.

Set forth in Table 13 below are the actual reserves at June 30, 2017, June 30, 2018, June 30, 2019 and June 30, 2020 for each fund.

Table 13
Cash and Investment Reserves
June 30, 2017 through 2020
(In Millions)

	2017	2018	2019	2020
	(June 30)	(June 30)	(June 30)	(June 30)
Cash Flow Requirements Reserve:				
Operating Expenses	\$ 73	\$ 76	\$ 81	\$ 84
Certificates of Participation Payments	87	82	80	77
Operating Contingencies Reserve	15	15	16	17
Capital Improvement Program Reserve	127	284	365	488
Catastrophe and Self Insurance	57	57	57	57
Debt Replacement and Refurbishment	65	66	64	64
Debt Service Required Reserves ⁽¹⁾	107	100	97	94
Rate Stabilization Reserve	-	-	-	-
Total	<u>\$531</u>	<u>\$680</u>	<u>\$760</u>	<u>\$881</u>

⁽¹⁾ “Debt Service Required Reserves” constitute all amounts designated for reserves within the District’s investment management program, together with certain funds held directly by bond trustees. As of June 30, 2020, of the total Debt Service Required Reserves of \$94 million, \$0 was held by bond trustees to meet specific covenants in the District’s bond documents.

Source: Orange County Sanitation District.

The District’s reserves consist of the following components:

- Cash Flow Criterion has been established at a level to fund operations, maintenance and certificate of participation expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and sewer service user fees which are collected as a separate line item on the property tax bill. The level of this criterion will be established as the sum of an amount equal to six months operations and maintenance expenses and the total of the annual debt or certificate of participation service payments due in August each year.
- Operating Contingency Criterion has been established to provide for non-recurring expenditures that were not anticipated when the annual budget was considered and adopted. The level of this criterion will be established at an amount equal to ten percent of the current fiscal year’s annual operating budget.
- Capital Improvement Criterion has been maintained to fund annual increments of the CIP. The target level of this criterion has been established at one half of the average annual cash outlay of

the CIP through the year 2030. Levels higher and lower than the target can be expected while the long-term financing and capital improvement programs are being finalized.

- Catastrophic Loss, or Self-Insurance Criterion has been maintained for property damage including fire, flood, and earthquake, for general liability and workers' compensation. This reserve criterion is intended to work with purchased insurance policies, FEMA and State disaster reimbursements. Based on the plant infrastructure replacement value, the level of this criterion has been set to fund the District's non-reimbursed costs, estimated to be \$100 million.
- Capital Replacement/Refurbishment Criterion has been established to provide funding to replace or refurbish the current collection, treatment and recycling facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be approximately \$10.8 billion. The reserve criterion level had been established at \$75 million.
- Debt Service Required Reserves Criterion has been established at ten percent of the outstanding certificate of participation issues. Other debt service reserves are required to be under the control of a Trustee by the provisions of the certificate of participation issues. These funds are not available for the general needs of the District and must be maintained at specified levels.
- Accumulated Funds exceeding the targets specified by District policy will be maintained for Capital Improvement and Rate Stabilization. These funds will be applied to future years' CIP needs due to the timing of the actual CIP outlays, in order to moderate annual fluctuations. There is currently no established target for this reserve and, because the reserves of all other funds have not been exceeded, the reserve level for this reserve fund has been zero for Fiscal Years 2017-18 through 2019-20.

Summary of Operating Data

Set forth in Table 14 below is a summary of historical audited operating results for the District for Fiscal Years 2015-16 through Fiscal Year 2019-20. The information presented in the summary should be read in conjunction with the financial statements and notes. See APPENDIX A — “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY SANITATION DISTRICT FOR THE YEAR ENDED JUNE 30, 2020.”

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Table 14
Summary of District Historical Revenues and Expenses
and Other Financial Information
For Fiscal Years 2015-16 through 2019-20
(\$ in Millions)

	Audited				
	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>
Revenues:					
Residential & Commercial Sewer Service Charges ⁽¹⁾					
Regional	\$278.0	\$281.2	\$288.4	\$291.9	\$306.8
Local ⁽²⁾	5.7	1.3	(0.1)	-	-
Industrial Sewer Service Charges	12.6	13.8	17.9	9.4	12.8
IRWD Assessments	26.6	36.0	9.9	36.3	20.8
SAWPA Assessments	3.2	3.3	2.7	2.9	2.6
<i>Ad Valorem</i> Taxes	84.4	88.3	94.2	99.5	104.5
Interest Earnings	9.2	3.1	3.2	29.1	33.7
Other Revenues	4.0	5.0	6.4	8.0	11.2
Total Revenues	<u>\$423.7</u>	<u>\$432.0</u>	<u>\$422.6</u>	<u>\$477.1</u>	<u>\$492.4</u>
Operations and Maintenance Expenses ⁽³⁾	<u>\$153.5</u>	<u>\$150.3</u>	<u>\$145.6</u>	<u>\$166.6</u>	<u>\$168.3</u>
Net Revenues	<u>\$270.2</u>	<u>\$281.7</u>	<u>\$277.0</u>	<u>\$310.5</u>	<u>\$324.1</u>
Debt Service	<u>\$ 79.7</u>	<u>\$ 82.7</u>	<u>\$ 75.6</u>	<u>\$ 76.1</u>	<u>\$ 76.4</u>
UAAL Payment ⁽⁴⁾	<u>\$ 50.0</u>	<u>\$ 39.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38.0</u>
Coverage Ratios	3.39x	3.41x	3.66x	4.08x	4.24x
CIP Outlay	<u>\$153.4</u>	<u>\$141.9</u>	<u>\$117.2</u>	<u>\$152.8</u>	<u>\$118.2</u>
Ending Reserves	<u>\$544.8</u>	<u>\$531.0</u>	<u>\$680.4</u>	<u>\$760.4</u>	<u>\$880.8</u>

⁽¹⁾ Net of rebates, if any, to commercial users.

