

In the opinion of The Weist Law Firm, Scotts Valley, California, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and judicial decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants and requirements, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$11,640,000

SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
(San Benito County, California)
SERIES 2015 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)

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

This cover page contains certain information for quick reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the purchase of the Bonds.

The above-captioned \$11,640,000 aggregate principal amount of Series 2015 Enterprise Revenue Bonds (the “Bonds”) are being issued by the San Juan Bautista Public Financing Authority (the “Authority”) pursuant to an Indenture of Trust, dated as of December 1, 2015 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Bonds will bear interest at the rate or rates shown on the Maturity Schedule set forth on the inside front cover hereof, payable semiannually on April 1 and October 1 of each year (each an “Interest Payment Date”), commencing April 1, 2016.

The Bonds initially 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 Bonds. Individual purchases of Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Purchasers of Bonds will not receive certificates representing their interest in the Bonds purchased, but will receive a credit balance in the records of DTC. Principal of and interest on the Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal of and interest on the Bonds, DTC is obligated in turn to remit such principal and interest to the DTC Participants (as defined herein) for subsequent disbursement to purchasers of the Bonds, as described herein. See “APPENDIX F – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM.”

The Bonds are special obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of (i) installment payments (the “Water Installment Payments”) to be made by the City of San Juan Bautista, a municipal corporation and general law city (the “City”) under an installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Water Installment Sale Agreement”), and (ii) installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the City under an installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal water enterprise (the “Water Enterprise”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal wastewater enterprise (the “Wastewater Enterprise”).

The Bonds are subject to optional, mandatory sinking fund and extraordinary mandatory redemption prior to maturity as described herein. See “THE BONDS – Redemption Provisions” herein.

The Bonds are being issued to (i) prepay the City’s outstanding obligations under (a) a certain installment sale agreement and (b) a certain loan agreement, (ii) finance the acquisition and construction of certain new improvements and facilities which will constitute part of the Water Enterprise, (iii) fund a debt service reserve fund for the Bonds through the purchase of a reserve surety bond (as defined herein) for the Bonds, and (iv) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE FINANCING PLAN” herein.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See “BOND INSURANCE” herein.



See “RISK FACTORS” for a discussion of special risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds. For a discussion of some of the risks associated with the purchase of the Bonds, see “RISK FACTORS” and “CONSTITUTIONAL LIMITATIONS ON TAXES, RATES AND CHARGES” herein.

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are limited obligations of the Authority and are payable solely from, and are secured by a pledge of, Revenues and certain funds and accounts held under the Indenture. The City’s obligation to pay Installment Payments under each of the Installment Sale Agreements is a special obligation of the City limited solely to the Net Revenues of the Water Enterprise or the Wastewater Enterprise, as applicable. No other funds or property of the City are liable for the payment of the Installment Payments or any other amounts payable under the Installment Sale Agreements or the Indenture. The full faith and credit of neither the Authority, the City nor the State of California or any of its political subdivisions is pledged for the payment of the Bonds. The Authority has no taxing power.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to approval as to their legality by The Weist Law Firm, Scotts Valley, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by The Weist Law Firm, as Disclosure Counsel. Certain other legal matters will be passed on for the Authority and the City by the City Attorney of the City, and for the Underwriter by Norton Rose Fulbright US LLP, Los Angeles, California, as Underwriter’s Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York on or about December 23, 2015.

HILLTOP SECURITIES INC.

MATURITY SCHEDULE

\$11,640,000
SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
(San Benito County, California)
SERIES 2015 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)

(Base CUSIP[†] 798242)

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u>
2016	\$ 245,000	3.000%	0.540%	101.892%	AA1
2017	250,000	3.000	0.860	103.754	AB9
2018	260,000	3.000	1.120	105.116	AC7
2019	265,000	4.000	1.310	109.867	AD5
2020	275,000	4.000	1.480	111.568	AE3
2021	285,000	4.000	1.650	112.886	AF0
2022	300,000	4.000	1.820	113.828	AG8
2023	310,000	5.000	2.030	121.252	AH6
2024	325,000	5.000	2.200	122.223	AJ2
2025	345,000	5.000	2.360	122.916	AK9
2026	365,000	5.000	2.530*	121.262	AL7
2027	375,000	3.000	2.900*	100.842	AM5
2028	390,000	3.000	3.040	99.576	AN3
2029	400,000	3.000	3.150	98.331	AP8
2030	415,000	3.125	3.240	98.655	AQ6
2031	425,000	3.125	3.270	98.221	AR4
2032	435,000	3.125	3.350	97.127	AS2
2033	450,000	3.250	3.400	98.008	AT0
2034	460,000	3.250	3.450	97.249	AU7
2035	485,000	3.375	3.500	98.223	AV5

\$4,580,000 3.750% Term Bond due October 1, 2043 Yield: 3.850% – Price 98.298% CUSIP[†] No. AW3

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* Yield to first par call date of October 1, 2025.

SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
San Juan Bautista, California

CITY COUNCIL / AUTHORITY BOARD

Robert Lund, *Mayor/Chairman*
Rick Edge, *Vice-Mayor/Vice Chairman*
Tony Boch, *Councilmember / Boardmember*
Chris Martorana, *Councilmember / Boardmember*
Jim West, *Councilmember / Boardmember*

CITY / AUTHORITY STAFF

Roger Grimsley, *City Manager / Executive Director*
Chuck Geiger, *Treasurer / Treasurer*
Connie Schobert, *City Clerk / Secretary*
Wellington Law Offices, *City Attorney / Authority Counsel*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

The Weist Law Firm
Scotts Valley, California

Trustee

Wells Fargo Bank, National Association
San Francisco, California

Municipal Advisor

C.M. de Crinis & Co., Inc.
Glendale, California

Underwriter

Hilltop Securities Inc.
Cardiff, California

Verification Agent

Causey Demgen & Moore P.C.
Denver, Colorado

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Bond Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to provide any information or to make any representations in connection with the offering or sale of the Bonds other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Authority or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts. Words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. This Official Statement is submitted in connection with the sale of the Bonds 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 Authority or the City.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of its responsibilities to investors under the federal securities laws applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information set forth herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The information and expression of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made under the Indenture shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

Assured Guaranty Municipal Corp. (the “Insurer”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Insurer supplied by Insurer and presented under the heading “BOND INSURANCE” and “APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

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

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

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OFFICIAL STATEMENT

\$11,640,000

**SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
(San Benito County, California)
SERIES 2015 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)**

This Official Statement, including its cover page, inside cover page and appendices, is provided to furnish information regarding the issuance by the San Juan Bautista Public Financing Authority (the “Authority”) of its \$11,640,000 aggregate principal amount of Series 2015 Enterprise Revenue Bonds (Water and Wastewater Financing Projects) (the “Bonds”).

The following introduction is not a summary of this Official Statement. The introduction is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement, pursuant to which the offering of the Bonds to potential investors is exclusively made. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Indenture. No descriptions and summaries of documents contained in this Official Statement purport to be comprehensive or definitive, and reference is made to each document described or summarized for complete details of all its terms and conditions.

INTRODUCTION

In General

The Bonds are limited obligations of the Authority payable from the Revenues (defined herein) pledged under an Indenture of Trust, dated as of December 1, 2015 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”), consisting primarily of (i) water installment payments (the “Water Installment Payments”) to be made by the City of San Juan Bautista, a municipal corporation and general law city (the “City”) under a water installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Water Installment Sale Agreement”), and (ii) wastewater installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the City under a wastewater installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal water enterprise (the “Water Enterprise”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal wastewater enterprise (the “Wastewater Enterprise”).

Pursuant to the Indenture, the Authority has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, substantially all of its rights under the Installment Sale Agreements, including the right to receive Installment Payments from the City and the right to exercise any remedies provided therein in the event of a default by the City thereunder.

Authority for Issuance of the Bonds

The Bonds are being issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act (commencing with Section 6584) (the “Bond Law”), a Resolution adopted by the Board of Directors of the Authority on May 19, 2015 (the “Authority Resolution”), a Resolution adopted by the City Council of the City on May 19, 2015 (the “City Resolution” and together with the Authority Resolution, the “Resolutions”), and the Indenture.

Purpose of the Bonds

The Bonds are being issued to (i) prepay the City’s outstanding obligations under (a) a certain installment sale agreement and (b) a certain loan agreement, (ii) finance the acquisition and construction of certain new improvements and facilities which will constitute part of the Water Enterprise, (iii) fund a debt service reserve fund for the Bonds through the purchase of a reserve surety bond (as defined herein) for the Bonds, and (iv) pay the costs of issuance incurred in connection with the issuance, sale and delivery of the Bonds. See “THE FINANCING PLAN” herein.

The Authority

The Authority was created by a Joint Exercise of Powers Agreement, dated as of March 17, 2015 (the “Joint Exercise of Powers Agreement”), by and between the City and the California Municipal Finance Authority (the “CMFA”) pursuant to the provisions of the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State (the “Act”).

The Authority was created for the primary purpose of facilitating the financing of public capital improvements and facilities for the City. See “THE AUTHORITY” herein.

The City

The City is a mission city located in the San Juan Valley in San Benito County (the “County”). City Council elected at large for overlapping four-year terms. The City provides water and wastewater service to residential and nonresidential customers in and adjacent to the City. For other selected information concerning the City, see “THE CITY” and “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

The City’s general fund is not pledged to secure payment of, and the taxing power of the City is not pledged for, the principal of and interest on the Bonds.

The Water Enterprise

The City provides water service to approximately 692 service connections. Water is conveyed through a supply and distribution system that includes two wells and approximately 8 miles of distribution lines (the “Water Distribution System”). Water is treated at a City owned water treatment plant (the “Water Treatment Facilities”) (together, the Water Distribution System and the Water Treatment Facilities are referred to as the “Water Enterprise”). See “THE WATER ENTERPRISE” herein.

The Wastewater Enterprise

The City provides wastewater service to approximately 607 customers within its sphere of influence. Wastewater is conveyed through a collection system of sewers and lift stations (the “Wastewater Collection System”) to the City owned wastewater treatment plant and disposal facilities (the “Wastewater Treatment Facilities”) (together, the Wastewater Collection System and the Wastewater Treatment Facilities are referred to as the “Wastewater Enterprise”). See “THE WASTEWATER ENTERPRISE” herein.

Description of the Bonds

Payment. Principal of the Bonds will be payable in each of the years and in the amounts set forth on the inside front cover hereof at the principal corporate office of the Trustee. The Bonds will accrue interest from their date of delivery, and interest thereon will be payable semiannually on April 1 and October 1 of each year (each, an “Interest Payment Date”), commencing April 1, 2016, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more, payable when due by wire of the Trustee to DTC which will in turn remit such interest, principal and premium, if any, to DTC Participants (as defined herein), which will in turn remit such interest, principal and premium, if any, to Beneficial Owners (as defined herein) of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Redemption. The Bonds are subject to optional, extraordinary and mandatory sinking account redemption prior to their stated maturity dates, as provided herein. See “THE BONDS – Redemption Provisions” herein.

Form of Bonds. The Bonds will be issued in fully registered form, without coupons, in the minimum denominations of \$5,000 or any integral multiple thereof. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture. See “THE BONDS – General.” When delivered, the Bonds will be registered in the name of The Depository Trust Company, New York, New York (“DTC”), or its nominee. DTC will act as securities depository for the Bonds. Purchasers of the Bonds will not receive certificates representing the Bonds purchased. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Sources of Payment for the Bonds

In General. The Bonds are special limited obligations of the Authority, payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues,” as more fully described herein). The Installment Payments under the two separate Installment Sale Agreements, along with investment earnings, are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due.

The obligation of the City to make payments under each of the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement is limited solely to Net Revenues consisting generally of all gross income and revenue from the Water Enterprise, and from the Wastewater Enterprise, respectively, less the maintenance and operations costs of the Water Enterprise and the Wastewater Enterprise, respectively.

Reserve Fund. A Reserve Fund (the “Reserve Fund”) is established with the Trustee pursuant to the Indenture in an amount equal to the Reserve Requirement (as defined in the Indenture). The City will purchase a Municipal Bond Debt Service Reserve Insurance Policy (the “Reserve Surety”) from Assured Guaranty Municipal Corp. (the “Insurer”) and deposit the Reserve Surety with the Trustee. Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the Bonds in the event amounts on deposit in the Interest Accounts, Principal Accounts or Sinking Accounts, respectively, are insufficient therefor. See “SECURITY FOR THE BONDS – Reserve Fund” herein.

Sources of Payment for the Installment Sale Agreements

In General. Pursuant to each of the Installment Sale Agreements, the City has agreed to pay Installment Payments to the Authority as the purchase price of (i) certain water system facilities pertaining to the City’s Water Enterprise (the “Water Project”), and (ii) certain wastewater system facilities pertaining to the City’s Wastewater Enterprise (the “Wastewater Project,” and together with the Water Project, the “Projects”). See “THE FINANCING PLAN” herein. The aggregate Installment Payments are scheduled to be sufficient, in time and amount, for the Authority to pay principal of and interest on the Bonds when due. The City is obligated to make such payments solely from Net Revenues. See “SECURITY FOR THE BONDS – Pledge of Net Revenues” herein.

Rate Covenant. Under each of the Installment Sale Agreements, the City has covenanted that, to the extent provided by law, it will fix, prescribe and collect rates, fees and charges for the services and facilities provided by the Water Enterprise and the Wastewater Enterprise, respectively, which will at least be sufficient to yield respective Net Revenues, during the next succeeding Fiscal Year, equal to 125% of the total respective Installment Payments for such Fiscal Year. See “SECURITY FOR THE BONDS – Rate Covenant” herein.

Rate Stabilization Funds. Under each of the Installment Sale Agreements, the City may at its discretion establish and maintain a rate stabilization fund for each respective Enterprise. To the extent established and funded, the City may withdraw amounts from time to time held in such Rate Stabilization Fund within 120 days after the end of the applicable Fiscal Year. Amounts so withdrawn shall be included in Gross Revenues of the Water Enterprise and/or the Wastewater Enterprise, as the case may be, for such Fiscal Year and may be applied for any purposes for which such Gross Revenues are generally available. See “SECURITY FOR THE BONDS – Rate Stabilization Funds” herein.

Risk Factors

The purchase of the Bonds involves certain risks. For a general discussion of certain special factors and considerations relevant to an investment in the Bonds, in addition to the other matters set forth herein, see “RISK FACTORS” herein. The Bonds are not appropriate investments for investors who are not able to bear the associated risks. Investors should read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Limited Obligations

The obligations of the City to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained in the Installment Sale Agreements will be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority, or the Trustee of any obligation to the City or otherwise or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

The Bonds are special, limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority nor its members (including the City and the CMFA) is pledged for the payment of the interest on or principal or redemption price of the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the interest on or principal or redemption price of the Bonds. Neither the payment of the interest on or principal or redemption price of the Bonds constitutes a debt, liability or obligation of the Authority or any member of the Authority (including the City and the CMFA) for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation.

The City's obligation to pay Water Installment Payments under the Water Installment Sale Agreement is a special obligation of the City limited solely to the Net Revenues of the Water Enterprise. The City's obligation to pay Wastewater Installment Payments under the Wastewater Installment Sale Agreement is a special obligation of the City limited solely to the Net Revenues of the Wastewater Enterprise. No other funds or property of the City are liable for the payment of the Installment Payments or any other amounts payable under the Installment Sale Agreements or the Indenture. The full faith and credit of neither the Authority, the City nor the State of California or any of its political subdivisions is pledged for the payment of the Bonds. The Authority has no taxing power.

Continuing Disclosure

The City has covenanted, on behalf of itself and the Authority, for the benefit of holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the City, the Water Enterprise and the Wastewater Enterprise by not later than nine (9) months following the end of the City's Fiscal Year (which currently would be by March 31 each year based upon the June 30 end of the City's Fiscal Year), commencing with the report for the 2014-15 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material.

The City has covenanted to prepare and deliver the Annual Report and notices of certain material events to the Municipal Securities Rulemaking Board, via its Electronic Municipal Market Access ("EMMA") system. These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5).

The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein. See "CONTINUING DISCLOSURE" herein.

Bond Insurance

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. See “BOND INSURANCE” and “APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY” herein.

Tax Matters

Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest with respect to the Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on the Bonds will be exempt from State of California (the “State”) personal income taxes. See “TAX MATTERS” herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “intend,” “expect,” “propose,” “estimate,” “project,” “budget,” “anticipate,” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the 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. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. The forward-looking statements in this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such forward-looking statements. READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.

Other Matters

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Furthermore, this Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official Statement nor any sale of the Bonds, under any circumstances, shall create any implication that there has been no change in the affairs of the City, the Water Enterprise or the Wastewater Enterprise since the date of this Official Statement. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The presentation of information, including the table of receipts from taxes and other revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX A – SUMMARY OF LEGAL DOCUMENTS” herein. The information set forth herein, other than that provided by the City, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

FINANCING PLAN

Prepayment of 2008 Obligations

A portion of the Bond proceeds will be used to prepay the City’s obligations under an Installment Sale Agreement dated as of October 1, 2008 (the “2008 Installment Sale Agreement”), between the City and the Public Property Financing Corporation of California (the “Corporation”), under which the City is obligated to pay certain installment payments (the “2008 Installment Payments”) which are evidenced and represented by the City’s 2008 Water and Wastewater Revenue, Certificates of Participation (the “2008 Obligation”), originally executed and delivered in the original principal amount of \$11,145,000 (of which \$10,265,000 is currently outstanding) under a Trust Agreement dated as of October 1, 2008 (the “2008 Trust Agreement”), among the Agency, the Corporation and Wells Fargo Bank National Association, as trustee (the “2008 Trustee”).

The 2008 Installment Sale Agreement is secured by a lien on Net Revenues and currently has an outstanding principal balance of \$10,405,000. On the Closing Date, the Trustee will transfer a portion of the proceeds of the Bonds to the 2008 Trustee for deposit in an escrow fund (the “Escrow Fund”), to be established under an Escrow Agreement dated as of December 1, 2015 (the “Escrow Agreement”), between the City and the 2008 Trustee, as escrow agent (“Escrow Agent”).

The moneys deposited in the Escrow Fund will be in an amount sufficient to pay and prepay the 2008 Installment Sale Agreement and the 2008 Obligations in full through and including October 1, 2017 (the “Prepayment Date”), at a prepayment price equal to 100% of the principal amount thereof together with accrued interest to such date.

The funds deposited to the Escrow Fund are to be held in cash or used to purchase direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, scheduled to mature on or before the Prepayment Date.

As a result of the deposit into the Escrow Fund, all liability of the City with respect to the 2008 Installment Sale Agreement and the 2008 Obligations will be discharged as of the date of issuance of the Bonds. Amounts on deposit in the Escrow Fund are to be pledged solely to the prepayment of the 2008 Installment Sale Agreement and the 2008 Obligations, and will not be available to pay debt service on the Bonds.