⁽²⁾ Local sewer service East Orange County Water District in Fiscal Year 2016-17.

⁽³⁾ Excludes depreciation and amortization expenses.

⁽⁴⁾ As of December 31, 2019, the District had an unfunded actuarial accrued pension liability in its defined pension benefit plan administered by the Orange County Employees Retirement System of \$0. In Fiscal Year 2015-16, Fiscal Year 2016-17, and Fiscal Year 2019-20 the District paid down \$50 million, \$39 million, and \$38 million of this liability, respectively.

Source: Orange County Sanitation District.

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Forecasted Operating Data

Set forth in Table 15 below are forecasted operating results for the District for Fiscal Years 2020-21 through 2024-25. These projections are based on assumptions reflected in the District budgets for Fiscal Years 2020-21 and 2021-22 approved on June 24, 2020. They assume the number of projects and scheduled build out set forth in the 2020 CIP Validation Study, and reflect the Board-approved deferral of the rate increase that was scheduled for Fiscal Year 2020-21 and the annual rate increases of 1.2% for Fiscal Year 2021-22 and Fiscal Year 2022-23, and assume 1.2% and 1.1% rate increases for Fiscal Years 2023-24 and 2024-25. Principal outlay components of these projections are derived from the 2020 CIP Validation Study, which identified 70 individual capital projects with projected outlay of \$2.7 billion over the fiscal years 2020-21 through 2029-30. Much of the construction is scheduled during the next five years, with average annual capital outlays of \$266.3 million. The District's net CIP cash flow budget for Fiscal Year 2020-21 is \$147.6 million, which factors in savings and deferrals. This CIP budget finances joint works treatment and disposal system improvement projects, and collection system improvement projects. The preparation of such projections was based upon certain assumptions and certain forecasts with respect to conditions that may occur in the future. While the District believes that these assumptions and forecasts are reasonable for the purposes of the projected selected operating data, it makes no representation that they will in fact occur. To the extent that actual future conditions differ from those assumed herein, the data will vary.

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Table 15
Summary of District Forecasted Revenues and Expenses
and Other Financial Information
for Fiscal Years 2020-21 through 2024-25
(\$ in Millions)⁽¹⁾

	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>
Revenues:					
Residential & Commercial					
Sewer Service Charges	\$298.1	\$302.8	\$307.5	\$312.2	\$316.9
Industrial Sewer Service Charges	12.8	13.0	13.1	13.3	13.5
IRWD Assessments	15.9	19.9	17.1	15.9	14.5
SAWPA Assessments	2.6	2.7	2.8	2.9	3.0
Ad Valorem Taxes	99.9	102.0	105.1	107.7	110.4
Interest Earnings	13.2	13.1	12.0	11.3	10.8
Other Revenues	10.9	8.8	9.2	9.5	9.9
Total Revenues	<u>453.4</u>	<u>462.3</u>	<u>466.8</u>	<u>472.8</u>	<u>479.0</u>
Build America Bonds Federal Subsidy	4.8	4.8	4.8	4.8	4.8
Operations and Maintenance Expenses	<u>(174.3)</u>	<u>(174.5)</u>	<u>(179.7)</u>	<u>(185.1)</u>	<u>(190.7)</u>
Net Revenues ⁽²⁾	<u>283.9</u>	<u>292.6</u>	<u>291.9</u>	<u>292.5</u>	<u>293.1</u>
Debt Service ⁽³⁾	<u>72.8</u>	<u>75.5</u>	<u>74.9</u>	<u>74.9</u>	<u>74.9</u>
Coverage Ratios ⁽²⁾	<u>3.9</u>	<u>3.9</u>	<u>3.9</u>	<u>3.9</u>	<u>3.9</u>
CIP Outlays	<u>147.6</u>	<u>240.8</u>	<u>293.0</u>	<u>294.8</u>	<u>294.3</u>
Replacement, Refurbishment & Rehabilitation ⁽⁴⁾	<u>-</u>	<u>-</u>	<u>1.4</u>	<u>6.3</u>	<u>10.6</u>
Debt Proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Reserves	<u>\$927.0</u>	<u>\$924.1</u>	<u>\$ 865.4</u>	<u>\$801.3</u>	<u>\$781.9</u>

⁽¹⁾ Assumptions:

- a) Annual growth in equivalent dwelling units is projected to average 0.3% over the next five years.
- b) The Residential, Commercial, and Industrial Sewer Service Charge forecasts are based on the total projected equivalent dwelling units, Board approved rate increases for Fiscal Years 2021-22 and 2022-23 of 1.2% per year and 1.2% and 1.1% for Fiscal Years 2023-24 and 2024-25.
- c) Revenue Area No. 14 Fees are derived based on the projected contribution of sewage flows to the District from the Irvine Ranch Water District.
- d) Ad Valorem Taxes are projected with annual increases of 2%.
- e) Interest earnings are projected to average 1.0% of annual cash balances.
- f) Operating and Maintenance Expenses are forecasted with a base increase of 3.0% per year beginning with Fiscal Year 2022-23 with adjustments for known periodic outlays that do not occur annually.
- g) Annual CIP Outlays are based on the cash flow projections developed from the 2020 CIP Validation Study, with adjustments for CIP savings and deferrals.