Prepayment of 2011 Obligation

A portion of the Bond proceeds will be used to prepay the City's obligations under a certain Payment Agreement dated as of July 19, 2011 (the "2011 Obligation"), between the City and Granite Rock Company, a California corporation, d.b.a. Pavex Construction Division, under which the City is obligated to pay certain installment payments thereunder. The 2011 Obligation has a currently outstanding balance (principal and interest) of \$182,169.20, and there is no prepayment penalty for early payment.

On the Closing Date, the Trustee will deposit a portion of the proceeds of the Bonds into a prepayment fund (the "Prepayment Fund") to be established under the Indenture. The Trustee will hold the amounts on deposit in the Prepayment Fund in cash, uninvested. The 2011 Obligation is scheduled to be prepaid in full on or before December 31, 2015. Amounts on deposit in the Prepayment Fund are to be pledged solely to the payment of the 2011 Obligation and will not be available to pay debt service on the Bonds.

The 2015 Project

A portion of the Bond proceeds will be used to finance the acquisition and construction of certain improvements to the Water Enterprise and the Wastewater Enterprise (the "2015 Project"). The 2015 Project is being sold to the Authority in exchange for Bond proceeds, which will then be deposited in the 2015 Project Fund established under the Indenture to provide financing for the acquisition and construction of a pelletized water softening plant, with an estimated construction cost of approximately \$800,000. The City will fund \$400,000 of the total estimated construction cost from a cash contribution, and the other \$400,000 will be funded from Bond proceeds.

Sources and Uses of Funds

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

Sources of Funds:

Principal Amount of Bonds	\$11,640,000.00
Other Available Funds	791,178.04
<i>Plus:</i> Net Original Issue Premium	319,262.30
<i>Less:</i> Underwriter's Discount	<u>(112,908.00)</u>
Total Sources	<u>\$12,637,532.34</u>

Uses of Funds:

Deposit to Escrow Fund	\$11,782,868.61
Deposit to Prepayment Fund	182,169.20
Deposit to 2015 Project Fund	400,000.00
Deposit to Costs of Issuance Fund ^[1]	<u>272,494.53</u>
Total Uses	<u>\$12,637,532.34</u>

^[1] Moneys deposited in the Costs of Issuance Fund are expected to be used to pay the policy premiums for the Bond Insurance and Reserve Surety, the fees and expenses of Bond Counsel, Disclosure Counsel, Financial Advisor, Trustee, Escrow Agent, Verification Agent and the rating agency, as well as printing and other miscellaneous costs and expenses in connection with the issuance, sale and delivery of the Bonds.

Debt Service Requirements

Table 1 sets forth the annual principal and interest payments on the Bonds (assuming no redemptions of the Bonds, other than mandatory sinking fund redemptions).

Table 1
SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
SERIES 2015 ENTERPRISE REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE			
<u>Bond Year</u> <u>(October 1)</u>	<u>Principal Portion of</u> <u>Debt Service</u>	<u>Interest Portion of</u> <u>Debt Service</u>	<u>Total</u> <u>Debt Service</u>
2016	\$245,000.00	\$330,038.14	\$575,038.14
2017	250,000.00	420,037.52	670,037.52
2018	260,000.00	412,537.52	672,537.52
2019	265,000.00	404,737.52	669,737.52
2020	275,000.00	394,137.52	669,137.52
2021	285,000.00	383,137.52	668,137.52
2022	300,000.00	371,737.52	671,737.52
2023	310,000.00	359,737.52	669,737.52
2024	325,000.00	344,237.52	669,237.52
2025	345,000.00	327,987.52	672,987.52
2026	365,000.00	310,737.52	675,737.52
2027	375,000.00	292,487.52	667,487.52
2028	390,000.00	281,237.52	671,237.52
2029	400,000.00	269,537.52	669,537.52
2030	415,000.00	257,537.52	672,537.52
2031	425,000.00	244,568.76	669,568.76
2032	435,000.00	231,287.52	666,287.52
2033	450,000.00	217,693.76	667,693.76
2034	460,000.00	203,068.76	663,068.76
2035	485,000.00	188,118.76	673,118.76
2036	500,000.00	171,750.00	671,750.00
2037	525,000.00	153,000.00	678,000.00
2038	545,000.00	133,312.50	678,312.50
2039	565,000.00	112,875.00	677,875.00
2040	580,000.00	91,687.50	671,687.50
2041	600,000.00	69,937.50	669,937.50
2042	625,000.00	47,437.50	672,437.50
2043	<u>640,000.00</u>	<u>24,000.00</u>	<u>664,000.00</u>
Totals	<u>\$11,640,000.00</u>	<u>\$7,048,600.98</u>	<u>\$18,688,600.98</u>

Table 2 shows the relative contribution of the Water Installment Payments and the Wastewater Installment Payments to the total debt service requirements of the Bonds:

Table 2
SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
SERIES 2015 ENTERPRISE REVENUE BONDS

ANNUAL DEBT SERVICE SCHEDULE			
<u>Bond Year</u> <u>(October 1)</u>	<u>Water</u> <u>Installment Payment</u>	<u>Wastewater</u> <u>Installment Payment</u>	<u>Total Annual</u> <u>Debt Service</u>
2016	\$316,270.98	\$258,767.16	\$575,038.14
2017	368,520.64	301,516.88	670,037.52
2018	369,895.64	302,641.88	672,537.52
2019	368,355.64	301,381.88	669,737.52
2020	368,025.64	301,111.88	669,137.52
2021	367,475.64	300,661.88	668,137.52
2022	369,455.64	302,281.88	671,737.52
2023	368,355.64	301,381.88	669,737.52
2024	368,080.64	301,156.88	669,237.52
2025	370,143.14	302,844.38	672,987.52
2026	371,655.64	304,081.88	675,737.52
2027	367,118.14	300,369.38	667,487.52
2028	369,180.64	302,056.88	671,237.52
2029	368,245.64	301,291.88	669,537.52
2030	369,895.64	302,641.88	672,537.52
2031	368,262.82	301,305.94	669,568.76
2032	366,458.14	299,829.38	666,287.52
2033	367,231.57	300,462.19	667,693.76
2034	364,687.82	298,380.94	663,068.76
2035	370,215.32	302,903.44	673,118.76
2036	369,462.50	302,287.50	671,750.00
2037	372,900.00	305,100.00	678,000.00
2038	373,071.88	305,240.62	678,312.50
2039	372,831.25	305,043.75	677,875.00
2040	369,428.13	302,259.37	671,687.50
2041	368,465.63	301,471.87	669,937.50
2042	369,840.63	302,596.87	672,437.50
2043	<u>365,200.00</u>	<u>298,800.00</u>	<u>664,000.00</u>
Totals	<u>\$10,278,730.63</u>	<u>\$8,409,870.35</u>	<u>\$18,688,600.98</u>

Debt Service Coverage Projections

Water – Historical and Projected Operating Results and Debt Service Coverage Projections. The City’s historical and projected operating results and debt service coverage relating to the Water Enterprise for the Fiscal Years ending June 30, 2014, through June 30, 2018, are set forth in the following Table 3, reflecting certain significant assumptions concerning future events and circumstances (the “Coverage Projections”). The financial forecast represents the City’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 3 are material to the development of the City’s financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See “RISK FACTORS – Accuracy of Assumptions” herein.

Table 3
SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
SERIES 2015 ENTERPRISE REVENUE BONDS
WATER ENTERPRISE

HISTORICAL AND PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE PROJECTIONS					
	Audited 2014^[1]	Unaudited 2015^[2]	Projected 2016	Projected 2017	Projected 2018
<u>GROSS REVENUES</u>					
Total Operating Revenues	\$736,597	\$715,094	\$836,160	\$891,271	\$948,943
Total Nonoperating Revenues ^[3]	54,840	7,551	317,000	318,000	318,000
Total Gross Revenues	\$791,437	\$722,645	\$1,153,160	\$1,209,271	\$1,266,943
<u>OPERATING EXPENSES</u>					
Total Operating Expenses^[4]	\$157,256	\$210,360	\$197,000	\$209,000	\$216,000
<i>Net Revenues</i>	<i>\$634,181</i>	<i>\$512,285</i>	<i>\$956,160</i>	<i>\$1,000,271</i>	<i>\$1,050,943</i>
<u>TOTAL DEBT SERVICE</u>					
Total Debt Service^[5]	\$425,391	\$425,152	\$315,661	\$367,792	\$366,458
<i>Debt Service Coverage^[5]</i>	<i><u>1.49x</u></i>	<i><u>1.20x</u></i>	<i><u>3.03x</u></i>	<i><u>2.72x</u></i>	<i><u>2.87x</u></i>

[1] Based upon the City’s 2013-14 Audited Financial Statements.

[2] Based upon the 2014-15 unaudited estimated actual numbers provided by the City.

[3] Non-Operating Revenues contain developer impact / connections fee revenues, which are estimated at \$289,000 for each of the Fiscal Years 2016 through 2018, and \$127,000 for Fiscal Year 2019.

[4] Based upon City’s estimate of future Operating Expenses, and are further adjusted to exclude depreciation, amortization and projected debt service allocable to the Water Enterprise.

[5] Portion of Bonds debt service allocable to the Water Enterprise. Projected total debt service and corresponding debt service coverage projections are preliminary, subject to change.

Source: Rate Study (revenues/expenses); Underwriter (debt service calculations).

Wastewater – Historical and Projected Operating Results and Debt Service Coverage Projections. The City’s historical and projected operating results and debt service coverage relating to the Wastewater Enterprise for the Fiscal Years ending June 30, 2014, through June 30, 2018, are set forth in the following Table 4, reflecting certain significant assumptions concerning future events and circumstances (the “Coverage Projections”). The financial forecast represents the City’s estimate of projected financial results based upon its judgment of the probable occurrence of future events. In addition, the assumptions set forth in the footnotes to Table 4 are material to the development of the City’s financial projections. Variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See “RISK FACTORS – Accuracy of Assumptions” herein.

Table 4
SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
SERIES 2015 ENTERPRISE REVENUE BONDS
WASTEWATER ENTERPRISE

HISTORICAL AND PROJECTED OPERATING RESULTS AND DEBT SERVICE COVERAGE PROJECTIONS					
	Actual 2014^[1]	Projected 2015^[2]	Projected 2016	Projected 2017	Projected 2018
<u>GROSS REVENUES</u>					
Total Operating Revenues	\$841,769	\$869,905	\$961,000	\$1,011,000	\$1,062,000
Total Nonoperating Revenues ^[3]	45,600	5,241	91,650	94,650	96,650
Total Gross Revenues	\$887,369	\$875,146	\$1,052,650	\$1,105,650	\$1,158,650
<u>OPERATING EXPENSES</u>					
Total Operating Expenses^[4]	280,632	304,371	250,000	265,000	273,000
Net Revenues	\$606,737	\$570,775	\$802,650	\$840,650	\$885,650
<u>TOTAL DEBT SERVICE</u>					
Total Debt Service^[5]	\$348,047	\$347,852	\$258,268	\$300,921	\$299,829
Debt Service Coverage^[5]	<u>1.74x</u>	<u>1.64x</u>	<u>3.11x</u>	<u>2.79x</u>	<u>2.95x</u>

[1] Based upon the City’s 2013-14 Audited Financial Statements.

[2] Based upon the 2014-15 unaudited estimated actual numbers provided by the City.

[3] Non-Operating Revenues contain developer impact / connections fee revenues, which are estimated at \$81,650 for each of the Fiscal Years 2016 through 2018, and \$35,926 for Fiscal Year 2019.

[4] Based upon City’s estimate of future Operating Expenses, and are further adjusted to exclude depreciation, amortization and projected debt service allocable to the Wastewater Enterprise.

[5] Portion of Bonds debt service allocable to the Wastewater Enterprise. Projected total debt service and corresponding debt service coverage projections are preliminary, subject to change.

Source: Rate Study (revenues/expenses); Underwriter (debt service calculations).

THE BONDS

Authority for Issuance

The Bonds are being issued pursuant to the Bond Law, the Resolutions and the Indenture. Under this authority, the Bonds may be issued in a principal amount not to exceed \$12,500,000.

General Description

Fully Registered Bonds in Book-Entry Only Form. The Bonds will be issued as one fully registered bond certificate without coupons for each maturity (unless the Bonds of such maturity bear different interest rates, then one certificate for each interest rate among such maturity) and, when issued, will be initially issued in book-entry only form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in book-entry form only, in integral multiples of \$5,000.

Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds.

So long as DTC’s book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

In the event (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that the DTC will no longer so act, then the Authority will discontinue the book-entry system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, then the Bonds so designated will no longer be restricted to being registered in the registration books kept by the Trustee in the name of Cede & Co., but will be registered in whatever name or names persons transferring or exchanging Bonds will designate, in accordance with the provisions of the Indenture.

Repayment of the Bonds. The Bonds will be issued in denominations of \$5,000 or any integral multiple thereof, and will be dated the date of delivery thereof and will mature on October 1 in the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually from their dated date at the rates set forth on the inside cover page hereof, on April 1 and October 1 of each year (each, an “Interest Payment Date”), commencing April 1, 2016, by check mailed by the Trustee on each Interest Payment Date to the person whose name appears in the registration books kept by the Trustee as the registered owner thereof as of the close of business on the fifteenth calendar day of the month immediately preceding an interest payment date (a “Record Date”); provided, however, that payment of interest may be by wire transfer in immediately available funds to an account in the United States of America to any Owner of Bonds in the aggregate principal amount of \$1,000,000 or more. Interest on the Bonds will be calculated based on a 360-day year consisting of twelve 30-day months.

While the Bonds are subject to the book-entry system, the principal and interest with respect to the Bonds will be paid by the Trustee to DTC for subsequent disbursement to beneficial owners of the Bonds. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM” herein.

Transfer or Exchange of the Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee.

Transfer of any Bond will not be permitted by the Trustee during the period established by the Trustee for selection of Bonds for redemption or if such Bond has been selected for redemption pursuant to the Indenture.

Whenever any Bond or Bonds will be surrendered for transfer, the Authority will execute and the Trustee will authenticate and deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee will require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

If a Bond is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the Owner of such Bond, will authenticate, subject to the provisions of the Indenture, a new Bond of like tenor and amount. In the case of a lost, stolen or destroyed Bond, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Bond delivered in replacement of such Bond, and the Authority may require payment of the expenses of the Authority, the City and the Trustee incurred in connection therewith.

Optional Redemption of Bonds

The Bonds maturing on or before October 1, 2025, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after October 1, 2026, are subject to redemption in whole or in part in integral multiples of \$5,000, by such maturities as are selected by the Authority (or, if the Authority fails to designate such maturities, then pro rata among maturities), and by lot within a maturity, from any source of available funds (including prepayments of Installment Payments made by the City pursuant to the applicable Installment Sale Agreement), on any date on or after October 1, 2025, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption.

Mandatory Sinking Fund Redemption of Bonds

The Term Bonds maturing on October 1, 2043 are subject to mandatory redemption from monies in the Sinking Account prior to their stated maturity date, at the principal amount thereof without premium on each October 1, on and after October 1, 2036, in accordance with the terms of the Indenture, in the principal amounts set forth in the following schedule:

Sinking Payment Date (October 1)	Principal Amount to be Redeemed
2036	\$500,000
2037	525,000
2038	545,000
2039	565,000
2040	580,000
2041	600,000
2042	625,000
2043 (Maturity)	640,000

Extraordinary Mandatory Redemption from Insurance and Condemnation Proceeds

The Bonds are subject to mandatory redemption prior to their respective stated maturities, as a whole, or in part in the order of maturity as directed by the Authority or the City in a written request provided to the Trustee and by lot within each maturity, on any date, in integral multiples of \$5,000, from Net Proceeds of casualty insurance or a condemnation award upon the terms and conditions of, and as provided for in, the Indenture and the applicable Installment Sale Agreement, at a prepayment price equal to the principal amount thereof plus accrued interest evidenced and represented thereby to the date fixed for prepayment, without premium.

Purchase in Lieu of Redemption

At any time prior to the selection of Bonds for redemption, the Trustee may, upon written direction of either the Authority or the City, apply amounts held for redemption of Bonds to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest payable from the Interest Account) as either the Authority or the City may direct the Trustee, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price of such Bonds; and provided further that in the case of optional redemption, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts for redemption may be used for payment of such Bonds to be redeemed in order of their due date as set forth in a request of either the Authority or the City.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption, by such maturities as either the Authority or the City will designate (and by lot within any maturity). For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 portions and such portions will be treated as separate Bonds, which may be separately redeemed.

Partial Redemption of Bonds

In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense

of either the Authority or the City, a new Bond or Bonds of the same series and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond being redeemed.

Notice of Redemption

The Trustee shall give notice of redemption to the Owners of the Bonds and to certain security depositories and information services, not less than thirty (30) nor more than sixty (60) days prior to the redemption date. Such notice must specify the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, all as more fully specified in the Indenture, and shall require that such Bonds be surrendered on the redemption date at the office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Failure by any Owner of a Bond to receive such notice or any defect in any notice so mailed will not affect the sufficiency of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest on the date fixed for redemption.

The Authority has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture.

Neither the City, the Authority nor the Trustee will have any liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will cause notice of such rescission to be mailed, first class mail, postage prepaid, to the respective Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books, and to the Municipal Securities Rulemaking Board and the Securities Depositories.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue thereon from and after the redemption date. All such Bonds redeemed will be canceled by the Trustee.

All moneys held by or on behalf of the Trustee for the payment of principal of or interest or premium on Bonds whether at redemption or maturity, will be held in trust for the account of the Owners thereof and the Trustee will not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

SECURITY FOR THE BONDS

The general fund of the City is not liable and neither the credit nor the taxing power of the City is pledged for the payment of the principal of and interest on the Bonds. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of their income, receipts, or revenues except the Revenues and other amounts pledged under the Indenture. This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See "APPENDIX A – SUMMARY OF LEGAL DOCUMENTS" for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.

Pledge of Revenues

All Revenues (as defined below) and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Indenture are irrevocably pledged to the payment of the interest and premium, if any, on and principal of the Bonds as provided in the Indenture, and the Revenues may not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Revenues and other moneys there may be applied such sums for such purposes as are permitted under the Indenture.

"Revenues" means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, including, without limiting the generality of the foregoing, (i) all of the Water Installment Payments payable pursuant to the Water Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Water Installment Payments), and (ii) all of the Wastewater Installment Payments payable pursuant to the Wastewater Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Wastewater Installment Payments), but in each case excluding any respective Water and Wastewater Additional Payments, (b) amounts deposited in the Reserve Fund and Bond Fund, and (c) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture (except the Rebate Account).

Such pledge constitutes a lien on and security interest upon the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture (other than amounts on deposit in the Rebate Fund) for the payment of the interest on and principal of the Bonds in accordance with their terms and the terms of the Indenture.

In the Indenture, the Authority agrees to transfer in trust, grant a security interest in and assign to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement (except for the right to receive any respective Water or Wastewater Additional Payments (as defined herein) to the extent payable to the Authority and certain rights to indemnification set forth in each of the respective Installment Sale Agreements).

In order to carry out and effectuate the pledge, charge and lien on Revenues provided in the Indenture, the Authority agrees and covenants in the Indenture that all Revenues will be promptly deposited by the Trustee upon receipt thereof in the Bond Fund created under the Indenture, which the Trustee will establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under a respective Installment Sale Agreement to be deposited in the Redemption Fund will be promptly deposited in such Fund. All Revenues will be accounted for through and held in trust in the Bond Fund, and the Authority has no beneficial right or interest in any of the Revenues except only as provided in the Indenture.

Flow of Funds

Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On each Interest Payment Date, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(2) Principal Account. On each Interest Payment Date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof.

(3) Reserve Fund. The Trustee shall deposit in the Reserve Fund an amount, if any, required to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to either the Water Enterprise or the Wastewater Enterprise, as the case may be).

(4) Surplus. As long as all of the foregoing payments, allocations and transfers are made at the times and in the manner described above, any moneys remaining in the Bond Fund may at any time be treated as surplus and applied as provided in the Indenture.

Reserve Fund

In order to further secure the payment of principal of and interest on the Bonds, the Trustee shall establish, maintain and hold in trust pursuant to the Indenture a Reserve Fund in an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

The Reserve Requirement will be satisfied initially by crediting to the Reserve Fund a Reserve Surety issued by the Insurer.

Except for release of excess as provided in the Indenture, all amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption, when due and payable to the extent that moneys deposited in the Interest Account, Principal Account or Sinking Account, respectively, are not sufficient for such purpose.

If at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the City is required to determine which Enterprise caused the shortfall, and then pay from corresponding Water Net Revenues or Wastewater Net Revenues, as the case may be, to the Trustee the amount of such deficiency as provided in the respective Installment Sale Agreement. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement will be transferred by the Trustee to the Bond Fund.

The Authority shall have the right at any time to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation.

On the Closing Date, the City will cause the Reserve Surety to be delivered to the Trustee. All cash and investments in the Reserve Fund shall be transferred to the applicable accounts in the Debt Service Fund for payment of debt service on Bonds before any drawing may be made on the Reserve Surety or any other Qualified Reserve Credit Instruments credited to the Reserve Fund in lieu of cash. Reimbursement for draws on a Qualified Reserve Credit Instrument owing to the provider thereof, including accrued interest, shall be made prior to replenishment of any such cash amounts. Draws on all Qualified Reserve Credit

Instruments (including the Reserve Surety) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Reimbursement of amounts with respect to Qualified Reserve Credit Instruments shall be made on a pro rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable Qualified Reserve Credit Instruments without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw.

Rate Stabilization Funds

Under each of the Installment Sale Agreements, the City has the right to deposit into each respective Rate Stabilization Fund held by the City from time to time any amount of funds which are legally available therefor; provided that deposits for each Fiscal Year may be made until (but not after) 120 days following the end of such Fiscal Year. For the purpose of computing the amount of Gross Revenues for any Fiscal Year or the amount of Net Revenues for any Fiscal Year, the City may transfer amounts on deposit in the Rate Stabilization Fund into either the Water or Wastewater Fund, as the case may be, for purposes of such computation, such transfers to be made until (but not after) 120 days after the end of such Fiscal Year. In addition, the City may withdraw amounts on deposit in the Rate Stabilization Fund for any other lawful purpose. Neither Rate Stabilization Fund is pledged to secure payment of the Installment Payments. There will be no balance in either Rate Stabilization Fund at the time of Closing.

Limited Obligation

The Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged for the payment of the principal or Redemption Price of and interest on the Bonds.

The Owner of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Revenues.

BOND INSURANCE

The following information has been furnished by Assured Guaranty Municipal Corp. for use in this Official Statement.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (the “Insurer” or “AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included in APPENDIX G – “SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On June 29, 2015, S&P issued a credit rating report in which it affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On November 13, 2014, KBRA assigned an insurance financial strength rating of “AA+” (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, Moody’s issued a rating action report stating that it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). On February 18, 2015, Moody’s published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Capitalization of AGM

At September 30, 2015, AGM's policyholders' surplus and contingency reserve were approximately \$3,769 million and its net unearned premium reserve was approximately \$1,603 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (filed by AGL with the SEC on May 8, 2015);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 (filed by AGL with the SEC on August 6, 2015); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (filed by AGL with the SEC on November 6, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents.

Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE.”

THE WATER INSTALLMENT SALE AGREEMENT

Water Installment Payments

The City’s obligation to pay the Water Installment Payments, the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement is a special obligation of the City limited solely to Water Net Revenues. Under no circumstances will the City be required, obligated or liable to advance moneys derived from any source of income other than the Water Net Revenues and other sources specifically identified in the Water Installment Sale Agreement for the payment of the Water Installment Payments and the Water Additional Payments, nor will any other funds or property of the City be liable for the payment of the Water Installment Payments and the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement.

The obligations of the City to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement shall be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water Enterprise, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority’s rights and remedies under the Water Installment Sale Agreement, including the right to receive the Water Installment Payments.

The obligation of the City to pay the Water Installment Payments is limited to the Water Net Revenues, which are defined in the Water Installment Sale Agreement to be for any period, an amount equal to all of the Water Gross Revenues received during such period minus the amount required to pay all Water Operation and Maintenance Costs becoming payable during such period.

Water Net Revenues

Water Net Revenues is defined in the Water Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues of the Water Enterprise during such Fiscal Year less the Water Operation and Maintenance Costs during such Fiscal Year.

“Water Enterprise” means, collectively, the entire water collection, storage, treatment, transmission and distribution system now owned or operated by the City, and all other properties, structures or works hereafter acquired and constructed by the City and determined to be a part of the Water Enterprise, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, storage, treatment, transmission and distribution system, including all contractual rights to water supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, storage, treatment, transmission and distribution of water, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Water Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Water Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the City from the operation of the Water Enterprise or arising from the Water Enterprise determined in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges received by the City for the Water Enterprise service and the other services of the Water Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Water Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Water Enterprise, including all income from the investment of amounts on deposit in the Water Utility Fund, and the Water Rate Stabilization Fund, (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Water Enterprise, and (f) all other monies howsoever derived by the City from the operation of the Water Enterprise or arising from the Water Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the City. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Water Rate Stabilization Fund as contemplated by the Water Installment Sale Agreement.

“Water Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the City for maintaining and operating the Water Enterprise, determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) costs of acquisition of water, including all associated treatment and delivery costs, to be used by the Water Enterprise, (b) costs of electricity and other forms of energy supplied to the Water Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water Enterprise in good repair and working order, (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Water Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (e) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Water Parity Obligations or of such Water Parity Obligations, such as compensation, reimbursement and indemnification of the Trustee for any such Water Parity Obligations and fees and expenses of Independent Certified Public Accountants and independent engineers, but in all cases excluding

(i) debt service payable on obligations incurred by the City with respect to the Water Enterprise, including but not limited to the Water Installment Payments and any Water Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Water Utility Fund

The City has heretofore established a water utility fund into which the City deposits and will continue to deposit all Water Gross Revenues (the “Water Utility Fund”), which the City has covenanted to maintain throughout the Term of the Water Installment Sale Agreement.

In the Water Installment Sale Agreement, all of the Water Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Water Installment Payments and any other Water Parity Obligations, and except as otherwise provided therein, the Water Net Revenues will not be used for any other purpose so long as any of the Water Installment Payments remain unpaid.

All of the Water Gross Revenues will be deposited by the City immediately upon receipt in the Water Utility Fund. The City covenants and agrees that all Water Net Revenues will be held by the City in the Water Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Water Parity Obligations.

On or before each Water Installment Payment Date, the City will withdraw from the Water Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Water Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Water Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Fund (other than amounts resulting from the prepayment of the Water Installment Payments pursuant to the Water Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Water Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Water Utility Fund such amounts at such times as shall be required to: (i) pay all Water Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Water Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Water Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Fund (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Fund Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Water Installment Sale Agreement.

In addition to the Water Installment Payments, the City shall pay when due Water Additional Payments, which generally consist of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Water Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year, which (together with other funds transferred from the Water Rate Stabilization Fund or other funds which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Water Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

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

(ii) All Water Installment Payments, and all other Water Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Water Installment Sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Water Enterprise), or with respect to Water Parity Obligations, to replenish Reserve Funds therefore.

(iv) All Water Additional Payments and payment of amounts owed pursuant to any Supplemental Water Installment Sale Agreements that are Water Subordinate Obligations.

(v) All Water Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Water Utility Fund for expenditure for any lawful purpose of the City, including (i) the payment of Water Additional Payments, (ii) the payment of Water Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Water Enterprise, (v) the prepayment of any obligations of the City relating to the Water Enterprise, or (vi) any other lawful purposes of the City, including, but not limited to, deposits to the Water Rate Stabilization Fund in accordance with Section 4.7(c) of the Water Installment Sale Agreement.

Covenant Regarding Water Net Revenues. In addition to the covenant regarding Gross Revenues, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Water Net Revenues (as defined below) for such Fiscal Year equal to at least the Water Coverage Requirement (as defined below) for such Fiscal Year. The City 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 rates, fees and charges then in effect unless the Adjusted Annual Water Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Water Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Water Gross Revenues (as defined below) during such Fiscal Year or twelve

(12) calendar month period minus the Water Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Water Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Water Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Water Utility Fund and/or the Bond Fund from the Water Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Water Rate Stabilization Fund from the Water Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Water Rate Stabilization Fund” means the separate fund to be known as the “Water Rate Stabilization Fund,” established pursuant to the Water Installment Sale Agreement, which is held, replenished and maintained by the City. The City may at any time withdraw from the Water Rate Stabilization Fund any money therein for deposit in the Water Utility Fund or Bond Fund; provided that no deposit of Water Net Revenues shall be made into the Water Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Water Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

“Water Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Water Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Water Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Water Annual Debt Service plus the Water Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Water Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Water Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a Reserve Fund under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Water Coverage Requirement, the provisions set forth in the Water Installment Sale Agreement regarding variable rate and balloon payment obligation adjustments shall apply.

Limited Unconditional Obligation

The City’s obligation to pay the Water Installment Payments, the Water Additional Payments and any other amounts coming due and payable under the Water Installment Payment Agreement are a special limited obligation of the City limited solely to the Water Net Revenues.

Under no circumstances shall the City be obligated, liable or required to advance moneys derived from any source of income other than the Water Net Revenues and other sources specifically identified for the payment of the Water Installment Payments and the Water Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Water Installment Payments and the Water Additional Payments and any other amounts coming due and payable under the Water Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the City to make the Water Installment Payments and the Water Additional Payments from the Water Net Revenues and to perform and observe the other agreements contained in the Water Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water Enterprise, whether under the Water Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

Until such time as all of the Water Installment Payments, all of the Water Additional Payments and all other amounts coming due and payable under the Water Installment Sale Agreement have been fully paid or prepaid, the City has agreed that it (a) will not suspend or discontinue payment of any Water Installment Payments, Water Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Water Installment Sale Agreement, and (c) will not terminate the Term of the Water Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water Enterprise, sale of the Water Enterprise, the taking by eminent domain of title to or temporary use of any component of the Water Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Water Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Water Installment Sale Agreement, the City may from time to time to issue or incur additional Water Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the Fiscal Consultant demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Water Net Revenues were at least equal to the Water Coverage Requirement for all outstanding Water Parity Obligations plus the Water Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the City may adjust the foregoing Adjusted Annual Water Net Revenues to reflect Additional Water Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Water Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Water Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Water Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Water Parity Obligation proposed to be executed plus all projects financed with all existing Water Parity Obligations are expected to commence operations, will be at least equal to the Water Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the

Independent Engineer may adjust the foregoing estimated Adjusted Annual Water Net Revenues to reflect: (a) An allowance for Water Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for water service in effect and being charged or from any increase in the rates, fees and charges for water service that are expected to be charged; and (b) An allowance for Water Net Revenues that are estimated to be derived from customers of the Water Enterprise anticipated to be served by the additions, betterments or improvements to the Water Enterprise to be financed by the Water Parity Obligation proposed to be executed;

(b) A Certificate of the City that the project to be acquired and constructed with the proceeds of such Water Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the water service for each Fiscal Year from the Fiscal Year in which such Water Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Water Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Water Parity Obligations a Reserve Fund may, but is not required to, be established for such Water Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Water Parity Obligations.

Nothing in the Water Installment Sale Agreement prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Water Net Revenues that is subordinate to the lien established under the Water Installment Sale Agreement, upon such terms and in such principal amounts as the City may determine.

“Additional Water Revenues” means, with respect to the issuance of any Water Parity Obligations, any or all of the following amounts:

(a) An allowance for Water Net Revenues from any additions or improvements to or extensions of the Water Enterprise to be made with the proceeds of such Water Parity Obligations and also for Water Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Water Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified Independent Engineer.

(b) An allowance for Water Net Revenues arising from any increase in the charges made for service from the Water Enterprise which has become effective (or adopted but not yet effective) prior to the incurring of such Water Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, was not in effect, in an amount equal to the total amount by which the Water Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an Accountant or Fiscal Consultant employed by the City.

Insurance; Net Proceeds

The City will procure and maintain such insurance relating to the Water Enterprise (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents and employees.

In addition, the City will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost) casualty insurance against loss or damage to any improvements constituting any part of the Water Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Water Installment Sale Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Water Enterprise shall be Water Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise or otherwise as permitted by the Water Installment Sale Agreement.

THE WASTEWATER INSTALLMENT SALE AGREEMENT

Wastewater Installment Payments

The City's obligation to pay the Wastewater Installment Payments, the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement is a special obligation of the City limited solely to Wastewater Net Revenues.

Under no circumstances will the City be required, obligated or liable to advance moneys derived from any source of income other than the Wastewater Net Revenues and other sources specifically identified in the Wastewater Installment Sale Agreement for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments, nor will any other funds or property of the City be liable for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement.

The obligations of the City to make the Wastewater Installment Payments and the Wastewater Additional Payments from the Wastewater Net Revenues and to perform and observe the other agreements contained in the Wastewater Installment Sale Agreement shall be absolute and unconditional and will not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Wastewater Enterprise, whether under the Wastewater Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

As security for the payment of the Bonds, the Authority has assigned to the Trustee the Authority's rights and remedies under the Wastewater Installment Sale Agreement, including the right to receive the Wastewater Installment Payments.

The obligation of the City to pay the Wastewater Installment Payments is limited to the Wastewater Net Revenues, which are defined in the Wastewater Installment Sale Agreement to be for any period, an amount equal to all of the Wastewater Gross Revenues received during such period minus the amount required to pay all Wastewater Operation and Maintenance Costs becoming payable during such period.

Wastewater Net Revenues

Wastewater Net Revenues is defined in the Wastewater Installment Sale Agreement to mean, for any Fiscal Year or twelve (12) calendar month period, the Wastewater Gross Revenues of the Wastewater Enterprise during such Fiscal Year less the Wastewater Operation and Maintenance Costs during such Fiscal Year.

"Wastewater Enterprise" means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the City, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, disposal or reuse of wastewater, including sewage treatment plants, intercepting and collecting wastewaters, outfall, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

"Wastewater Gross Revenues" means for any Fiscal Year or other period, all gross income and revenue received by the City from the ownership and operation of the Wastewater Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the City from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the City for the Wastewater Enterprise service and the other services of the Wastewater Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Wastewater Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Wastewater Enterprise, including all income from the investment of amounts on deposit in the Wastewater Utility Fund, and the Wastewater Rate Stabilization Fund, (e) the proceeds derived by the City directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Enterprise, and (f) all other monies howsoever derived by the City from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise, including major facility charges; provided, that the term "Gross Revenues" shall not include contributions in aid of construction or refundable customers' deposits or any other deposits subject to refund until such deposits have become the property of the City. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Wastewater Rate Stabilization Fund as contemplated by the Wastewater Installment Sale Agreement, and there shall be added to Gross Revenues any amounts transferred out of the Wastewater Rate Stabilization Fund as contemplated by the Wastewater Installment Sale Agreement.

“Wastewater Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid or incurred by the City for maintaining and operating the Wastewater Enterprise, determined in accordance with Generally Accepted Accounting Principles, including but not limited to (a) costs of acquisition of water, including all associated treatment and disposal costs, to be used by the Wastewater Enterprise, (b) costs of electricity and other forms of energy supplied to the Wastewater Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order, (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater Enterprise, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and (e) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the issuance of any Parity Obligations or of such Parity Obligations, such as compensation, reimbursement and indemnification of the trustee for any such Parity Obligations and fees and expenses of Independent Certified Public Accountants and independent engineers, but in all cases excluding (i) debt service payable on obligations incurred by the City with respect to the Wastewater Enterprise, including but not limited to the Installment Payments and any Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Wastewater Utility Fund

The City has heretofore established a utility fund into which the City deposits and will continue to deposit all Wastewater Gross Revenues (the “Wastewater Utility Fund”), which the City has covenanted to maintain throughout the Term of the Wastewater Installment Sale Agreement.

In the Wastewater Installment Sale Agreement, all of the Wastewater Net Revenues are irrevocably pledged, charged and assigned to the punctual payment of the Wastewater Installment Payments and any other Parity Obligations, and except as otherwise provided therein, the Wastewater Net Revenues will not be used for any other purpose so long as any of the Wastewater Installment Payments remain unpaid.

All of the Wastewater Gross Revenues will be deposited by the City immediately upon receipt in the Wastewater Utility Fund. The City covenants and agrees that all Wastewater Net Revenues will be held by the City in the Wastewater Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority) and the Bond Owners, and for the benefit of the owners of any Wastewater Parity Obligations.

On or before each Wastewater Installment Payment Date, the City will withdraw from the Wastewater Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Wastewater Net Revenues which, together with the balance then on deposit (but only to the extent that such balance is credited to the Wastewater Enterprise) in the Bond Fund, including all sub accounts, but excluding the Reserve Fund (other than amounts resulting from the prepayment of the Wastewater Installment Payments pursuant to the Wastewater Installment Sale Agreement and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of each Wastewater Installment Payment coming due and payable on the next succeeding Interest Payment Date.

In addition, the City shall withdraw from the Wastewater Utility Fund such amounts at such times as shall be required to: (i) pay all Wastewater Operation and Maintenance Costs as they come due and payable; (ii) pay the principal of and interest on any Wastewater Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Wastewater Parity Obligations; (iii) pay on or before the next Interest Payment Date to the Trustee the amount of any deficiency in the Reserve Fund (but only to the extent that a negative balance therein is properly traced and charged to the Wastewater Enterprise), including any amount required as a result of the expiration of a Qualified Reserve Fund Credit Instrument; and (iv) pay all other amounts when and as due and payable under the Wastewater Installment Sale Agreement.