⁽²⁾ Calculated in accordance with the Master Agreement and the Installment Purchase Agreement.

⁽³⁾ Assumes refunding of the Refunded 2011A Obligations and the Refunded 2018A Notes with the proceeds of the Revenue Obligations as described in "REFUNDING PLAN" herein and estimated debt service on the Revenue Obligations.

⁽⁴⁾ Replacement, Refurbishment & Rehabilitation are known future capital outlays that have been identified within the District's Asset Management Program but have not yet been developed into specific proposed projects and included within the CIP Program.

Source: Orange County Sanitation District.

Management’s Discussion and Analysis of Operating Data

The District’s 2020-21 and 2021-22 operating, capital improvement, debt service, and other financing requirements budgets total \$401 million and \$591 million, respectively. The increase in the Fiscal Year 2020-21 budget over the Fiscal Year 2019-20 projected spending of \$394 million is primarily due to the timing of construction cash outlays, in addition to increases in salaries and benefits and repairs and maintenance. The increase in the Fiscal Year 2021-22 budget is primarily due to the timing of construction cash outlays as we meet our infrastructure needs.

The approved budget to operate, maintain and manage the District’s sewage collection, treatment and disposal system is \$176.3 million, a \$12.6 million (7.7%) increase above Fiscal Year 2019-20 projected expenditures. In Fiscal Year 2021-22, it is projected to increase by \$0.2 million (0.1%).

Budgeted personnel costs are \$6.3 million, a 6.5% increase over the prior year projection mainly due to cost of living adjustments included in the current Memorandums of Understanding for all employee bargaining units and increased insurance premiums and retirement contributions. There is a budgeted decrease of one full time equivalent (“FTE”) staff position bringing the total budgeted FTE count in Fiscal Year 2020-21 and Fiscal Year 2021-22 to 639.0 FTEs

Repairs and maintenance costs were approved to increase \$4.1 million or 16.9% over the prior year projection. During Fiscal Year 2020-21 major projects that contribute to the increase are the Bushard Diversion Structure Repair planned for \$1.1 million, major rehabilitation of primary basins, secondary clarifiers and overhaul of new centrifuges at both plants planned for \$6.5 million.

Professional services were budgeted to increase \$1.3 million for legal fees and technical consulting fees on projects and studies.

In preparation of the Fiscal Year 2020-21 biennium budget, District staff developed levels of service and capital projects that are included in the Strategic Plan of the District. See “THE DISTRICT - District Planning.” In addition, staff validated the active capital projects currently being executed to ensure that the scope of work on the active projects remains appropriate, and that the cost estimates have been accurately updated. The Fiscal Year 2020-21 capital related cash flow budget was approved at \$165 million. After factoring in savings and deferrals, this capital budget was reduced by \$17 million to \$148 million. The 2020 CIP Validation Study includes 70 individual capital projects with 10-year outlays totaling approximately \$2.7 billion.

The Master Plan includes a Wastewater Revenue Program Rate Study that determines the appropriate rates going forward to support the proposed 20-year CIP. In March 2018, following a Proposition 218 notice process, the Board approved sewer rate increases for each year over the next five years averaging approximately 1.2% per year. The District deferred the approved 1.2% rate increase for fiscal year 2020-21 due to coronavirus sensitivities but expects to implement the 1.2% increases scheduled in each of fiscal years 2021-22 and 2022-23 as approved. These increases are necessary to provide needed capital improvements, to meet additional treatment and disinfection requirements, and to minimize future rate increases. The impact of this five-year sewer fee schedule has increased the single-family residence user fee rate, the underlying rate for all sewer service user fees, an average of 1.0% a year from \$335 in Fiscal Year 2018-19 to \$347 in Fiscal Year 2022-23.

Investment of District Funds

State statutes authorize the District to invest in obligations of the United States Government, state and local governmental agencies, negotiable certificates of deposits, banker’s acceptances, commercial

paper, reverse repurchase agreements and a variety of other investment instruments which are allowable under California Government Code Section 53600 *et seq.*

All District funds, except for Obligation Reserve Funds controlled by a bank trustee pursuant to the provisions of Existing Senior Obligations, are managed by an external money manager, Chandler Asset Management. U.S. Bank National Association serves as the District's independent custodian bank for its investment program. Callan LLC serves as the District's independent advisor.

As of June 30, 2020, the District's externally managed fund consisted of a short-term investment portfolio of \$251.2 million with an average maturity of 146.4 days, and a long-term investment portfolio of \$620.5 million with average maturities of 2.5 years. Investments consist of United States government securities, corporate bonds and commercial paper. The District's portfolio contains no structured investment vehicles ("SIVs") or reverse repurchase agreements.