In addition to the Wastewater Installment Payments, the City shall pay when due Wastewater Additional Payments, which generally consist of all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to the Indenture, and shall pay costs and fees of the Trustee, as described in the Indenture.

Rate Covenants

Covenant Regarding Wastewater Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year, which (together with other funds transferred from the Wastewater Rate Stabilization Fund or other funds which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Wastewater Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

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

(ii) All Wastewater Installment Payments, and all other Wastewater Parity Obligations and payment of amounts owed pursuant to the Indenture or a Supplemental Wastewater Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Wastewater Enterprise), or with respect to Wastewater Parity Obligations, to replenish Reserve Funds therefore.

(iv) All Wastewater Additional Payments and payments of amounts owed pursuant to any Supplemental Wastewater Installment Sale Agreements that are Wastewater Subordinate Obligations.

(v) All Wastewater Gross Revenues remaining after paying all of the sums set forth in (i) through (iv) above may be withdrawn from the Wastewater Utility Fund for expenditure for any lawful purpose of the City, including (i) the payment of Wastewater Additional Payments, (ii) the payment of Wastewater

Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Wastewater Enterprise, (v) the prepayment of any obligations of the City relating to the Wastewater Enterprise, or (vi) any other lawful purposes of the City, including, but not limited to, deposits to the Wastewater Rate Stabilization Fund in accordance with Section 4.7(c) of the Wastewater Installment Sale Agreement.

Covenant Regarding Wastewater Net Revenues. In addition to the covenant regarding Wastewater Gross Revenues, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Wastewater Net Revenues (as defined below) for such Fiscal Year equal to at least the Wastewater Coverage Requirement (as defined below) for such Fiscal Year. The City 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 rates, fees and charges then in effect unless the Adjusted Annual Wastewater Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

“Adjusted Annual Wastewater Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Wastewater Gross Revenues (as defined below) during such Fiscal Year or twelve (12) calendar month period minus the Wastewater Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Wastewater Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Wastewater Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Wastewater Utility Fund and/or the Bond Fund from the Wastewater Rate Stabilization Fund (as defined below) during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Wastewater Rate Stabilization Fund from the Wastewater Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Wastewater Rate Stabilization Fund” means the separate fund to be known as the “Wastewater Rate Stabilization Fund,” which is held, replenished and maintained by the City. The City may at any time withdraw from the Wastewater Rate Stabilization Fund any money therein for deposit in the Wastewater Utility Fund or Bond Fund; provided that no deposit of Wastewater Net Revenues shall be made into the Wastewater Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the Wastewater Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

“Wastewater Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Wastewater Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Wastewater Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Wastewater Annual Debt Service plus the Wastewater Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Wastewater Utility Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Wastewater Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the Wastewater Utility Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a

Reserve Fund under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Wastewater Coverage Requirement, the provisions set forth in the Wastewater Installment Sale Agreement regarding variable rate obligation adjustments shall apply.

Limited Unconditional Obligation

The City's obligation to pay the Wastewater Installment Payments, the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Payment Agreement are a special obligation of the City limited solely to the Wastewater Net Revenues.

Under no circumstances shall the City be obligated, liable or required to advance moneys derived from any source of income other than the Wastewater Net Revenues and other sources specifically identified for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Wastewater Installment Payments and the Wastewater Additional Payments and any other amounts coming due and payable under the Wastewater Installment Sale Agreement.

Subject to the preceding paragraph, the obligations of the City to make the Wastewater Installment Payments and the Wastewater Additional Payments from the Wastewater Net Revenues and to perform and observe the other agreements contained in the Wastewater Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Wastewater Enterprise, whether under the Wastewater Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee.

Until such time as all of the Wastewater Installment Payments, all of the Wastewater Additional Payments and all other amounts coming due and payable under the Wastewater Installment Sale Agreement have been fully paid or prepaid, the City has agreed that it (a) will not suspend or discontinue payment of any Wastewater Installment Payments, Wastewater Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in the Wastewater Installment Sale Agreement, and (c) will not terminate the Term of the Wastewater Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater Enterprise, sale of the Wastewater Enterprise, the taking by eminent domain of title to or temporary use of any component of the Wastewater Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or the Wastewater Installment Sale Agreement.

Issuance of Additional Debt

In addition to the Wastewater Installment Sale Agreement, the City may from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the Fiscal Consultant demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Wastewater Net Revenues were at least equal to the Wastewater Coverage Requirement for all outstanding Wastewater Parity Obligations plus the Wastewater Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the City may adjust the foregoing Adjusted Annual Wastewater Net Revenues to reflect Additional Wastewater Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Wastewater Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Wastewater Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Wastewater Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all projects financed with the Wastewater Parity Obligation proposed to be executed plus all projects financed with all existing Wastewater Parity Obligations are expected to commence operations, will be at least equal to the Wastewater Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated Adjusted Annual Wastewater Net Revenues to reflect: (a) An allowance for Wastewater Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for wastewater service in effect and being charged or from any increase in the rates, fees and charges for wastewater service that are expected to be charged; and (b) An allowance for Wastewater Net Revenues that are estimated to be derived from customers of the Wastewater Enterprise anticipated to be served by the additions, betterments or improvements to the Wastewater Enterprise to be financed by the Wastewater Parity Obligation proposed to be executed;

(b) A Certificate of the City that the project to be acquired and constructed with the proceeds of such Wastewater Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted projects) the rates, fees and charges estimated to be fixed and prescribed for the wastewater service for each Fiscal Year from the Fiscal Year in which such Wastewater Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Wastewater Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Wastewater Parity Obligations a Reserve Fund may, but is not required to, be established for such Wastewater Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Wastewater Parity Obligations.

Nothing in the Wastewater Installment Sale Agreement prohibits or impairs the authority of the City to issue bonds or other obligations secured by a lien on Wastewater Net Revenues that is subordinate to the lien established under the Wastewater Installment Sale Agreement, upon such terms and in such principal amounts as the City may determine.

“Additional Wastewater Revenues” means, with respect to the issuance of any Wastewater Parity Obligations, any or all of the following amounts:

(a) An allowance for Wastewater Net Revenues from any additions or improvements to or extensions of the Wastewater Enterprise to be made with the proceeds of such Wastewater Parity Obligations and also for Wastewater Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified Independent Engineer.

(b) An allowance for Wastewater Net Revenues arising from any increase in the charges made for service from the Wastewater Enterprise which has become effective (or adopted but not yet effective) prior to the incurring of such Wastewater Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, was not in effect, in an amount equal to the total amount by which the Wastewater Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an Accountant or Fiscal Consultant employed by the City.

Insurance; Net Proceeds

The City will procure and maintain such insurance relating to the Wastewater Enterprise (but only if and to the extent available at reasonable cost from reputable insurers) a standard comprehensive general insurance policy or policies in protection of the Authority, the City, and their respective members, officers, agents and employees. In addition, the City will procure and maintain, or cause to be procured and maintained (but only in the event and to the extent available from reputable insurers at reasonable cost) casualty insurance against loss or damage to any improvements constituting any part of the Wastewater Enterprise, covering such hazards as are customarily covered with respect to works and property of like character.

Such insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, subject to the provisions of the Wastewater Installment Sale Agreement, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance.

All amounts collected from insurance against accident to or destruction of any portion of the Wastewater Enterprise shall be Wastewater Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater Enterprise or otherwise as permitted by the Wastewater Installment Sale Agreement.

THE AUTHORITY

The San Juan Bautista Public Financing Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of March 17, 2015 (the “Joint Exercise of Powers Agreement”), by and between the City and the California Municipal Finance Authority (the “CMFA”). The Joint Exercise of Powers Agreement was entered into pursuant to the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”). The Authority is authorized pursuant to Article 4 (commencing with section 6584) of the Act (the “Bond Law”) to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of financing and/or refinancing public capital improvements of public entities, including the City.

The Authority is governed by a five-member board whose members are the same as the City Council of the City. The Authority has no employees and all staff work is done by City staff or by consultants to the Authority. The Mayor acts as the Chairperson of the Authority, the City Manager acts as its Executive Director and the Secretary, and the Treasurer of the City acts as the Treasurer of the Authority.

THE CITY

General

The City of San Juan Bautista is located in San Benito County, in the San Jose-Sunnyvale metropolitan area, approximately 40 miles south of San Jose and approximately 15 miles north of Salinas. Incorporated in 1869, the general law City of San Juan Bautista is situated in the heart of the noted San Juan Valley between the Gabilan Mountains and Flint Hills. Rich with culture and history, the City offers residents and visitors a refreshing small town atmosphere filled with the charm and character of the past. Mission San Juan Bautista, the 15th and largest of the 21 California Missions, was founded in 1797 and faces the City’s central plaza. See “APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA” herein.

Governance and Management

The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. At the regular meeting in December of each year the City Council chooses one of its members to serve as Mayor and one of its members to serve as Mayor Pro Tempore, each to serve until successors are chosen at the regular meeting in the following December. The current Council members and their respective titles and ending terms of office are as follows:

<u>Name</u>	<u>Title</u>	<u>Expiration of Office Term</u>
Robert Lund	Mayor	November 2016
Rick Edge	Vice Mayor	November 2016
Tony Boch	Council Member	November 2018
Chris Martorana	Council Member	November 2018
Jim West	Council Member	November 2018

The City Manager is appointed by the City Council solely on the basis of executive and administrative qualifications. The City Manager holds office for an indefinite term at the pleasure of the City Council. The City Manager is the chief executive of the City government under the direction and control of the Council, and has authority over all other officers and employees except the City Clerk, City Treasurer and City Attorney. A brief biography of the City Manager, Roger A. Grimsley, is set forth below:

Roger A. Grimsley. Mr. Grimsley has an extensive and diverse background in management and public works having served as Engineering Assistant for the Town of Los Gatos from 1963-1967, as Junior Civil Engineer for City of Campbell from 1967-1970, as City Manager/Public Works Dir./City Engineer for the City of Hollister from 1973-1982, and as City Manager/Engineer/Planner for the City San Juan Bautista from 2011 to present. Between the time of his employment with the City of Hollister and his present employment with the City, Mr. Grimsley was self-employed with Grimsley & Associates Civil Engineering Inc., where he mostly served as a consulting engineer to various public and private clients on a wide variety of projects. Mr. Grimsley graduated from California State University San Jose with a Bachelor Degree in Civil Engineering. Mr. Grimsley is a California Registered Professional Civil Engineer (#23003), as well as an Arizona State Board of Registration Professional Engineer (#42873).

Reserve Policy

The City's Reserve Policy, which was adopted by resolution of the City Council on June 15, 2015, is intended to assure adequate reserves for ongoing needs while minimizing the need for new debt. The reserve levels established in the policy also help provide rate stabilization and ensure adequate fund levels to meet aging infrastructure replacements, unanticipated emergencies, and future expansion needs of the City.

Under the Reserve Policy, the City will strive to build and then maintain (i) a minimum unrestricted fund balance of at least twenty percent (20%) of operating expenditures in the General Fund (present balance: \$258,172), (ii) an Emergency Operating Fund balance of at least 90 days of operations for both the Water Enterprise and Wastewater Enterprise (present balances: \$80,034 for Water, and \$88,989 for Wastewater), (iii) a balance of at least \$171,000 in the Water Emergency Capital Reserve Fund (present balance: \$57,000), (iv) a balance of at least \$75,000 in the Wastewater Emergency Capital Reserve Fund (present balance: \$75,000), (v) a Water Rate Stabilization Fund balance of five percent (5%) of the prior fiscal year Water Enterprise total operating revenue (present balance: \$16,007), and (vi) a Wastewater Rate Stabilization Fund balance of five percent (5%) of the prior fiscal year Wastewater Enterprise total operating revenue (present balance: \$17,798).

The City is not legally obligated to maintain reserves at the levels identified in the policy, and the actual amount of reserves will vary from year to year.

Other City and Financial Information

Information with respect to the City, including financial information and certain economic and demographic information relating to the City is provided in "APPENDIX D – GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA." Also, see "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2013-14."

THE WATER ENTERPRISE

General

The City owns and operates water supply wells, storage tanks, and distribution system pipelines that supply chlorinated groundwater to approximately 692 service connections, 644 of which are located within the City limits, and the remaining 48 are located within the unincorporated area of the County. Of those service connections, 631 are residential, 43 are commercial, 7 are government, 5 are church, 4 are agricultural, and 2 are school. The City anticipates growth of nearly 86 additional residential customers over the next five years. The water system consists of approximately 8.2 miles of water distribution lines, valves, fire hydrants, a booster pump and a 1.3 million gallon water reservoir, all in one pressure zone.

Water Supply Sources

The City derives all of its water supply from two active groundwater supply wells. The City has a third well that can produce approximately 0.6 million gallons per day (mgd), but which is currently in standby mode, pending additional capital work related to state quality standards. The City has drilled a successful test hole for what is expected to be a fourth well, and the City is moving forward with the acquisition and construction of the well which is expected to be funded by developer impact fees. The City periodically tests the supply wells to assess well-specific capacity and pump station performance. The total combined production capacity from the existing wells is approximately 1.1 mgd, compared with a current average daily demand of approximately .35 mgd. The City typically uses 300 acre feet of water per year, pumped from the local underground basin. San Benito County Water District charges the City \$23.25 per acre feet of water. The raw groundwater water is currently chlorinated but not further treated prior to distribution to customers and contains high levels of total dissolved solids (“TDS”). The City plans to install a large-scale water softener system as part of the 2015 Project. See “THE FINANCING PLAN – The 2015 Project” herein.

Water Enterprise Rates and Charges

General. Rates and charges for water service within the Water Enterprise service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases water service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting operational costs are used to supplement capital improvements, accomplish capital replacements, and establish and maintain reserves. The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Water Enterprise, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 125% of debt service of the Water Enterprise in such Fiscal Year. See the caption “THE WATER INSTALLMENT SALE AGREEMENT – Rate Covenant – Covenant Regarding Water Net Revenues” herein

Rate Increases. The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIIC and Article XIID” herein

Water Service Charges. The City has separated its customer base into various classes, and the rates charged to each class of customer varies. Pursuant to City Council action taken on September 15, 2015, the City adopted its most recent schedule of water rates, which are summarized in the following table 5.

**Table 5
WATER ENTERPRISE
(Fiscal Years ending June 30th 2012 through 2015)**

SCHEDULE OF MONTHLY WATER RATES						
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Monthly Base Rates</u>						
Inside the City	\$48.50	\$49.83	\$51.20	\$52.61	\$54.14	\$55.76
Outside the City	\$59.03	\$63.00	\$67.15	\$71.49	\$74.70	\$76.94
<u>Monthly Unit Cost - \$/1000 gallons</u>						
Uniform Rate \$/1000 gallons	\$4.41	\$5.64	\$5.81	\$5.98	\$6.16	\$6.35

Source: City

Connection Charges. The City also charges development impact fees, including water capacity charges to new customers connecting to the Water Enterprise. Development impact fees may be used for the payment of installment payments on the Bonds and constitute gross revenues from which pledged net revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Water Enterprise revenues. The City’s current water connection fee charge is \$7,550 per dwelling unit, and over the past three years the City has issued 4 new water connections in Fiscal Year 2013-2014, 3 in Fiscal Year 2014/2015 and 3 so far in Fiscal Year 2015/2016 totaling \$75,500. In addition there are 5 new water connections ready to be issued for pending building permits. The City also approved a development agreement in May 2015 for 86 new single family residential homes which are schedule to be developed over the next five years.

Rate Setting and Collection Process

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for water service as needed, without the overview of any other governmental agency. The present rate schedule for water service rates and charges was established by City Ordinance No. 2015-20, which was adopted by the City Council on September 15, 2015 by not less than a two-thirds vote.

The City’s Finance Department handles billing and payment collection for water services. Water billing is combined with wastewater charges and billed to customers monthly. All accounts are due and payable upon receipt. Utility bills are delinquent if not paid by the 20th day of the month following the billing month. Delinquent bills will be charged a late fee of 2%. Water service may be discontinued if an overdue water account is not paid after appropriate customer notification. After shutoff a customer has approximately 10 days to pay the delinquent bill. If not paid, the account is closed and a closing bill is mailed. The delinquent customer has 90 days to pay the closing bill. If not paid by the due date, the bill is transferred to the collection agency. Small claims litigation is the ultimate remedy for closed accounts that fail to pay. Presently, approximately 98.8% of all bills are paid prior to delinquency, and almost all (approximately 99%) delinquencies are paid prior to the disconnection of service. The City’s historic

delinquency amount, those accounts over 90 days past due, were 13%, 16% and 18% of the outstanding accounts receivable balance for the years ended June 30, 2015, 2014 and 2013, respectively. Correspondingly, the City’s delinquent account balance over 90 days represented 1.2%, 1.5% and 2.1% of annual water utility revenue for June 30, 2015, 2014 and 2013, respectively.

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIIC and XIID to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City’s ability to impose future rate increases. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIIC and XIID.” Proposition 218 conditions the imposition or increase of any water service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form. The City believes that it has followed the Proposition 218 process in connection with its water related rate increases last approved on September 15, 2015, which include the rate increases through 2020. See also “RISK FACTORS – Rate Process” herein.

Comparative Rates

The table below sets forth a comparison of average base monthly bill (based on estimated average monthly use of 3000 gallons, 5/8" x 3/4" or base meter) for a single family residential unit in the City to those of surrounding communities, based on rates in effect as of October 2015.

**Table 6
WATER ENTERPRISE**

COMPARISON OF WATER SYSTEM RATES AND CHARGES	
<u>Customer</u>	<u>Average Monthly Charge</u>
City of San Juan Bautista	\$ 56.15
Aromas Water District	47.36
City of Salinas	32.95
Sunnyslope County Water District	31.67
City of Hollister	30.27
City of Watsonville	22.46
City of Gilroy	17.22

Source: City

Top Ten Largest Water Customer

The following table sets forth the ten largest customers of the Water Enterprise for the fiscal year ending June 30, 2014, as determined by total annual water revenue.

Table 7
WATER ENTERPRISE

TEN LARGEST WATER CUSTOMERS			
<u>Customer</u>	<u>Business type</u>	<u>Billed Amount</u>	<u>% of Total Billings</u>
Amycel	Agriculture	\$41,536	5.45%
State Division of Parks and Rec.	Government	12,968	1.70%
Mission Vista Home Owners	Condominiums	11,868	1.56%
Alameda Plaza Associates	Apartments	10,396	1.36%
Dona Ester	Restaurant	4,744	0.62%
San Juan Cemetery	Cemetery	4,724	0.62%
Mission San Juan Bautista	Church/Museum	4,014	0.53%
Dias Mobile Home Park	Mobile Home Park	3,400	0.45%
Christopher Ranch	Farm	2,318	0.30%
Mission San Juan Bautista	Church/Museum	<u>2,280</u>	<u>0.30%</u>
Total Top Ten Customers		\$98,248	12.89%
Total All Customers		\$762,178	100.00%

Source: City.