Deposits in banks are maintained in financial institutions which provide deposit protection on the bank balance from the Federal Deposit Insurance Corporation. The California Government Code requires State banks and savings and loans to secure local government deposits by pledging government securities equal to 110% of the deposits or by pledging first trust deed mortgage notes equal to 150% of the deposits.

The District's Investment Policy requires that the District invest public funds in a manner which ensures the safety and preservation of capital while meeting reasonable anticipated operating expenditure needs, achieving a reasonable rate of return and conforming to all state and local statutes governing the investment of public funds. The primary objectives, in order, of the District's investment activities are safety, liquidity and return on investment.

FINANCIAL OBLIGATIONS

Existing Indebtedness

Currently, the District has Senior Obligations Outstanding payable on a parity with the Revenue Obligations. The table below describes the District's outstanding parity certificates of participation as of July 1, 2021. The payment obligations in connection with each series of these certificates of participation constitute Senior Obligations, subject to the provisions of the Master Agreement and shall be afforded all of the benefits, interests and security afforded Senior Obligations pursuant to the Master Agreement. The District has no general obligation bonds or subordinate bonds outstanding.

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Table 16
Outstanding Senior Obligations
As of July 1, 2021

	Original Principal Amount	Issue Date	Outstanding Balance	Final Maturity
2010A Revenue Obligations	\$ 80,000,000	05/18/10	\$ 80,000,000	02/01/40
2010C Revenue Obligations	157,000,000	12/08/10	157,000,000	02/01/44
2011A Revenue Obligations ⁽¹⁾	147,595,000	10/03/11	75,370,000	02/01/26
2012A Revenue Obligations	100,645,000	03/22/12	100,645,000	02/01/33
2012B Revenue Obligations	66,395,000	08/16/12	8,170,000	02/01/26
2014A Revenue Obligations	85,090,000	08/07/14	56,080,000	02/01/27
2015A Revenue Obligations	127,510,000	02/12/15	127,510,000	02/01/37
2016A Revenue Obligations	145,880,000	03/30/16	136,830,000	02/01/39
2017A Revenue Obligations	66,370,000	02/01/17	65,815,000	02/01/30
2018A Certificates ⁽²⁾	<u>102,200,000</u>	11/29/18	<u>102,200,000</u>	08/15/21
Total Senior Obligations	<u>\$1,078,685,000</u>		<u>\$909,620,000</u>	

⁽¹⁾ A portion to be prepaid with a portion of the proceeds of the Revenue Obligations and other moneys; see “REFUNDING PLAN” herein.

⁽²⁾ To be prepaid with a portion of the proceeds of the Revenue Obligations and other moneys; see “REFUNDING PLAN” herein.

In connection with the execution and delivery of the above-referenced outstanding certificates of participation, the District entered into certain installment purchase agreements, or equivalent documents, providing for the payment of installment payments or similar payments.

Anticipated Financings

From time to time the District may incur other obligations to finance portions of the CIP and to prepay the Revenue Obligations. Over the next five years, however, the District does not expect to issue any additional debt, other than refunding debt. The District expects to refund outstanding obligations from time to time. See “SECURITY AND SOURCES OF PAYMENT FOR THE REVENUE OBLIGATIONS – Sale Proceeds of Future Obligations.”

THE CORPORATION

The Corporation was organized on June 19, 2000 as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation law of the State. The Corporation’s purpose is to render assistance to the District in its acquisition of equipment, real property and improvements on behalf of the District. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed.

The Corporation is a separate legal entity from the District. It is governed by a twenty-five member Board of Directors. The Corporation has no employees. All staff work is performed by employees of the District. The members of the Corporation’s Board of Directors are the Board of Directors of the District.

The District’s Assistant General Manager, Director of Finance and Administrative Services and other District employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the Orange County Sanitation District office at 10844 Ellis Avenue, Fountain Valley, California, 92708-7018.

LIMITATIONS ON TAXES AND REVENUES

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction, or other factors. Amendments to the California Constitution have implemented and modified limits on reassessment of property value upon transfers. Most recently, Proposition 19 limits people who inherit family properties from keeping a low property tax base resulting from the 2% restriction on increases, unless they use the home as their primary residence. It also allows homeowners who are over 55 years of age, disabled, or victims of a wildfire or natural disaster to transfer their assessed value of their primary home to a newly purchased or newly constructed replacement primary residence up to three times. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is

expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979, thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ 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.

“Appropriations subject to limitation” are authorizations to spend “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service,” but “proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIII B limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the District in each year is based on the District’s limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the District’s option, either (1) the percentage change in State per capita personal income, or (2) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111. Change in population is to be measured either within the jurisdiction of the District or the County as a whole.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by a District over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the District’s appropriations limit was based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the District’s appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect. The District does not anticipate that any such appropriations

limitations will impair its ability to make Installment Payments as required by the Installment Purchase Agreement.

Proposition 1A and Proposition 22

Proposition 1A (“Proposition 1A”), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004-05 and 2005-06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any ten-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as Proposition 22 (“Proposition 22”). The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government or from temporarily shifting property taxes from cities, counties and special districts to schools. This is intended to, among other things, stabilize local government revenue sources by restricting the State’s control over local property taxes.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert \$1.935 billion in local property tax revenues in fiscal year 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs. Approximately \$5 million of the District’s property tax revenues were diverted to the State as a result of this Proposition 1A suspension. The District participated in a Proposition 1A Securitization Program (the “Program”) sponsored by the California Statewide Communities Development Authority. The Program allowed the District to exchange its anticipated State property tax receivable for an equal amount of cash. In addition, the State’s adopted 2009-10 budget included a \$1.7 billion diversion in local property tax revenues from local redevelopment agencies. Many California Redevelopment Association members are actively engaged in litigation to block such diversion and recoup certain payments already made under certain legislation passed in July 2009 that is beyond the reach of Proposition 22, known as “ABX4 26.”