Amycel is the City's largest water customer, in terms of both flow and billings, and is an industry leader in the production of mushroom spawn. Amycel operates a 60,000 square foot facility and has its business administration and process development headquarters in the City. The company has been located in the City for almost thirty years.

Future Water Enterprise Improvements

The City has an ongoing capital improvement plan with respect to the Water Enterprise in connection with upgrades and replacement of dated facilities, i.e., replacing pipelines to achieve fire flow, replacing aging pipelines, replacing small diameter pipelines, replacing pipelines with frequent repairs, water meter installations, corrosion protection measures, increasing storage capacity, and capital improvement plan activities.

The City has identified fourteen (14) priority projects that require capital outlay over the course of the next five (5) years at a total estimated cost of approximately \$1.4 million. The City anticipates funding these improvements from annual revenues, connection fees and other available funds of the Water Enterprise; however, the City can incur future long term indebtedness on parity with Water Installment Payments. See "THE WATER INSTALLMENT SALE AGREEMENT – Issuance of Additional Debt" herein for a discussion of conditions which must be satisfied prior to issuance of any future parity obligation.

Delinquent Accounts

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by water industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years never exceeded 2% of gross billings.

Operation, Management and Governance

The City has primary responsibility for the day-to-day management, operation and maintenance of the Water Enterprise and has covenanted to operate the Water Enterprise in an efficient and economical manner and to operate, maintain and preserve the Water Enterprise in good repair and working order. The City endeavors to provide for the operation and maintenance of Water Enterprise facilities for the purpose of treating and utilizing water and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future water treatment needs to meet the anticipated growth of the City; and to establish water user fees for properties receiving City water service.

The City has covenanted that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Water Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water Enterprise which, if unpaid, may become a lien or charge upon the Gross Water Revenues or the Net Water Revenues prior or superior to the lien granted under the Water Installment Sale Agreement, or which may otherwise impair the ability of the City to pay the Water Installment Payments in accordance therewith.

Outstanding Water System Indebtedness

On the date of issuance of the Bonds, the City will prepay certain outstanding indebtedness relating to the Water Enterprise as described under “THE FINANCING PLAN” above. After such prepayment, the City will have no outstanding indebtedness secured by Net Revenues of the Water Enterprise other than the Water Installment Payments.

Drought Conditions and Financial Impacts

Hydrological conditions in the State can vary widely from year to year. Since 2013, much of the State has experienced drought conditions, with 2014 being one of the driest years on record in the State. Due to these record-dry conditions, the Governor has taken several actions. On January 17, 2014, the Governor proclaimed a drought emergency. Then, on April 1, 2015, the Governor issued Executive Order B-29-15 (the “Executive Order”) to address the ongoing drought conditions in the State.

The Executive Order, among other things, directs the State Water Resources Control Board (“SWRCB”) to impose restrictions to achieve a statewide 25% reduction in potable urban water usage from 2013 levels through February 2016. The Executive Order further directs the SWRCB to impose restrictions to require that commercial, industrial and institutional properties, such as campuses, golf courses and cemeteries, immediately implement water efficiency measures to reduce potable water usage. The Executive Order includes several provisions to increase enforcement activity against water waste and to streamline the State and local response to drought-related initiatives.

On April 28, 2015, the SWCRB released a Notice of Proposed Emergency Regulations. Then, on May 5, 2015, following a formal rulemaking process and public comment period, the SWCRB adopted an emergency regulation to implement the Executive Order (the “Emergency Regulations”). The Emergency Regulations were approved by the Office of Administrative Law on May 18, 2015, took effect on June 1, 2015, and will remain in effect for 270 days from such date. Under the Emergency Regulations, 411 urban water providers in the State (which does not include the City—see paragraph directly below) are classified into nine tiers and assigned a required conservation standard which is imposed on each tier. The tier classifications are based upon a water supplier’s percapita water usage in the three-month period from July to September 2014. The conservation standard applied to the tiers ranges from a 4% reduction in total potable water production (although no water providers were proposed to be classified in such tier absent the demonstration by a water provider of satisfaction of certain specified criteria) to a 36% reduction in total potable water production from 2013 levels. As adopted, the Emergency Regulations require areas with high per-capita water usage to achieve proportionately greater reductions in water use than those with low use.

The Emergency Regulations provide that the 2,600 “small water suppliers” in the State that serve fewer than 3,000 customers or deliver less than 3,000 acre-feet of water annually (which is the case for the City) are required to either achieve a 25% conservation standard or restrict outdoor irrigation to no more than two days per week.

In response to the Governor’s proclaimed drought emergency, the City, on May 15, 2014, adopted a declaration of water shortage and asked the resident to voluntarily conserve water. The residents responded and conserved water during the remainder of 2014 and through 2015. The Governor’s Executive Order of April 1, 2015 allowed the City to adopt mandatory restrictions on water uses. The City has achieved a total reduction of 27.07% through September 2015. The City will continue with the mandatory reduction program.

Additionally, on April 17, 2015 the City held a public hearing and adopted Ordinance No. 2015-19 establishing regulations and restrictions on water uses within the City’s water distribution service area. The Ordinance also imposed penalties and fines for customer noncompliance with the regulations and restrictions. The penalties are expected to result in additional unrestricted revenues for the Water Enterprise that will be used to offset water costs and related expenditures.

Historical Operating Results

The following table 8 is a summary of audited operating results of the Water Enterprise for Fiscal Years ended June 30, 2011 through 2014. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2014. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the City requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following four-year comparative summary of revenues and expenses. The results presented in the following summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City’s other Fiscal Years can be obtained at the office of the City Manager.

Table 8
WATER ENTERPRISE

HISTORICAL OPERATING RESULTS				
	Audited 2011	Audited 2012	Audited 2013	Audited 2014
OPERATING REVENUES				
Charges for Services	\$ 893,747	\$ 763,690	\$ 767,522	\$ 723,186
Other Revenue	11,858	12,134	16,240	13,411
Total Operating Revenues	<u>\$905,605</u>	<u>\$775,824</u>	<u>\$783,762</u>	<u>\$736,597</u>
OPERATING EXPENSES				
Contractual Services and Utilities	153,177	78,120	76,811	103,112
Supplies, Materials and Repairs	80,052	15,416	8,852	14,912
Bad Debt Expense	18,158	0	30,092	39,232
Depreciation and Amortization	309,528	310,581	309,402	311,431
Total Operating Expenses	<u>560,915</u>	<u>404,117</u>	<u>425,157</u>	<u>468,687</u>
Operating Income	<u>\$344,690</u>	<u>\$371,707</u>	<u>\$358,605</u>	<u>\$267,910</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Income	33,549	24,599	26,331	24,640
Development Impact Fees	0	0	0	30,200
Interest Expense	(375,219)	(351,456)	(345,891)	(366,359)
Total Nonoperating Revenues (Expenses)	<u>(341,670)</u>	<u>(326,857)</u>	<u>(319,560)</u>	<u>(311,519)</u>
Net Income/(loss) Before Transfers	3,020	44,850	39,045	(43,609)
OPERATING TRANSFERS IN/(OUT)	(182,293)	(87,441)	0	0
CHANGE IN NET ASSETS	<u>(179,273)</u>	<u>(42,591)</u>	<u>39,045</u>	<u>(43,609)</u>
BEGINNING OF YEAR NET ASSETS	<u>1,599,349</u>	<u>1,420,076</u>	<u>1,377,485</u>	<u>1,416,530</u>
END OF YEAR NET ASSETS	<u>\$1,420,076</u>	<u>\$1,377,485</u>	<u>\$1,416,530</u>	<u>\$1,372,921</u>

Source: City's Audited Financial Statements

Water Enterprise Operating Projections

The City's operating projections, as estimated by the City for the Water Enterprise, for the Fiscal Years ending June 30, 2015 through June 30, 2018, are set forth in table 9 below, adjusted to exclude depreciation.

Table 9
WATER ENTERPRISE

OPERATING PROJECTIONS				
	Unaudited 2015	Budgeted 2016^[1]	Projected 2017	Projected 2018
OPERATING REVENUES				
Charges for Services	\$702,590	\$836,160	\$891,271	\$948,943
Other Revenue	12,504	0	0	0
Total Operating Revenues	<u>\$715,094</u>	<u>\$836,160</u>	<u>\$891,274</u>	<u>\$948,943</u>
OPERATING EXPENSES				
Contractual Services and Utilities	128,618	147,000	156,000	161,000
Supplies, Materials and Repairs	41,169	17,000	18,000	19,000
Personnel	34,573	33,000	35,000	36,000
Depreciation and Amortization	308,200	308,200	308,000	308,000
Total Operating Expenses	<u>518,560</u>	<u>505,200</u>	<u>517,000</u>	<u>524,000</u>
Operating Income	<u>\$196,534</u>	<u>\$330,960</u>	<u>\$374,271</u>	<u>\$424,943</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Income	22,284	9,000	10,000	10,000
Development Impact/Connection Fees	7,551	308,000	308,000	308,000
Interest Expense	(358,411)	(398,675)	(396,724)	(380,166)
Total Nonoperating Revenues (Expenses)	<u>(328,576)</u>	<u>(81,675)</u>	<u>(78,724)</u>	<u>(62,166)</u>
Net Income/(loss) Before Transfers	(132,042)	249,285	295,547	362,777
OPERATING TRANSFERS IN/(OUT)	0	376,858	(23,142)	(23,142)
CHANGE IN NET ASSETS	<u>(132,042)</u>	<u>626,143</u>	<u>272,405</u>	<u>339,635</u>
BEGINNING OF YEAR NET ASSETS	<u>1,372,921</u>	<u>1,240,879</u>	<u>1,867,022</u>	<u>2,139,427</u>
END OF YEAR NET ASSETS	<u>\$1,240,879</u>	<u>\$1,867,022</u>	<u>\$2,139,427</u>	<u>\$2,479,062</u>

[1] The new water rates are effective November 1, 2015. Charges for Services Revenue for FYE 2016, therefore, is based on four (4) months of prior rates and eight (8) months of new rates approved on September 15, 2015.

Source: City

THE WASTEWATER ENTERPRISE

General

The City owns and operates the wastewater collection, treatment and disposal facilities that serve the City of San Juan Bautista. The Wastewater Enterprise currently provides wastewater service to approximately 669 customers, 84% of which are residential. The City anticipates growth of nearly 86 additional sewer customers by 2020. Wastewater facilities generally consist of a biological treatment facility, three lift stations and approximately nine miles of sewer lines, inlet pumps, inlet flumes, lift station pumps, two lagoons, aerators, and recycle water storage tanks. The various facilities and capacities of the Wastewater Enterprise are described below.

The Collection System

The Wastewater Enterprise's collection system is composed of approximately 6.2 linear miles of gravity sewer pipeline ranging from 4 inches to 15 inches in diameter, two miles of force mains and two lift stations. The lift station on Ahwahnee Street is about ten years old and is in good condition, and has a backup generator. The lift station at Lang Court was refurbishing in 2009 and has a backup generator. Most of the sewer pipe in the Wastewater System is over 30 years old and made of vitrified clay pipe.

Wastewater Treatment Plant

The City has one wastewater treatment facility (the "Wastewater Treatment Plant"). The Wastewater Treatment Plant is located at 1120 3rd Street in the City on a City-owned 4.95 acre parcel. The Wastewater Treatment Plant treats both domestic and commercial wastewater from the City and surrounding unincorporated areas of the County. The current capacity of the Wastewater Treatment Plant is 270,000 gallons per day (gpd) for dry weather averaged from May through October, and 500,000 gpd for wet weather averaged from November through April, which is sufficient to meet the City's current need of approximately 164,000 gpd, as well as the growth anticipated by the City's General Plan.

The Wastewater Treatment Plant begins with preliminary treatment by screening solids larger than one-quarter inch and removing grit from the raw wastewater. The preliminary treated water then flows into a lift station and is pumped into Pond 1 where it is treated using the sequencing batch reactor activated sludge process to remove biochemical oxygen demand (BOD) and ammonia to meet secondary treatment standards. The secondary effluent from Pond 1 then flows through a pressure sand filter system and is then discharged to San Juan Creek. The treated and disinfected effluent flows down the San Juan Creek to the Pajaro River and then ultimately to Monterey Bay. Waste sludge created in the sequencing batch reactor activated sludge process is stored for up to 10 years in Pond 2 and then dredged, dewatered, and transported to a sanitary landfill in Monterey County for disposal.

Environmental Regulation

The Regional Water Quality Control Boards (the "RWQCBs") have authority over all publicly-owned or -operated wastewater treatment facilities in California. The primary purpose of the RWQCBs' Waste Discharge Requirements ("WDR") is to assure water quality protection pursuant to a variety of State and Federal water quality regulations. In California, the RWQCB is the statutorily designated agency with authority to enforce Federal Clean Water Act requirements and standards as well as other federal water

quality regulations and guidelines such as the National Pollutant Discharge Elimination System (the “NPDES”), on behalf of the U.S. Environmental Protection Agency. The most recent permit was issued by the RWQCB on May 8th, 2009 and became effective May 9th, 2009. The permit expired May 9, 2014 and the City filed a report of Waste Discharge in accordance with title 23, California Code of Regulations for an application to issue a new waste discharge order. The report and application was submitted and is currently being process by the staff of the RWQCB.

The RWQCB issued a Cease and Desist Order in 2001 which required the City to reduce the chloride levels in the effluent discharge from the Wastewater Treatment Plant. In 2009 the City submit an a request for a Supplemental Environmental Project that would allow reclaimed water to be used for landscape irrigation to nearby subdivision, and two City parks. The RWQCB issued a Settlement Agreement and Stipulation for entry of Administrative Civil Liability Order R3-2012-0040 that would allow monetary relief and construction of a reclaimed water distributions system to use reclaimed water for irrigation purposes. The City is currently preparing an application which will be submitted to the RWQCB for an additional Supplemental Environmental Project to construct water treatment facilities that will reduce the chlorides levels in the domestic water delivered to the residents of the City.

Wastewater System Users

The Wastewater System served approximately 669 accounts as of June 30, 2015. Of those service connections, 559 are residential and the other 110 are commercial. See “– Largest Customers” below. The number of accounts has remained steady over the past three years, but is expected to grow by approximately 86 additional accounts over the next five years.

Wastewater Enterprise Rates and Charges

General. Rates and charges for wastewater service within the Wastewater Enterprise service area are set by the City Council and are not subject to the jurisdiction of, or regulation by, the California Public Utilities Commission or any other regulatory body. The City increases wastewater service charges from time to time in order to maintain adequate revenue surplus after operating expenses, administrative expenses, debt service, and routine capital replacement costs. Funds available after meeting fixed and operational costs are used to supplement capital improvements, accomplish capital replacements, and maintain reserve levels consistent with Council policy.

The City is subject to certain covenants with respect to the Bonds which require that the City fix, prescribe, revise and collect rates and charges for the services and facilities furnished by the Wastewater Enterprise, during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 125% of debt service of the Wastewater Enterprise in such Fiscal Year. See the caption “THE WASTEWATER INSTALLMENT SALE AGREEMENT – Rate Covenant – Covenant Regarding Wastewater Net Revenues” herein

Rate Increases. The City Council has the ability to increase rates and charges through a public hearing process. Prior to adopting a fee or charge, the City is required under Proposition 218 to conduct a public hearing and receive protests. If the City should receive a majority of written protests from its customers, the City would not be authorized to impose the increased rate or charge. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitutional Articles XIIC and Article XIID” herein

Wastewater Service Charges. The City has separated its customer base into various classes, and the rates charged to each class of customer varies. Pursuant to City Council action taken on September 15, 2015, the City adopted its most recent schedule of wastewater rates. Residential customers are currently charged a monthly flat rate of \$77.61, with planned increases that are summarized in the following table 10.

Commercial customers pay a minimum monthly flat rate of \$78.00, as well as an incremental charge (depending on classes, which vary by strength of discharge, and gallons discharged), which rates and charges are summarized in the following table 10.

**Table 10
WASTEWATER ENTERPRISE**

SCHEDULE OF MONTHLY WASTEWATER RATES					
Effective Date	Residential Monthly Charge	Commercial Monthly Charge	Standard Strength \$/1,000 gal	Moderate Strength \$/1,000 gal	High Strength \$/1,000 gal
Current	\$77.61	\$78.00	\$8.45	\$12.65	\$16.88
FY 2016	\$78.77	\$79.17	\$8.58	\$12.84	\$17.13
FY 2017	\$79.96	\$80.36	\$8.71	\$13.03	\$17.39
FY 2018	\$81.16	\$81.56	\$8.84	\$13.23	\$17.65
FY 2019	\$82.37	\$82.79	\$8.97	\$13.43	\$17.92
FY 2020	\$83.61	\$84.03	\$9.10	\$13.63	\$18.18

- [1] Standard Strength is the classification for the following commercial customers: Office; Retail; General Commercial
 - [2] Moderate Strength is the classification for the following commercial customers: Restaurant with grease trap; Hotels and motels with restaurants; Supermarkets with garbage grinders or food preparation; Commercial and Industrial Laundries; RV Parks; Mixed use facilities with standard and high strength
 - [3] High Strength is the classification for the following commercial customers: Restaurant without grease trap; Wholesale Bakeries; Mortuaries
 - [4] Septage is the classification for the following commercial customers: Septage haulers; Port-a-potty waste; Septic tank waste
- Source: City

Connection Charges. The City also charges development impact fees, including water capacity charges to new customers connecting to the Wastewater Enterprise. Development impact fees may be used for the payment of installment payments on the Bonds and constitute gross revenues from which pledged net revenues are derived. Connection fee revenues do not generally constitute a significant percentage of annual Wastewater Enterprise revenues. Wastewater connection fees for each new single family residence is currently \$5,240, as established pursuant to an ordinance adopted March 19, 2013. There have been seven (7) permits issued since the 03/19/2013 ordinance was adopted. However, the City has recently approved a development agreement that allows for the development 85 single family residences, which are expected to be developed over the next five (5) years.

Operation, Management and Governance

The City has primary responsibility for the day-to-day management, operation and maintenance of the Wastewater Enterprise and has covenanted to operate the Wastewater Enterprise in an efficient and economical manner and to operate, maintain and preserve the Wastewater Enterprise in good repair and

working order. The City endeavors to provide for the operation and maintenance of Wastewater Enterprise facilities for the purpose of treating, reclaiming, and utilizing wastewater and its byproducts in accordance with federal, state, and local requirements; to provide a healthy and nuisance-free environment; to plan for future wastewater treatment needs to meet the anticipated growth of the City; to monitor and regulate industrial waste discharges; and to establish wastewater user fees for properties receiving City wastewater service.