Proposition 1A also provides that if the State reduces the vehicle license fee (“VLF”) rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Article XIII C and Article XIII D of the California Constitution

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters on November 5, 1996. The initiative added Articles XIII C and XIII D to the California Constitution, creating additional requirements for the imposition by most local governments of “general taxes,” “special taxes,” “assessments,” “fees,” and “charges.” Proposition 218 became effective, pursuant to its terms, as of November 6, 1996, although compliance with some of its provisions was deferred until July 1, 1997, and certain of its provisions purport to apply to any tax imposed for general governmental purposes (*i.e.*, “general taxes”) imposed, extended or increased on or after January 1, 1995 and prior to November 6, 1996.

Article XIII D imposes substantive and procedural requirements on the imposition, extension or increase of any “fee” or “charge” subject to its provisions. A “fee” or “charge” subject to Article XIII D includes any levy, other than an *ad valorem* tax, special tax or assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership. Article XIII D prohibits, among other things, the imposition of any proposed fee or charge, and, possibly, the increase of any existing fee or charge, in the event written protests against the proposed fee or charge are presented at a required public hearing on the fee or charge by a majority of owners of the parcels upon which the fee or charge is to be imposed. Except for fees and charges for water, sewer and refuse collection services, the approval of a majority of the property owners subject to the fee or charge, or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area, is required within 45 days following the public hearing on any such proposed new or increased fee or charge. The California Supreme Court decisions in *Richmond v. Shasta Community Services District*, 32 Cal.4th 409 (2004) (“*Richmond*”), and *Bighorn-Desert View Water Agency v. Verjil*, 39 Cal.4th 205 (2006) (“*Bighorn*”) have clarified some of the uncertainty surrounding the applicability of Section 6 of Article XIII D to service fees and charges. In *Richmond*, the Shasta Community Services District charged a water connection fee, which included a capacity charge for capital improvements to the water system and a fire suppression charge. The Court held that both the capacity charge and the fire suppression charge were not subject to Article XIII D because a water connection fee is not a property-related fee or charge because it results from the property owner’s voluntary decision to apply for the connection. In both *Richmond* and *Bighorn*, however, the Court stated that a fee for ongoing water service through an existing connection is imposed “as an incident of property ownership” within the meaning of Article XIII D, rejecting, in *Bighorn*, the water agency’s argument that consumption-based water charges are not imposed “as an incident of property ownership” but as a result of the voluntary decisions of customers as to how much water to use.

Article XIII D also provides that “standby charges” are considered “assessments” and must follow the procedures required for “assessments” under Article XIII D and imposes several procedural requirements for the imposition of any assessment, which may include (1) various notice requirements, including the requirement to mail a ballot to owners of the affected property; (2) the substitution of a property owner ballot procedure for the traditional written protest procedure, and providing that “majority protest” exists when ballots (weighted according to proportional financial obligation) submitted in opposition exceed ballots in favor of the assessments; and (3) the requirement that the levying entity “separate the general benefits from the special benefits conferred on a parcel” of land. Article XIII D also precludes standby charges for services that are not immediately available to the parcel being charged.

Article XIII D provides that all existing, new or increased assessments are to comply with its provisions beginning July 1, 1997. Existing assessments imposed on or before November 5, 1996, and “imposed exclusively to finance the capital costs or maintenance and operations expenses for [among other things] water” are exempted from some of the provisions of Article XIII D applicable to assessments.

Article XIIC extends the people’s initiative power to reduce or repeal existing local taxes, assessments, fees and charges. This extension of the initiative power is not limited by the terms of Article XIIC to fees, taxes, assessment fees and charges imposed after November 6, 1996 and absent other authority could result in retroactive reduction in any existing taxes, assessments, fees or charges. In *Bighorn*, the Court concluded that under Article XIIC local voters by initiative may reduce a public agency’s water rates and delivery charges. The Court noted, however, that it was not holding that the authorized initiative power is free of all limitations, stating that it was not determining whether the electorate’s initiative power is subject to the public agency’s statutory obligation to set water service charges at a level that will “pay the operating expenses of the agency, . . . 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.”

Under Ordinance No. OCSD-49 adopted on March 28, 2018, the District established residential Sewer Service Charges, except within Revenue Area No. 14 (for which service is billed directly to the IRWD), based on the cost of services and facilities provided to each customer of the District. The noticed public hearing held in connection with the adoption of this ordinance considered an increase in the single family residential rate, the underlying rate for all of the District’s sewer service charges, of 1.2% for Fiscal Year 2018-19 through Fiscal Year 2022-23. These increases were approved by the Board through the adoption of Ordinance No. OCSD-49. The District deferred the approved 1.2% rate increase for fiscal year 2020-21 due to coronavirus sensitivities but expects to implement the 1.2% increases scheduled in each of fiscal years 2021-22 and 2022-23 as approved.

Pursuant to the Master Agreement, the District will, to the extent permitted by law, fix, prescribe and collect fees and charges for the services of the Wastewater System which will be at least sufficient to yield during each Fiscal Year (a) Net Revenues equal to 125% of Debt Service on Senior Obligations for such Fiscal Year, and (b) Net Operating Revenues equal to 100% of Debt Service on all Obligations for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but will not reduce the fees and charges then in effect unless the Revenues and Net Revenues from such reduced fees and charges will at all times be sufficient to meet the requirements of the Master Agreement. If service charges are determined to be subject to Article XIID, and proposed increased service charges cannot be imposed as a result of a majority protest, such circumstances may adversely affect the ability of the District to generate revenues in the amounts required by the Master Agreement, and to make Installment Payments as provided in the Installment Purchase Agreement. No assurance may be given that Articles XIIC and XIID will not have a material adverse impact on Net Revenues.

Other Initiative Measures

Articles XIIA, XIIB, XIIC and XIID were adopted pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted by California voters, placing additional limitations on the ability of the District to increase revenues.

LEGAL MATTERS

The validity of the Revenue Obligations and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel to the District. A complete copy of the proposed form of Special Counsel opinion is attached as Appendix F hereto. Special Counsel, in its capacity as Special Counsel to the District, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the District and the Corporation by Woodruff, Spradlin & Smart, a Professional Corporation, Costa

Mesa, California, and for the District by Norton Rose Fulbright US LLP, Disclosure Counsel to the District.

MUNICIPAL ADVISOR

The District has retained Public Resources Advisory Group as an independent registered municipal advisor (the “Municipal Advisor”) in connection with the execution and delivery of the Revenue Obligations. The Municipal Advisor has not been engaged, nor have they undertaken, to audit, authenticate or otherwise verify the information set forth in the Official Statement, or any other related information available to the District, with respect to accuracy and completeness of disclosure of such information. The Municipal Advisor has reviewed this Official Statement but makes no guaranty, warranty or other representation respecting accuracy and completeness of the information contained in this Official Statement. The fees of the Municipal Advisor are contingent on the issuance and delivery of the Revenue Obligations.

ABSENCE OF LITIGATION

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

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body pending or, to the best knowledge of the District, threatened against the District contesting or affecting the ability of the District to collect amounts from which Installment Payments are payable, or which would have a material adverse effect on the District’s ability to make Installment Payments.

FINANCIAL STATEMENTS

The basic financial statements of the District included in Appendix A to this Official Statement have been audited by Macias Gini & O’Connell LLP, independent certified public accountants. See APPENDIX A – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY SANITATION DISTRICT FOR THE YEAR ENDED JUNE 30, 2020” herein. The District has received the Government Finance Officers Association Certificate of Achievement for “Excellence in Financial Reporting” for 25 consecutive years. The audited financial statements, including the footnotes thereto, should be reviewed in their entirety. Macias Gini & O’Connell LLP, the District’s independent auditor, has not been engaged to perform, and has not performed, since the date of its report included in Appendix A, any procedures on the financial statements addressed in that report. Macias Gini & O’Connell LLP also has not performed any procedures relating to this Official Statement.

TAX MATTERS

Federal Tax Exemption

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Special Counsel to the District, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the District with certain covenants in the Trust Agreement, the Tax Certificate and other documents pertaining to the Revenue Obligations and requirements of the Internal Revenue Code of 1986 (the “Code”) regarding the use, expenditure and investment of proceeds of the Revenue Obligations and the timely payment of certain investment earnings to the United States, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation is not included in the gross income of the owners of the Revenue Obligations for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation to be included in gross income retroactive to the date of execution and delivery of the Revenue Obligations.

In the further opinion of Special Counsel, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

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, 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. Special Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Revenue Obligations should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate or other documents pertaining to the Revenue Obligations 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. Special Counsel expresses no opinion as to the effect of any change to any document pertaining to the Revenue Obligations 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 portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation for federal income tax purposes.

Special 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 described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Special Counsel, and Special 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 Revenue Obligations is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Revenue Obligations would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation, the District may

have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Revenue Obligations could adversely affect the value and liquidity of the Revenue Obligations 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 Revenue Obligation 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. Special Counsel is not opining on the accounting for bond premium or the consequence to a Revenue Obligation purchaser of purchasing a Revenue Obligation with bond premium. Accordingly, persons considering the purchase of Revenue Obligations with bond premium should consult with their own tax advisors with respect to the determination of bond premium on such Revenue Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Revenue Obligations.

Original Issue Discount. The excess, if any, of the stated redemption price at maturity of Revenue Obligations of a particular maturity over the initial offering price to the public of the Revenue Obligations of that maturity at which a substantial amount of the Revenue Obligations of that maturity is sold to the public is “original issue discount.” Original issue discount accruing on a Revenue Obligation 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 Revenue Obligation. Original issue discount on a Revenue Obligation or a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the Revenue Obligations of that maturity is sold to the public accrues on a semiannual basis over the term of the Revenue Obligation 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 Revenue Obligation accruing during each period is added to the adjusted basis of such Revenue Obligation, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Revenue Obligation. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase Revenue Obligations other than at the initial offering price. Special Counsel is not opining on the accounting for or consequence to a Revenue Obligation purchaser of purchasing a Revenue Obligation with original issue discount. Accordingly, persons considering the purchase of Revenue Obligations with original issue discount should consult with their own tax advisors with respect to the determination of original issue discount on such Revenue Obligations for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Revenue Obligations.