The City has covenanted that, in order to fully preserve and protect the priority and security of the Bonds, it will pay from the Gross Wastewater Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater Enterprise which, if unpaid, may become a lien or charge upon the Gross Wastewater Revenues or the Net Wastewater Revenues prior or superior to the lien granted under the Wastewater Installment Sale Agreement, or which may otherwise impair the ability of the City to pay the Wastewater Installment Payments in accordance therewith.

Rate Setting and Collection Process

The City, subject to the requirements of Proposition 218 set forth below, has the power to establish rates and charges for wastewater service as needed, without the overview of any other governmental agency. The present rate schedule for wastewater service rates and charges was established by City Ordinance No. 2007-11, which was adopted by the City Council on February 20, 2007 by a four-fifths vote. No rate increases have been proposed or adopted with respect to the issuance of the Bonds. The City also establishes and maintains a schedule of sewer connection fees and fees for other services.

The City's Finance Department handles billing and payment collection for wastewater services. Wastewater billing is combined with water and solid waste charges and billed to customers monthly. All accounts are due and payable upon receipt. Utility bills are delinquent if not paid by the 15th day of the month following the billing month. Delinquent bills will be charged a late fee of 2%. Water service may be discontinued if an overdue wastewater account is not paid after appropriate customer notification. After shutoff a customer has approximately 10 days to pay the delinquent bill. If not paid, the account is closed and a closing bill is mailed. The delinquent customer has 90 days to pay the closing bill. If not paid by the due date, the bill is transferred to the collection agency. Small claims litigation is the ultimate remedy for closed accounts that fail to pay. Presently, approximately 98.8% of all bills are paid prior to delinquency, and almost all (approximately 99%) delinquencies are paid prior to the disconnection of service. The City's historic delinquency amount, those accounts over 90 days past due, were 13%, 16% and 18% of the outstanding accounts receivable balance for the years ended June 30, 2015, 2014 and 2013, respectively. Correspondingly, the City's delinquent account balance over 90 days represented 1.2%, 1.5% and 2.1% of annual utility revenue for June 30, 2015, 2014 and 2013, respectively.

In November 1996, citizens of the State of California passed a Constitutional amendment known as Proposition 218, which added Articles XIII C and XIII D to the State Constitution. This amendment changed the process for increasing property-related fees within the State and potentially affects the City's ability to impose future rate increases. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WASTEWATER RATES AND CHARGES – California Constitution Articles XIII C and XIII D." Proposition 218 conditions the imposition or increase of any wastewater service fee or charge upon there being no written majority protest after a required public hearing.

Under the protest hearing process, property owners within the service area are mailed a rate increase notice and protest form detailing the proposed rate increase. To oppose the rate increase, the property owner must return the protest form to the City. To support the rate increase, there is no action required on the part of the property owner. If written protests against the proposed rate increase are returned to the City no later than the end of the protest hearing by a majority of owners of the identified parcels, the City may not approve the proposed rate increase. If the protest fails with less than a majority protest, then the City can approve a rate increase not to exceed the rate increase detailed in the protest form.

The City believes that it has followed the Proposition 218 process in connection with its wastewater related rate increases last approved on February 20, 2007, which included the rate increases through 2010. See also “RISK FACTORS – Rate Process” herein.

Comparative Rates

The table below sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities, based on rates in effect as of October 2015.

**Table 11
WASTEWATER ENTERPRISE**

COMPARISON OF WASTEWATER SYSTEM RATES AND CHARGES	
<u>Customer</u>	<u>Monthly Charge</u>
Sunnyslope County Water District	\$ 119.15
City of Hollister	86.32
City of San Juan Bautista	77.61
City of Morgan Hill	49.98
City of Gilroy	44.42
City of Watsonville	28.25
City of Salinas	20.35

Source: City

Delinquent Accounts

The City considers its rates of payment delinquency, service discontinuance for non-payment and write-offs for uncollectible accounts to be low by wastewater industry standards for urban areas. The write-offs for uncollectible accounts for the last five Fiscal Years never exceeded 3% of gross billings.

Largest Wastewater Customers

The following table 12 sets forth the 10 largest customers of the Wastewater Enterprise as of June 30, 2014, as determined by total annual wastewater revenue. The top wastewater users accounted for approximately 18.18% of total wastewater billings during this period.

Table 12
WASTEWATER ENTERPRISE

TEN LARGEST WASTEWATER CUSTOMERS			
<u>Customer</u>	<u>Business Type</u>	<u>Billed Amount</u>	<u>% of Total Billings</u>
Earthbound Farm	Farm	\$ 75,900	9.02%
Gateway Properties	Apartments	12,107	1.43%
Jeff Thiebut Mobile Homes	Apartments	12,107	1.43%
Dona Esther	Restaurant	11,182	1.32%
Jardine's	Restaurant	10,727	1.27%
Alameda Plaza Associates	Apartments	8,482	1.00%
Sonia Cardoza	Apartments	7,450	0.89%
True Leaf Farms	Farm	7,112	0.84%
Hacienda De Leal	Lodging	4,262	0.51%
Posada	Lodging	<u>3,944</u>	<u>0.47%</u>
Total Top Ten Customers		\$153,273	18.18%
Total All Customers		\$841,769	100.00%

Source: City.

Future Enterprise Improvements

See “FINANCING PLAN – 2015 Project” herein for a description of the 2015 Project being financed by the proceeds of the Bonds. In addition, the City has an ongoing capital improvement plan with respect to the Wastewater Enterprise in connection with upgrades and replacement of dated facilities, i.e., replacing aging pipelines, wastewater treatment plant upgrades, secondary effluent pump station modifications, effluent filtration improvements, upgrading UV Disinfection, Collection System pump station improvements, upgrading pump stations and their adjacent pipelines, influent pump station modifications, additional emergency storage facilities, and certain other miscellaneous improvements. The City has identified five (5) priority projects that require capital outlay over the course of the next five (5) years at a total estimated cost of approximately \$370,000. The City anticipates funding these improvements from annual revenues, connection fees and other available funds of the Wastewater Enterprise; however, the City can incur future long term indebtedness on parity with Wastewater Installment Payments. See “THE WASTEWATER INSTALLMENT SALE AGREEMENT – Issuance of Additional Debt” herein for a discussion of conditions which must be satisfied prior to issuance of any future parity obligation.

Historical Operating Results

The following table 13 is a summary of audited operating results of the Wastewater Enterprise for Fiscal Years ended June 30, 2010 through 2014. See APPENDIX B for the audited financial statement for the Fiscal Year ended June 30, 2014. The auditor has not reviewed such statements in connection with their inclusion in this Official Statement, nor has the City requested such a review. Selected information from the aforementioned audited financial statements has been used to prepare the following five-year comparative summary of revenues and expenses.

The results presented in the following summary are qualified in their entirety by reference to the respective annual consolidated audited financial statements of the City, including the notes thereto. Copies of the audited financial statements for the City's other Fiscal Years can be obtained at the office of the City Manager.

Table 13
WASTEWATER ENTERPRISE

HISTORICAL OPERATING RESULTS				
	Audited 2011	Audited 2012	Audited 2013	Audited 2014
OPERATING REVENUES				
Charges for Services	\$772,107	\$869,469	\$843,447	\$841,769
Total Operating Revenues	<u>\$772,107</u>	<u>\$869,469</u>	<u>\$843,447</u>	<u>\$841,769</u>
OPERATING EXPENSES				
Contractual Services and Utilities	269,485	214,622	183,584	230,435
Supplies, Materials and Repairs	22,057	3,147	15,217	16,710
Bad Debt Expense	0	0	7,228	33,487
Depreciation and Amortization	306,102	297,918	298,109	297,431
Total Operating Expenses	<u>597,644</u>	<u>515,687</u>	<u>504,138</u>	<u>578,063</u>
Operating Income	<u>174,463</u>	<u>353,782</u>	<u>339,309</u>	<u>263,706</u>
NONOPERATING REVENUES (EXPENSES)				
Interest Income	6,967	20,127	26,330	24,640
Development Impact Fees	0	0	0	20,960
Interest Expense	(306,997)	(339,939)	(340,624)	(299,748)
Total Nonoperating Revenues (Expenses)	<u>(300,030)</u>	<u>(319,812)</u>	<u>(314,294)</u>	<u>(254,148)</u>
Net Income/(loss) Before Transfers	<u>(125,567)</u>	<u>33,970</u>	<u>25,015</u>	<u>9,558</u>
OPERATING TRANSFERS IN/(OUT)	<u>(179,769)</u>	<u>(87,165)</u>	<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	<u>(305,336)</u>	<u>(53,195)</u>	<u>25,015</u>	<u>9,558</u>
BEGINNING OF YEAR NET ASSETS	<u>2,430,159</u>	<u>2,124,823</u>	<u>2,071,628</u>	<u>2,096,643</u>
END OF YEAR NET ASSETS	<u><u>\$2,124,823</u></u>	<u><u>\$2,071,628</u></u>	<u><u>\$2,096,643</u></u>	<u><u>\$2,106,201</u></u>

Source: City's Audited Financial Statements

Wastewater Enterprise Operating Projections

The City's operating projections, as estimated by the City for the Wastewater Enterprise, for the Fiscal Years ending June 30, 2015 and June 30, 2018, are set forth in table 14 below, adjusted to exclude depreciation.

Table 14
WASTEWATER ENTERPRISE

OPERATING PROJECTIONS				
	Unaudited 2015	Budgeted 2016	Projected 2017	Projected 2018
OPERATING REVENUES				
Charges for Services	\$869,905	\$961,000	\$1,011,000	\$1,062,000
Total Operating Revenues	\$869,905	\$961,000	\$1,011,000	\$1,062,000
OPERATING EXPENSES				
Contractual Services and Utilities	208,891	199,000	211,000	217,000
Supplies, Materials and Repairs	75,844	34,000	36,000	37,000
Personnel	19,636	17,000	18,000	19,000
Depreciation and Amortization	296,608	297,000	297,000	297,000
Total Operating Expenses	600,979	547,000	562,000	570,000
Operating Income	\$268,926	\$414,000	\$449,000	\$492,000
NONOPERATING REVENUES (EXPENSES)				
Interest Income	18,232	10,000	13,000	15,000
Development Impact/Connection Fees	5,241	81,650	81,650	81,650
Interest Expense	(291,702)	(326,189)	(324,593)	(311,045)
Total Nonoperating Revenues (Expenses)	(268,229)	(234,539)	(229,943)	(214,395)
Net Income/(loss) Before Transfers	697	179,461	219,057	277,605
OPERATING TRANSFERS IN/(OUT)	0	(58,654)	(60,400)	(62,250)
CHANGE IN NET ASSETS	697	120,807	158,657	215,355
BEGINNING OF YEAR NET ASSETS	2,106,201	2,106,879	2,227,686	2,386,343
END OF YEAR NET ASSETS	\$2,106,879	\$2,227,686	\$2,386,343	\$2,601,698

Source: City

CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property thereafter approved by the voters as required by law.

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge.

The City is of the opinion that the respective water and wastewater service and user charges imposed by the City do not exceed the costs the City reasonably bears in providing the respective water and wastewater services. 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 the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

California Constitution Articles XIII C and XIII D

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect new or increased taxes, assessments, and property-related fees and charges.

Article XIII C provides that a local government may not impose, extend, or increase local taxes until such taxes are submitted to the electorate for approval. General taxes, imposed, extended, or increased for general governmental purposes of the local government, require a majority vote and special taxes, imposed, extended, or increased for specific purposes, require a two-thirds vote. In addition, Article XIII C provides that the constitutional initiative power will not be prohibited or otherwise limited in matters of reducing or

repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: “Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996 general election, will not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.” Government Code Section 5854 appears to limit the voters’ power to repeal or reduce Water and Wastewater Enterprise fees and charges if such reduction would interfere with the City’s payment of Installment Payments. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIIC does not define the terms “local tax,” “assessment,” “fee” or “charge.” In *Bighorn-Desert View Water Agency v. Verjil* (“Bighorn”), 39 Cal. 4th 205 (2006), decided by the California Supreme Court on July 24, 2006, the petitioner sought to establish his right to reduce a local water agency’s water delivery charges through use of the initiative power. In holding for the petitioner on this issue, the court stated that the absence of a restrictive definition of “fee” or “charge” in Article XIIC suggests that those terms include all levies that are ordinarily understood to be fees or charges, including all of the property-related fees and charges subject to Article XIID. Though the Supreme Court did not arrive at an exact definition of such terms, it did determine that fees and charges that are fees and charges within the meaning of Article XIID are necessarily fees and charges within the meaning of Article XIIC.

The Court held that Article XIIC authorizes the use of the initiative process to reduce water delivery charges but that it does not authorize use of the initiative power to impose a voter-approval requirement on future increases in water delivery charges. The court declined to determine whether the initiative power is limited by other statutory provisions requiring that water service charges be set at a level that will pay system operating expenses and debt service since that issue was not before the court.

Consequently, the voters of the City could, by future initiative, seek to repeal or reduce any local tax, assessment, fee or charge, including the City’s water and wastewater service fees and charges, which are the source of Net Revenues pledged to the payment of the Installment Payments securing the Bonds. Though the use of the initiative power is arguably limited in a case such as this where fees and charges have been imposed by the City for services of the respective Water and Wastewater Enterprises that are pledged to the payment of the Installment Payments securing the Bonds, there can be no assurance that the voters of the City will not seek to approve such an initiative which attempts to reduce the fees and charges imposed by the City for services of the respective Water and Wastewater Enterprises that are pledged to the payment of the Installment Payments securing the Bonds.

Article XIID imposes various procedural and substantive requirements on local governments that levy an “assessment,” “fee,” or “charge.” Article XIID defines “fees” or “charges” as “any levy other than an ad valorem tax, a special tax, or an assessment imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” “Property related service” means a public service having a direct relationship to property ownership (property ownership includes tenancies where tenants are directly liable to pay the fee or charge). In particular, a fee or charge (i) may not exceed the funds required to provide the property related service, (ii) may not be used for any purpose other than that for which the fee or charge was imposed, (iii) may not

exceed the proportional cost of the service attributable to the parcel, (iv) may not be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and (v) may not be imposed for general governmental services.

In addition, before any property related fee or charge may be imposed or increased, the local government agency must provide mailed notice forty-five (45) days in advance of a hearing regarding the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the local government agency may not impose or increase the fee or charge. Moreover, except for fees or charges for water, wastewater, and refuse collection services (or fees for electrical and gas service, which are expressly exempted from Proposition 218), no property related fee or charge may be imposed or increased without a majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds approval by those residing in the affected area and voting at the election. Article XIID states that, beginning July 1, 1997, all fees or charges must comply with its provisions.

In *Richmond et al. v. Shasta Community Services City* (“Richmond”), the California Supreme Court held that a water connection fee was not a “property-related” fee or charge subject to Article XIID. However, in the opinion the California Supreme Court suggested in dicta that fees for ongoing water service through an existing connection were “property related” fees and charges imposed on a person as an incident of property ownership. The court addressed this issue directly in the *Bighorn* case discussed above. In its decision, the court cited its discussion in *Richmond* in support of its conclusion that a public agency’s fees and charges for ongoing water service through an existing connection are “property-related” fees and charges imposed on a person as an incident of property ownership for purposes of Article XIID, whether the fees and charges are calculated based on usage or are imposed as a fixed monthly fee.

The City believes that it has complied with the procedures required by Article XIID, as such article has been construed by the California Supreme Court, in connection with the increases in the Water and Wastewater fees and charges approved by the City Council of the City on September 15, 2015. See “THE WATER ENTERPRISE – Water User Rate and Information” and “THE WASTEWATER ENTERPRISE – Wastewater User Rate and Information” herein.

The ability of the City to comply with the covenants in each of the Installment Sale Agreements, including the rate covenants described under “SECURITY FOR THE BONDS – Rate Covenants,” in connection with the levy and collection of Water and Wastewater Enterprise service charges could be adversely affected by actions taken or not taken by voters, property owners or other persons obligated to pay Water and/or Wastewater Enterprise service charges. Furthermore, the interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations. See also “RISK FACTORS – Rate Process” herein.

Proposition 26

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

not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The City does not believe that the enactment of Proposition 26 will affect its ability to levy rates and charges for water and wastewater services.

Future Initiatives

Articles XIII A, XIII B, XIII C and XIII D were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the Water and Wastewater Enterprise revenues, including the ability to increase or expend such revenues.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materialized to a sufficient degree, it could delay or prevent payment of principal of and interest on the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various issues. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors. There can be no assurance that other risk factors will not become material in the future.

General

The payment of principal of and interest on the Bonds is secured solely by a pledge of the Revenues, consisting of mainly Installment Payments and other payments paid by the City pursuant to the Installment Sale Agreements. The obligation of the City to make the Installment Payments is a limited obligation of the City payable solely from a pledge of Net Revenues. The realization of the Net Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water and wastewater services to its users, and the ability of the City to establish and maintain water and wastewater fees and charges sufficient to provide the required debt service coverage as well as pay for Maintenance and Operation Costs. Among other matters, natural disasters, general and local economic conditions and changes in law and government regulations (including initiatives and moratoriums) could adversely affect the amount of Net Revenues realized by the City.

Accuracy of Assumptions

To estimate projected financial results of the Water Enterprise and Wastewater Enterprise, including the Coverage Projections set forth in Tables 3 and 4, and the corresponding projected Net Revenues available to pay debt service on the Bonds, the City has made certain financial forecasts and assumptions with regard to the rates and charges to be imposed in future years, the expenses associated with Enterprise operations and the interest rate at which funds will be invested. The City believes these financial forecasts and assumptions to be reasonable, but variations in the any one of the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those forecasted and such variations may be material, with a possible result being that Net Revenues may prove to be significantly less than projected in this Official Statement. See the caption “THE FINANCING PLAN – Water--Debt Service Coverage Projections for the Bonds and – Wastewater--Debt Service Coverage Projections for the Bonds” herein. Accordingly, such assumptions and projections are at best educated estimates, and are not in any way a guaranty of future performance, and the City assumes no responsibility for the accuracy of such financial forecasts and projections.

Limited Obligation

The obligation of the City to pay the Installment Payments securing the Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues. The obligation of the City to make the Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. No owner of any Bond may compel the exercise of the taxing power by the City or the forfeiture of any of its property.

Limited Recourse on Default

If the City defaults on its obligation to make payment on the Bonds, the Trustee, as assignee of the Authority, has the right to accelerate the total unpaid principal amount of the applicable Installment Payments. However, in the event of a default and such acceleration, there can be no assurance that the City will have sufficient Net Water Revenues or Net Wastewater Revenues, as applicable, to pay the accelerated Installment Payments.