Information Reporting and Backup Withholding

Interest paid on the Revenue Obligations 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 the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation 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 Special Counsel, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation 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 Revenue Obligations of the exclusion of the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation from gross income for federal income tax purposes or of the exemption of the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation from State of California personal income taxation. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Revenue Obligations. Prospective purchasers of the Revenue Obligations should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Special Counsel relating to the Revenue Obligations is included in APPENDIX F hereto.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Robert Thomas CPA, LLC, a firm of independent certified public accountants, will verify the accuracy of mathematical computations concerning the adequacy of the amounts deposited in the Escrow Funds to provide for payment of the prepayment prices (including accrued interest) of the Refunded 2011A Obligations and the Refunded 2018A Notes, respectively, on the Prepayment Date.

The report of such firm of independent certified public accountants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of holders and beneficial owners of the Revenue Obligations (a) to provide certain financial information and operating data (the “Annual Report”) relating to the District and the property in the District not later than eight months after the end of the District’s Fiscal Year (which currently would be March 1), commencing with the report for the 2020-21 Fiscal Year, and (b) to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the District, or the Dissemination Agent on behalf of the District, with the Municipal Securities Rulemaking Board. The notices of enumerated events will be filed by or on behalf of the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be

contained in the Annual Report or the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See APPENDIX D – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” These covenants have been made in order to assist the Initial Purchaser in complying with S.E.C. Rule 15c2-12, as amended (the “Rule”).

RATINGS

The Revenue Obligations will be rated “___” by [S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “___” by Moody’s Investors Service, Inc. (“Moody’s”), and “___” by Fitch Ratings (“Fitch”)]. Such ratings reflect only the views of the rating agencies, and do not constitute a recommendation to buy, sell or hold the Revenue Obligations. Explanation of the significance of such ratings may be obtained only from the respective organizations at: S&P Global Ratings, 55 Water Street, New York, New York 10041, Moody’s Investors Service, Inc. 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and Fitch Ratings, One State Street Plaza, New York, New York 10004. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Revenue Obligations.

PURCHASE AND REOFFERING

_____ (the “Initial Purchaser”) has purchased the Revenue Obligations from the District at a competitive sale for a purchase price of \$_____ (representing the aggregate principal amount of the Revenue Obligations, plus a premium of \$_____, and less an Initial Purchaser’s discount of \$_____). The public offering prices may be changed from time to time by the Initial Purchaser. The Initial Purchaser may offer and sell Revenue Obligations to certain dealers and others at prices lower than the offering prices shown on the inside cover page hereof.

MISCELLANEOUS

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

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

ORANGE COUNTY SANITATION DISTRICT

By: _____
Chair of the Board of Directors

APPENDIX A

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE ORANGE COUNTY
SANITATION DISTRICT FOR THE YEAR ENDED JUNE 30, 2020**

[INSERT APPENDIX B]

[INSERT APPENDIX C]

[INSERT APPENDIX D]

APPENDIX E

BOOK-ENTRY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Revenue Obligations, payment of principal and interest evidenced by the Revenue Obligations to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Revenue Obligations, and other Revenue Obligation-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the District and the Corporation each believes to be reliable, but the District and the Corporation take no responsibility for the completeness or accuracy thereof.

The Depository Trust Company – Book-Entry System

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Revenue Obligations”). The Revenue Obligations 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 certificate will be issued for the Revenue Obligations in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC 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 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 on such website is not incorporated herein by such reference or otherwise.

Purchases of Revenue Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Revenue Obligations on DTC’s records. The ownership interest of each actual purchaser of each Revenue Obligation (“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 Revenue Obligations are to be accomplished by entries made on

the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Revenue Obligations, except in the event that use of the book-entry system for the Revenue Obligations is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Revenue Obligations may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Revenue Obligations, such as prepayments, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Revenue Obligations may wish to ascertain that the nominee holding the Revenue Obligations 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 the notices be provided directly to them.

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

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

Prepayments with respect to the Revenue Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Discontinuance of DTC Services

In the event (i) DTC determines not to continue to act as securities depository for the Revenue Obligations, (ii) DTC shall no longer act and give notice to the Trustee of such determination or (iii) the District determines that it is in the best interest of the Beneficial Owners that they be able to obtain Revenue Obligations and delivers a written certificate to the Trustee to that effect, DTC services will be discontinued. If the District determines to replace DTC with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered Revenue Obligation for each of the maturities of the Revenue Obligations, registered in the name of such successor or substitute qualified securities depository or its nominee. If the District fails to identify another qualified securities depository to replace DTC then the Revenue Obligations shall no longer be restricted to being registered in the certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the District, in accordance with the Trust Agreement.

All Revenue Obligations may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certifications for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Revenue Obligation as the absolute owner of such Revenue Obligation for all purposes, whether or not such Revenue Obligation shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Revenue Obligation shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Revenue Obligation to the extent of the sum or sums so paid.