Increased Maintenance and Operation Costs

There can be no assurance that expenses of the City with respect to the Water Enterprise or the Wastewater Enterprise will be consistent with the levels contemplated in this Official Statement. Operation and Maintenance Costs could increase at higher rates than currently expected as a result of various factors, including increases in personnel costs, energy costs, chemical costs, pumping costs, technology, safety or regulatory costs, unforeseen costs associated with spills or other accidents involving the Water Enterprise or the Wastewater Enterprise, and other factors beyond the City’s control. Increases in Operation and Maintenance Costs could require an increase in rates or charges in order to comply with the Rate Covenants in the Installment Sale Agreements. There can be no assurance that such future rate increases, if necessary, will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. See “RISK FACTORS – Rate Covenants” herein.

Project Management

Although the assets of each Enterprise are being sold to the Authority, the City is purchasing the Projects back from the Authority in accordance with each of the Installment Sale Agreements, and has therein agreed to manage and operate the Projects and the Water Enterprise and the Wastewater Enterprise for and on behalf of the Authority. Should management prove deficient, it is possible that the Water Enterprise and/or the Wastewater Enterprise could fall into disrepair, possibly to levels that would require significant rate increases to properly remediate conditions. The City has covenanted to prescribe, revise and collect rates and charges for the Water Enterprise and the Wastewater Enterprise at certain levels; however, there can be no assurance that such amounts will be collected in the amounts and at the times necessary to make timely payments with respect to the Bonds. Additionally, the ability of the City to comply with its covenants under the Installment Sale Agreements, and to generate Net Revenues sufficient to pay principal of and interest on the Bonds, may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES” herein. Any remedies available to the owners of the Bonds, upon the occurrence of an event of default under the Resolution, the Indenture or Installment Sale Agreements, are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. See “Limitations on Remedies and Bankruptcy.”

Financial Controls

The City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City, including the Water Enterprise and the Wastewater Enterprise, are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. While the City believes that it has established an internal control structure designed to protect against such events, no assurance can be given as to the adequacy of thereof, or any insurance coverage related thereto. If there were to be an occurrence of a loss, theft, or misappropriation, there could be a substantial reduction in the City’s ability to pay Installment Payments, which could result in a lack of the ability to generate sufficient Revenues to repay the Bonds.

Insurance

The Installment Sale Agreements require the City to obtain and keep in force various forms of insurance or self-insurance, subject to deductibles, for repair or replacement of applicable portions of the Water Enterprise and/or the Wastewater Enterprise in the event of damage or destruction thereto. No assurance can be given as to the adequacy of any such self-insurance or any additional insurance to fund necessary repair or replacement of any such applicable portions of either the Water Enterprise or the Wastewater Enterprise. Significant damage to either the Water Enterprise and/or Wastewater Enterprise could result in a lack of the ability to generate sufficient Revenues to repay the Bonds.

Further, the City is not legally obligated under either of the Installment Sale Agreements to maintain, or cause to be maintained, earthquake or flood insurance on either the Water Enterprise and/or Wastewater Enterprise, and the City does not presently maintain earthquake or flood insurance on behalf of either the Water Enterprise or the Wastewater Enterprise. No assurance is made that any earthquake or flood insurance will be provided in the future, or if provided, that such insurance will continue to be maintained in the future. If there were to be an occurrence of a flood or severe seismic activity in the City, there could be substantial damage to the Water Enterprise and/or Wastewater Enterprise, the cost of repair of which could exceed the net equity available therefore. In the event of significant flood or earthquake damage to either the Water Enterprise and/or Wastewater Enterprise, there can be no assurance that Revenues would be sufficient to pay principal of and interest on the Bonds.

Limitations on Remedies and Bankruptcy

The ability of the City to increase water and/or wastewater services charges and to comply with its covenants under the Indenture and the Installment Sale Agreements and to generate Net Revenues sufficient to pay the Installment Payments in amounts sufficient to pay principal of and interest on the Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or payers of assessments, fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID” herein.

Furthermore, any remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture and the Installment Sale Agreements are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture and the Installment Sale Agreements, the rights and obligations under the Bonds, the Indenture and the Installment Sale Agreements may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipalities in the State of California. Various legal opinions to be delivered concurrently with the issuance of the Bonds will be so qualified. In addition, the opinion to be delivered by The Weist Law Firm, Bond Counsel, concurrently with the issuance of the Bonds, will also state that the enforceability of the Installment Sale Agreements is subject to the limitations on the imposition of fees and charges by the City relating to the Water Enterprise and Wastewater Enterprise, respectively, under Article XIIC and XIID of the California Constitution. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto. In the event the City fails to comply with its covenants under the Installment Sale Agreements or to pay Installment Payments securing the Bonds, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Bonds.

As noted above, the enforcement of the remedies provided in the Indenture and each of the Installment Sale Agreements could prove both expensive and time consuming. In addition, the rights and remedies provided in the Indenture and each of the Installment Sale Agreements may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors’ rights. If the City were to file a petition under Chapter 9 of the

Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce their rights under the Indenture. So long as the Bonds are held in book-entry form, DTC (or its nominee) will be the sole registered Bondholder and will be entitled to exercise all rights and remedies of Bondholders.

Physical Condition of Water and Wastewater Enterprise Facilities

The reliability of the Water and Wastewater Enterprise is affected by a number of factors including physical and operational vulnerabilities of its facilities. Proper maintenance and early identification of degradation in well yields are important activities for a water system that relies entirely on well water as a source. Certain of the Water Enterprise and Wastewater Enterprise facilities are near the end of their useful life. Long-lived facilities result in decreased reliability due to unplanned outages and place a greater maintenance burden on operations. The City budgets for the maintenance and operations of its facilities; however, the City gives no assurance that any future significant diminished physical status of its facilities would not materially adversely affect the operations of either the Water Enterprise and/or Wastewater Enterprise. Partial or complete failure of components of either the Water Enterprise and/or Wastewater Enterprise could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues.

Reliability of Future Groundwater Supply

The reliability of future groundwater supply for the City is based on an assumption that the yield of groundwater system is sufficient to sustain current and future pumping. Overall, there has been limited groundwater data and analysis on which to assess the long-term impacts of historic and future estimated groundwater pumping. Based on available groundwater monitoring data from City water supply wells, static water levels are lower than the early 1990s and 2000s. However, there is insufficient data or historic baseline to indicate whether current levels of pumping represent adverse localized or regional conditions. Since the City is on the fringe of a larger groundwater basin, there are no regional sources or studies that aid in assessing local conditions and whether pumping has caused, or may in the future cause, adverse impacts. While the working assumption is that no significant adverse conditions have arisen since a water master plan was last prepared, it is largely unknown whether pumping has exceeded the basin yield. Possible consequences of exceeding the basin yield are permanently declining water levels and the potential for intrusion of poorer quality water, if present, from the region as well as downward movement, or cross flow, from shallow brackish aquifers.

If there were to be an occurrence of over-pumping in the area of the City or the larger groundwater basin (or any related or unrelated degradation in the water quality of the groundwater system), there could be an interruption in the service provided by the Water Enterprise and/or Wastewater Enterprise, resulting in a reduction in the amount of Net Revenues available to pay Installment Payments.

Energy Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of either the Water Enterprise or the Wastewater Enterprise. The volume of water and wastewater conveyed and treated in the Water Enterprise and the Wastewater Enterprise on a daily basis requires a significant amount of power.

Electricity is needed to run several assets including, among other things, pumps, lights, computers, mechanical valves and machinery. The City cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water Enterprise and/or Wastewater Enterprise's financial condition. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIII C and XIII D" herein.

Permits and Regulation

The kind and degree of water treatment and water quality effected through the Water Enterprise is regulated, to a large extent, by the federal government and/or the State of California. Similarly, the wastewater operations of the City are subject to discharge permits from the Regional Water Quality Control Board (RWQCB), as the enforcement agency for federal and State discharge requirements. The major Wastewater Enterprise permit is the Waste Discharge Requirements for the domestic wastewater treatment facility. The City's Waste Discharge Requirements for the Wastewater Enterprise are subject to future application to, and approval by, the RWQCB. In addition, such permits will be modified from time to time to provide for increased capacity or other changes in the City's treatment and disposal strategies. The City is unable to predict at this time what additional conditions, if any, will be imposed under pertinent treatment or discharge requirements or whether such new conditions, if any, would impose additional operating constraints on the Water Enterprise and/or the Wastewater Enterprise, as the case may be, or result in additional costs to the Water Enterprise and/or the Wastewater Enterprise, as the case may be.

In the event that the federal government, acting through the USEPA, or the State, acting through the RWQCB or the Department of Health Services, or additional federal or State agencies, should impose stricter water quality standards upon either the Water Enterprise or the Wastewater Enterprise, the City's expenses could increase significantly and rates and charges would have to be increased accordingly to offset those expenses. It is not possible to predict the direction federal or State regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs. No assurance can be given that the cost of compliance with such laws and regulations will not adversely affect the ability of the City to generate Net Revenues in the amounts required by the respective Installment Sale Agreements to pay the respective Installment Payments.

Natural Disasters

The area in and surrounding the City, like those in much of California, may be subject to unpredictable droughts, storms, floods, fires, soil expansion and liquefaction and seismic activity that could negatively affect the value of the Water Enterprise and/or the Wastewater Enterprise, as well as other assets of the City. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Water Enterprise and/or the Wastewater Enterprise and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the City or other public agencies.

The City expects that one or more of these conditions will likely occur in the future, and, even if design criteria have been implemented to mitigate certain geologic events, which may or may not prove to be the case, such conditions may nevertheless result in damage to or destruction of part or all of the Water Enterprise and/or the Wastewater Enterprise. If there were to be an occurrence of a severe geotechnical condition or natural disaster in the area of the City, there could be an interruption in the service provided by the Water and/or the Wastewater Enterprise resulting in a reduction in the amount of Net Revenues

available to pay Installment Payments. Further, damage to components of either the Water Enterprise and/or the Wastewater Enterprise could cause a material increase in costs for repairs or a corresponding material adverse impact on respective Net Revenues.

The City is not obligated under the Resolutions or the Installment Sale Agreements to procure and maintain, or cause to be procured and maintained, nor does the City plan to procure and maintain, earthquake or flood insurance on either the Water or the Wastewater Enterprise.

Safety and Security

The safety of the facilities of the Water Enterprise and/or the Wastewater Enterprise is maintained by a combination of regular inspections by City employees, electronic monitoring, and analysis of unusual incident reports. All above-ground facilities operated and maintained by the City, are controlled access facilities with fencing and gates. Despite the security measures and precautions that are in place, military conflicts and terrorist activities could adversely impact operations of the Water Enterprise and/or the Wastewater Enterprise and the finances of the City.

The City continually plans and prepares for emergency situations and immediately responds to ensure services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the assets of the Water Enterprise and/or the Wastewater Enterprise or that costs of security measures will not be greater than presently anticipated. Furthermore, damage to either the Water Enterprise or the Wastewater Enterprise could require the City to increase expenditures for repairs significantly enough to adversely impact the City's ability to pay Installment Payments for the Bonds.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally.

Such conditional changes may include (but are not limited to): fluctuations in business production, consumer prices, financial markets, or unemployment rates; technological advancements; shortages or surpluses in natural resources or energy supplies; changes in law; social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism; environmental damage; and natural disasters.

Rate Process

The passage of Proposition 218 by the California electorate, which added Articles XIIC and XIID to the California Constitution, affects the City's ability to impose future rate increases, and no assurance can be given that future rate increases will not encounter majority protest opposition or initiative action under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of a majority protest or initiative, it may adversely affect the ability of the City to generate Net Revenues in the amounts required by the Installment Sale Agreements to pay the Installment Payments. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND RATES AND CHARGES – California Constitution Articles XIIC and XIID."

The City's ability to comply with the rate covenant under the Installment Sale Agreements may also be limited by the provisions of Proposition 218. The Weist Law Firm, Bond Counsel, will state in its opinion with respect to the Bonds that the enforceability of each of the Installment Sale Agreements is subject to the limitations on the imposition by the City of certain fees and charges relating to the respective Water and Wastewater Enterprise under Articles XIII C and XIII D of the California Constitution. See "APPENDIX E – FORM OF OPINION OF BOND COUNSEL" herein. The City's ability to comply with the Rate Covenants may also be adversely affected by other factors as described in this Official Statement.

The foregoing discussion of Proposition 218 should not be considered an exhaustive or authoritative treatment of the issues. The City does not expect to be in a position to control the consideration or disposition of these issues and cannot predict the timing or outcome of any judicial or legislative activity in this regard. Interim rulings, final decisions, legislative proposals and legislative enactments may all affect the impact of Proposition 218 on the Bonds as well as the market for the Bonds. Legislative and court calendar delays and other factors may prolong any uncertainty regarding the effects of Proposition 218.

Investment of Funds

All funds and accounts held under the Indenture are required to be invested in Permitted Investments as provided under the Indenture. See APPENDIX A attached hereto for a summary of the definition of Permitted Investments. All investments, including the Permitted Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, loss of market value and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture or by the City, including but not limited to the Project Funds, could have a material adverse effect on the security of the Bonds.

Secondary Market for Bonds

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

Loss of Tax Exemption

As discussed under the caption TAX MATTERS, interest on the Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Installment Sale Agreements.

IRS Audit

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of

tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Installment Sale Agreements and Indenture is based upon assumptions and projections including, but not limited to, those described under “THE FINANCING PLAN.” Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections.

FINANCIAL STATEMENTS

Attached as APPENDIX B are the audited financial statements of the City (the “Financial Statements”) for Fiscal Year 2013-14, which include financial statements for the Water Enterprise and the Wastewater Enterprise, prepared by the City’s Finance Department and audited by Bryant L. Jolley, Certified Public Accountants, Firebaugh, California (the “Auditor”).

The Auditor’s letter concludes that the Financial Statements, as presented, are accurate in all material respects and are presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds. The Financial Statements include information regarding other certain funds of the City, which are not pledged to make Installment Payments or to otherwise pay debt service on the Bonds.

Additionally, the City has not requested nor did the City obtain permission from the Auditor to include the audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the City. In addition, the Auditor has not reviewed this Official Statement.

TAX MATTERS

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

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Owner. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

Form of Bond Counsel Opinion. At the time of issuance of the Bonds, Bond Counsel expects to deliver a final approving opinion for the Bonds in substantially the form set forth in Appendix E.

Other Tax Considerations. Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. The nature and extent of these other tax consequences depends upon the particular tax status of the Bond Owner or the Bond Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

Changes in Federal and State Tax Law. Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners

from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or State tax exemption or the market value of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

For example, various proposals have been made in Congress and by the President of the United States (the "Proposals"), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposals. It is unclear if any of the Proposals will be enacted, whether in current or an amended form, or if other legislation that would subject interest on the Bonds to a tax or cause interest on the Bonds to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposals, if enacted in its current form or as it may be amended, or such other legislation, on their individual situations.

Bond Counsel Opinion Conditions and Limitations. The opinions set forth above are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes.

The City has made certain representations and has covenanted to comply with all restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds.

The opinions expressed by Bond Counsel are conditioned upon the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinions expressed by Bond Counsel are not intended to, and may not, be relied upon in connection with any such actions, events or matters.

The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than The Weist Law Firm.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Furthermore, the opinions expressed by Bond Counsel are not binding on the Internal Revenue Service (“IRS”) or the courts. Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

To ensure compliance with the requirements imposed by the IRS, purchasers and Owners of the Bonds should be aware that any federal income tax advice contained in this Official Statement (including the Appendices hereto) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Tax Code, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed in this Official Statement.

CERTAIN LEGAL MATTERS

The Weist Law Firm, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX E. The Weist Law Firm is also serving as Disclosure Counsel. Payment of the fees and expenses of Bond Counsel and Disclosure Counsel are contingent upon the sale and issuance of the Bonds. Certain legal matters will be passed upon for the Authority and the City by the City Attorney.

CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City’s Water Enterprise and Wastewater Enterprise by not later than nine months following the end of the City’s Fiscal Year (currently, the City’s fiscal year ends on June 30) (the “Annual Report”), commencing with the report of Fiscal Year ending June 30, 2015, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the City with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in “Appendix C – FORM OF CONTINUING DISCLOSURE CERTIFICATE,” hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended.

Pursuant to the continuing disclosure certificate relating to the 2008 Obligation, the City agreed to provide certain financial information and operating data relating to the City’s Water Enterprise and Wastewater Enterprise by not later than April 1 of each year. In the past 5 years, the City has failed to comply in all material respects with its continuing disclosure undertakings:

- On 4 occasions, the City has failed to file audited financial statements on a timely basis; and
- On 4 occasions, the City has failed to file all required financial and operating data on a timely basis; and
- For each of the issuances outstanding in the past 5 years, the City and its related entities failed to file notice of a handful of changes in underlying ratings and insured ratings on a timely basis.

The City has made all required remedial filings and has established policies and procedures to ensure material compliance with its continuing disclosure undertakings in the future.

LITIGATION

To the best knowledge of the Authority and the City, respectively, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the either the City or the Authority to restrain or enjoin the authorization, execution or delivery of the Bonds, the pledge of the Revenues or the collection of the payments to be made pursuant to the Indenture, the obligation of the City to pay Installment Payments from the Net Revenues made pursuant to either of the Installment Sale Agreements, or in any way contesting or affecting validity of the Bonds, the Indenture, the Installment Sale Agreements, or the agreement for the sale of the Bonds.

The City is engaged in routine litigation incidental to the conduct of its business. However, there is no litigation pending or threatened against the Authority or the City which, in the opinion of the general counsel for the City, would materially adversely affect either the Water Enterprise or the Wastewater Enterprise or the sources of payment for the Bonds.

RATINGS

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned an underlying municipal bond rating of "A-" (positive outlook) to the Bonds. S&P is expected to assign the Bonds a rating of "AA" (stable outlook) based upon the issuance of the Policy by Assured Guaranty Municipal Corp. at the time of delivery of the Bonds. Such ratings reflect only the view of S&P and any desired explanation of the significance of such ratings should be obtained from S&P. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. The Authority, the City and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Bonds any proposed change in or withdrawal of the rating or to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of the rating might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Hilltop Securities Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$11,846,354.30 (which price is equal to the \$11,640,000.00 aggregate principal amount of the Bonds, plus net Original Issue Premium of \$319,262.30, and less Underwriter's Discount of \$112,908.00).

The Bond Purchase Contract pursuant to which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Contract, including the approval of certain legal matters by counsel and certain other conditions.

The Underwriter intends to offer the Bonds to the public at the offering prices set forth on the cover page of this Official Statement. The Underwriter may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds. The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and interested parties must refer to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

The Appendices are an integral part of this Official Statement and must be read together with all other parts of this Official Statement. The audited financial statements of the City (including financial statements of the City's Water Enterprise and Wastewater Enterprise), including a summary of significant accounting policies, for the Fiscal Year ended June 30, 2014 is contained in APPENDIX B. The execution of this Official Statement and its delivery have been authorized by the Authority and the City.