Whenever any Revenue Obligations shall be surrendered for transfer, the Trustee shall execute and deliver new Revenue Obligations representing the same principal amount in Authorized Denominations. The Trustee shall require the payment of any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Revenue Obligations may be presented for exchange at the Principal Office of the Trustee for a like aggregate principal amount of Revenue Obligations of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to transfer or exchange any Revenue Obligation during the period in which the Trustee is selecting Revenue Obligations for prepayment, nor shall the Trustee be required to transfer or exchange any Revenue Obligation or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

APPENDIX F

FORM OF APPROVING OPINION OF SPECIAL COUNSEL

Upon the execution and delivery of the Revenue Obligations, Norton Rose Fulbright US LLP, Los Angeles, California, Special Counsel to the District, will render its final approving opinion with respect to the Revenue Obligations in substantially the following form:

[Date of Delivery]

Orange County Sanitation District
10844 Ellis Avenue
Fountain Valley, California 92708-7018

§ _____
Orange County Sanitation District
Wastewater Refunding Revenue Obligations
Series 2021A

Ladies and Gentlemen:

We have acted as Special Counsel in connection with the \$ _____ aggregate principal amount of Orange County Sanitation District Wastewater Refunding Revenue Obligations, Series 2021A (the “Revenue Obligations”) which are certificates of participation that evidence direct, fractional undivided interests of the Owners thereof in the installment payments (the “Installment Payments”), and the interest thereon, to be made by the Orange County Sanitation District (the “District”) pursuant to the Installment Purchase Agreement, dated as of July 1, 2021 (the “Installment Purchase Agreement”), by and between the District and the Orange County Sanitation District Financing Corporation (the “Corporation”). Pursuant to the Master Agreement for District Obligations, dated as of August 1, 2000 (the “Master Agreement”), by and between the District and the Corporation, the District has established conditions and terms upon which obligations such as the Installment Payments, and the interest thereon, will be incurred and secured. Installment Payments under the Installment Purchase Agreement are payable solely from Net Revenues as provided in the Installment Purchase Agreement, consisting primarily of all income and revenue received by the District from the operation or ownership of the Wastewater System of the District (the “Wastewater System”) remaining after payment of Maintenance and Operation Costs. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to such terms in the Installment Purchase Agreement.

The Revenue Obligations are to be executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2021 (the “Trust Agreement”), by and among the District, the Corporation and U.S. Bank National Association, as trustee (the “Trustee”). Proceeds from the sale of the Revenue Obligations, together with other funds of the District, will be used to (i) prepay the District’s Wastewater Refunding Revenue Obligations, Series 2011A, maturing on February 1, 2023 through 2026, inclusive, currently outstanding in the aggregate principal amount of \$61,575,000, (ii) prepay the District’s Revenue Refunding Certificate Anticipation Notes, Series 2018A, currently outstanding in the aggregate principal amount of \$102,200,000, and (iii) pay the costs incurred in connection with the execution and delivery of the Revenue Obligations.

As Special Counsel, we have examined copies certified to us as being true and complete copies of the Master Agreement, the Trust Agreement and the Installment Purchase Agreement and the proceedings of the District in connection with the execution and delivery of the Revenue Obligations. We have also

examined such certificates of officers of the District, the Corporation and others as we have considered necessary for the purposes of this opinion.

Based upon the foregoing, we are of the opinion that:

1. The Master Agreement, the Installment Purchase Agreement and the Trust Agreement each has been duly and validly authorized, executed and delivered by the District and, assuming the Master Agreement, the Installment Purchase Agreement and the Trust Agreement each constitutes the legally valid and binding obligation of the other parties thereto, each constitutes the legally valid and binding obligation of the District, enforceable against the District in accordance with its respective terms.

2. The obligation of the District to pay the Installment Payments, and the interest thereon, and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the District payable, in the manner provided in the Installment Purchase Agreement, solely from Net Revenues and other funds provided for in the Installment Purchase Agreement lawfully available therefor.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Revenue Obligations by the Trustee, the Revenue Obligations are entitled to the benefits of the Trust Agreement.

4. Under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the District with certain covenants in the Trust Agreement, the Tax Certificate and other documents pertaining to the Revenue Obligations and requirements of the Internal Revenue Code of 1986 regarding the use, expenditure and investment of proceeds of the Revenue Obligations and the timely payment of certain investment earnings to the United States, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation is not includable in the gross income of the owners of the Revenue Obligations for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation to be included in gross income retroactive to the date of execution and delivery of the Revenue Obligations.

5. Under existing law, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

6. Under existing law, the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation is exempt from personal income taxes imposed by the State of California.

Except as stated in paragraphs 4, 5 and 6 above, we express no opinion as to any federal or state tax consequence of the ownership or disposition of the Revenue Obligations. Further, certain requirements and procedures contained or referred to in the Trust Agreement, the Installment Purchase Agreement or in other documents pertaining to the Revenue Obligations may be changed, and certain actions may be 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 Revenue Obligations 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 ourselves

with respect to the exclusion from gross income of the portion of each Installment Payment representing interest and distributable in respect of any Revenue Obligation for federal income tax purposes.

The rights of the owners of the Revenue Obligations and the enforceability of the Revenue Obligations, the Master Agreement, the Trust Agreement and the Installment Purchase Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases. The enforceability of the Revenue Obligations, the Master Agreement, the Trust Agreement and the Installment Purchase Agreement is 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 California.

No opinion is expressed herein on the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Revenue Obligations.

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. Moreover, our opinions are not a guarantee of result; rather, 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,