SAN JUAN BAUTISTA
PUBLIC FINANCING AUTHORITY

By: /s/ Roger A. Grimsley
Executive Director

CITY OF SAN JUAN BAUTISTA

By: /s/ Roger A. Grimsley
City Manager

APPENDIX A

SUMMARY OF LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement. The terms of the two Installment Sale Agreements are substantially similar, but for the specifics as to source of revenues and operations, and this summary describe general terms and Enterprise specific dissimilarities where applicable. This summary is not intended to be definitive and is qualified in its entirety by reference to such documents for the complete terms thereof.

DEFINED TERMS

Unless the context otherwise requires, the terms defined in this Appendix A shall for all purposes of the Indenture, the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, and any supplements thereto, and of any certificate, opinion, request or other document therein mentioned have the meanings provided below or as otherwise specified in the respective document.

“Accountant” means any firm of independent certified public accountants selected by the City in its sole discretion.

“Acquisition and Construction” means, with respect to any portion of either the Water Project and/or the Wastewater Project, as the case may be, the acquisition, construction, improvement, equipping, renovation, remodeling or reconstruction thereof.

“Act” means the Joint Exercise of Powers Act, being Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Payments” means the payments so designated and required to be paid by the City pursuant to Section 4.10 of either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement.

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

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Water Enterprise or Wastewater Enterprise, as the case may be, to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified Independent Engineer.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Water Enterprise or Wastewater Enterprise, as the case may be, which has become effective (or adopted but not yet effective) prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the City, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an Accountant or Fiscal Consultant employed by the City.

“Adjusted Annual Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the respective applicable Utility Fund and/or the Bond Fund from the Rate Stabilization Fund during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Rate Stabilization Fund from the Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Gross Revenues during such Fiscal Year or twelve (12) calendar month period minus the Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Agreement” means that certain Joint Exercise of Powers Agreement, dated as of July 1, 2015, by and between the City and the CMFA creating the Authority, together with all amendments thereof and supplements thereto.

“Alternate Credit Enhancement” means, with respect to a Series of Bonds, any insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank, pension fund or other financial institution, and delivered or made available to the Trustee, as a replacement or substitution for any Credit Enhancement then in effect.

“Alternate Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

“Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Installment Payments and the Parity Payments required to be made under all Supplemental Installment Sale Agreements in such Fiscal Year or twelve (12) calendar month period.

“Authority” means the San Juan Bautista Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

“Authorized Denominations” means (a) with respect to Variable Bonds in the Daily Rate or Weekly Rate Mode, \$100,000 and whole multiples thereof, except that one Bond may be in the amount of \$100,000

and a whole multiple of \$5,000 in excess thereof, and (b) with respect to Variable Bonds in the Extended Rate Mode or the Fixed Rate Mode, \$5,000 and whole multiples thereof.

“Authorized Representative” means: (a) with respect to the Authority, its Chairperson, Vice Chairperson, Treasurer, Executive Director or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chairperson, Vice Chairperson, Treasurer or Executive Director and filed with the City and the Trustee; and (b) with respect to the City, its Mayor, Mayor Pro Tem, City Manager, or Treasurer or any other person designated as an Authorized Representative of the City by a Certificate of the City signed by its Mayor, Mayor Pro Tem or City Manager and filed with the Authority and the Trustee.

“Board” means the Board of Directors of the Authority.

“Bond Counsel” means The Weist Law Firm, or another firm of nationally-recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Code.

“Bond Fund” means the fund by that name established pursuant to Section 5.01 of the Indenture.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with section 6584) of the Act, as in existence on the Closing Date or as thereafter amended from time to time.

“Bonds” means the San Juan Bautista Public Financing Authority, Series 2015 Enterprise Revenue Bonds (Water and Wastewater Financing Projects), issued pursuant to the Indenture on December 1, 2015, in the aggregate principal amount of \$11,640,000.

“Bond Year” means each twelve-month period extending from October 2 in one calendar year to October 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on October 1, 2015.

“Business Day” means any day other than Saturday, Sunday or holiday or a day on which the Trustee or its affiliates or banks in San Francisco, California, are not required or authorized to remain closed.

“CDIAC” means the California Debt and Investment Advisory Commission of the State, or any successor thereto.

“Certificate,” “Request” and “Requisition” of the Authority or the City mean, respectively, a written certificate, request or requisition signed in the name of the Authority by its Authorized Representative or in the name of the City on its own behalf or as agent of the Authority by the City’s Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange

for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

“Completion Date” means, with respect to any component of either the Water Project and/or the Wastewater Project, as the case may be, the date on which the Authority files a Certificate with the City and the Trustee stating that the Acquisition and Construction of such component of the applicable Project has been completed pursuant to Article III of the Indenture.

“Continuing Disclosure Certificate” shall mean that certain Continuing Disclosure Certificate executed by the City and dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds and the application of the proceeds of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the City and the Authority, initial fees and expenses of the Trustee, compensation to any financial consultants or underwriters, insurance premiums, rating agency fees, other legal fees and expenses, filing and recording costs, costs of preparation and reproduction of documents and costs of printing.

“Costs of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to the Indenture.

“Counterparty” means an entity which has entered into an Interest Rate Swap Agreement with the Authority.

“Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Annual Debt Service plus the Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the respective applicable Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Net Revenues equal to at least one hundred percent (100%) of all obligations of the City which are charges, liens or encumbrances upon or payable from the respective applicable Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a reserve account under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Coverage Requirement, the following provisions shall apply:

(A) Generally. Except as otherwise provided by subparagraph (B) of this proviso with respect to Variable Interest Rate Contracts and by subparagraph (C) of this proviso with respect to Obligations with respect to which a Payment Agreement is in force, interest on any Obligation shall be calculated based on the actual amount of interest that is payable under such Obligation;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable

Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to the rate (the “assumed SIFMA Index rate”) that is ninety percent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which such calculation is made;

(C) Interest on Obligations with respect to which a Payment Agreement is in force. Interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Obligation and such Payment Agreement, including but not limited to the effects that (i) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Obligation plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Obligation, the following assumptions shall be made:

(1) City Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the City with respect to an Obligation resulting in the payment of a net variable interest rate with respect to such Obligation and Payment Agreement by the City, the interest rate on such Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed (but only during the period the Payment Agreement is in effect) to be equal to the sum of (i) the fixed rate or rates stated in such Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the assumed SIFMA Index rate; and

(2) City Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the City with respect to an Obligation resulting in the payment of a net fixed interest rate with respect to such Obligation and Payment Agreement by the City, the interest on such Obligation shall be included in the calculation of the Coverage Requirement (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement; and

(D) For purposes of calculating the Annual Debt Service or the Subordinate Annual Debt Service on any Balloon Contract, it shall be assumed that the principal of such Balloon Contract, together with interest thereon at a rate equal to the assumed SIFMA Index rate, will be amortized in equal annual installments of principal and interest over a term of thirty (30) years from the date thereof.

“Credit Enhancement” means, with respect to a Series of Bonds, any insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by an insurance company, commercial bank or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

“Credit Provider” means, with respect to a Series of Bonds, the Insurer, commercial bank or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

“Date of Operation” means, with respect to any uncompleted portion of the Project, the estimated date by which such portion of the Project will have been completed and, in the opinion of an Independent Engineer, will be ready for continuous and reliable operation by the City.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amounts with respect to the Bonds:

(a) The principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period;

(b) The minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

“Defeasance Obligations” means and includes, unless the Insurer otherwise approves, any of the following: (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S & P or any combination thereof.

“Depository” means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to the Indenture.

“Depository System Participant” means any participant in the Depository’s book-entry system.

“City” means the City of San Juan Bautista, a municipal corporation and general law city, duly organized and validly existing under the Constitution and laws of the State; however, any reference to City

in the Indenture shall specifically mean the Wastewater Enterprise and/or Water Enterprise of the City, unless the context clearly indicates otherwise.

“DTC” means The Depository Trust Company, New York, New York, and its successors and assigns.

“Event of Default” means any of the events specified in Section 7.01 of the Indenture.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security--State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the City and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority or the City, as applicable, as its official fiscal year period.

“Fitch” means Fitch Ratings, Ltd., its successors and assigns.

“Improvements” means the land, improvements and other property described more fully in Exhibit B attached to the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, as such description may be amended by the City from time to time pursuant to and in accordance with Section 3.2 of either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be. The precise identification of the Improvements or any component thereof shall be determined by reference to the Plans and Specifications therefor.

“Indenture” means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the Authority or the City;
- (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and

(c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Information Services” means the Electronic Municipal Market Access System (referred to as “EMMA”), a facility of the Municipal Securities Rulemaking Board, (at <http://emma.msrb.org>); provided, however, in accordance with then current guidelines of the Securities and Exchange Commission, shall mean such other organizations providing information with respect to the Bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Installment Payment Date” means not later than five (5) Business Days prior to each April 1 and October 1, commencing not later than five (5) Business Days prior to April 1, 2016.

“Installment Payment Default Event” means any of the events specified in Section 8.1 of the Installment Sale Agreement.

“Installment Payments” means the aggregate amount of all the payments required to be paid by the City pursuant to Section 4.4 of each respective Installment Sale Agreement, as quantified in Exhibit A to each respective Installment Sale Agreement.

“Installment Sale Agreement” means either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the context may indicate, dated as of December 1, 2015, by and between the Authority and the City, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Indenture.

“Insurance” means any financial guaranty insurance policy or municipal bond insurance policy issued by the Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insurer” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

“Interest Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Interest Payment Date” means each April 1 and October 1, commencing April 1, 2016.

“Interest Rate Swap Agreement” means, with respect to a Series of Bonds, an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security, however denominated, entered into between the Authority and a Counterparty, in connection with or incidental to, the issuance or carrying of such Series of Bonds, including, without limitation, an interest rate swap, cap, collar, option, floor, forward, derivative, or other hedging agreement, arrangement or security entered into in advance of the issuance of such Series of Bonds.

“Liquidity Facility” means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility securing or guaranteeing the payment of purchase price of such Series of Bonds and issued by a commercial bank, insurance company, pension fund or other financial institution, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

“Liquidity Facility Bonds” means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

“Liquidity Facility Rate” means, with respect to a Series of Bonds, the interest rate per annum, if any, specified as applicable to Liquidity Facility Bonds in the Liquidity Facility delivered in connection with such Series of Bonds.

“Liquidity Provider” means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other financial institution issuing (or having primary obligation, or acting as agent for the financial institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

“Maximum Annual Debt Service” means, as of the date of any calculations, the largest annual Debt Service coming due during the current or any future Bond Year.

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

“Net Proceeds” means insurance proceeds or an eminent domain award (including any proceeds of sale to a governmental entity under threat of the exercise of eminent domain powers), paid with respect to the Water Enterprise and/or the Wastewater Enterprise, as the case may be, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of the Depository designated pursuant to Section 2.03(a) of the Indenture.

“Office” or “Corporate Trust Office” means with respect to the Trustee, the corporate trust office of the Trustee at 101 California Street, 47th Floor, San Francisco, CA 94111; or such other office designated by the Trustee from time to time in writing to the Authority and the City.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds (including but not limited to counsel to the Authority) retained by the Authority.

“Original Purchaser” means Southwest Securities Inc., as the first purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09 of the Indenture) all theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with Section 10.02 of the Indenture, including Bonds (or portions thereof) described in Section 11.09 of the Indenture; and

(c) Bonds transferred or exchanged in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“Owner” “Holder” “Bond Owner or “Bond Holder,” whenever used in the Indenture with respect to a Bond, means the person in whose name the ownership of such Bond is registered on the Registration Books.

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

“Permitted Investments” means Defeasance Obligations and any of the following, but only to the extent that the same are acquired at Fair Market Value (provided, that the Trustee shall have no duty to investigate the Fair Market Value of any Permitted Investments), if and to the extent that they are permissible investments of funds of the City as stated in its current investment policy (the Trustee may rely on the investment directions of the Authority or the City that the investment is approved by the City’s investment policy) and to the extent then permitted by law:

A. The following obligations are Permitted Investments for all purposes, including defeasance investments in refunding escrow accounts:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below).

(2) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series –”SLGs”).

(3) Direct obligations of the U.S. Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities

(4) Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

(5) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(6) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

- a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- c. Federal Financing Bank
- d. General Services Administration
Participation certificates
- e. U.S. Maritime Administration
Guaranteed Title XI financing
- f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

B. The following obligations are Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts:

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- b. Federal Housing Administration Debentures (FHA)
- c. General Services Administration
Participation certificates
- d. Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations (participation certificates)
(not acceptable for certain cash-flow sensitive issues.)
- e. U.S. Maritime Administration
Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)
Project Notes Local Authority Bonds

(3) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- a. Federal Home Loan Bank System
Senior debt obligations (Consolidated debt obligations)
- b. Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates (Mortgage-backed securities)
Senior debt obligations
- c. Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal.)
- d. Student Loan Marketing Association (SLMA or Sallie Mae”)
Senior debt obligations
- e. Resolution Funding Corp. (REFCORP) Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.
- f. Farm Credit System
Consolidated systemwide bonds and notes

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAM-G; AAAM; or AA-m and if rated by Moody’s rated Aaa, Aal or Aa2, including any such funds for which the Trustee or an affiliate provides investment advice or other services.

(5) Certificates of deposit issued by commercial banks, savings and loan associations or mutual savings banks whose short term obligations are rated “A-1” or better by S&P and “P-1” by Moody’s.

The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(7) Investment Agreements, including GIC’s, with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “AA-” by S&P and/or “Aa3” by Moody’s.

(8) Commercial paper (having original maturities of not more than 270 days) rated “P - 1” by Moody’s and “A-1” or better by S&P.

(9) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1+" by S&P.

(11) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria:

- a. Repos must be between the municipal entity and a dealer bank or securities firm
 - (i) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated A or better by S&P's Ratings Group and Moody's, or
 - (ii) Banks rated "A" or above by S&P's Ratings Group and Moody's Investor Services.

- b. The written repo contract must include the following:
 - (i) Securities which are acceptable for transfer are:
 - (a) Direct U.S. governments
 - (b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
 - (ii) The term of the repo may be up to 30 days
 - (iii) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
 - (iv) The trustee has a perfected first priority security interest in the collateral.
 - (v) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.
 - (vi) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the trustee to liquidate collateral.
 - (vii). Valuation of Collateral
 - (a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
 - (b) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be

transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

- c. Legal opinion which must be delivered to the municipal entity:
Repo meets guidelines under state law for legal investment of public funds.

(12) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

(13) The Local Agency Investment Fund of the State or any state administered pool investment fund in which the City is statutorily permitted or required to invest will be deemed a permitted investment.

“Principal Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Project Costs,” “Water Project Costs,” or “Wastewater Project Costs” means the costs of acquisition, construction, implementing and equipping either the Wastewater Project or the Water Project, as the case may be, or the application of the proceeds of Bonds to the costs and expenses which are incidental or related to the acquisition and construction of additions to such Wastewater Project or the Water Project, as applicable, by the Authority, including amounts payable to the City by the Authority as reimbursement for any of the foregoing.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) which is rated in at least one of the two highest rating categories by two of the following four rating agencies: Moody’s, S&P, Fitch, or A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement to be satisfied with such Qualified Reserve Fund Credit Instrument; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture, or to draw the amount available under such letter of credit or surety bond in the event that such letter of credit or surety bond is not renewed.

“Rating Agencies” means, as of any date, each of the following entities: Fitch, S&P and Moody’s, and their respective corporate successors and any other nationally recognized statistical rating organization (as that term is used in the rules and regulations of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended).

“Rebatable Arbitrage” means the amount (determinable as of the last day of each fifth Bond Year and upon retirement of the last Bond Outstanding) of arbitrage profits payable to the United States at all times and in the amounts specified in Section 148(f) of the Code and any applicable Regulations.

“Rebate Analyst” means the entity engaged by the City or the Authority to compute the Rebateable Arbitrage annually pursuant to the Indenture.

“Rebate Fund” means the Rebate Fund created and established pursuant to Section 5.02 of the Indenture.

“Rebate Regulations” means those final, temporary, and proposed Treasury Regulations promulgated under Section 148(f) of the Code.

“Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date.

“Redemption Fund” means the fund by that name established pursuant to Section 5.07 of the Indenture.

“Registration Books” means the records maintained by the Trustee pursuant to the Indenture or the registration and transfer of ownership of the Bonds.

“Representation Letter” means the representation letter from the Authority to DTC.

“Required Rebate Deposit” shall mean an amount determinable as of the end of each fifth Bond Year and as of the date of retirement of the last Bond, which when added to amounts then on deposit in the Rebate Fund, if any, equals the aggregate amount of Rebateable Arbitrage for the Bonds less the amount of Rebateable Arbitrage theretofore paid to the United States with respect to the Bonds, if any.

“Reserve Fund” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of the average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

“Revenues” means (a) all amounts received by the Authority or the Trustee pursuant to or with respect to the Wastewater Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments payable pursuant to the Wastewater Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Installment Payments), but excluding any corresponding Additional Payments, (b) all amounts received by the Authority or the Trustee pursuant to or with respect to the Water Installment Sale Agreement, including, without limiting the generality of the foregoing, all of the Installment Payments payable pursuant to the Water Installment Sale Agreement (including both timely and delinquent payments, any late charges, and whether paid from any source, insurance proceeds and condemnation proceeds deposited in the Insurance and Condemnation Fund and prepayments of Installment Payments), but excluding any corresponding Additional Payments, (c) amounts deposited in the Reserve Fund and Bond Fund, (d) all interest, profits or other income derived from the investment of amounts in any fund or account

established pursuant to the Indenture, and (e) any net payments received by the Authority under an Interest Rate Swap Agreement.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors or assigns, except that if such entity shall be dissolved or liquidated or shall no longer perform the services of a municipal securities rating agency, then “S&P” shall be deemed to refer to any other nationally recognized municipal securities rating agency selected by the Authority.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Fax (212) 855-7232; or such other addresses and/or such other securities depositories as the Authority may designate.

“Series” means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

“SIFMA” means the Securities Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means, with respect to any date, the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data on such date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by SIFMA. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on the applicable date, the SIFMA Index for such date shall be the SIFMA Index for the next preceding date within the preceding 180 days on which the SIFMA Index was available. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on any date in the immediately preceding 180 days, the SIFMA Index for such date shall be an index selected by the City or Authority which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax. If no such index is so selected by the City or Authority, the SIFMA Index for the applicable date shall be an index computed by the City or Authority which shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to the applicable date.

“Sinking Account” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“State” means the State of California.

“Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“Supplemental Installment Sale Agreement” means any installment sale agreement then in full force and effect which has been duly executed and delivered by the Authority and the City amendatory to either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, as supplemented thereto; but only if and to the extent that such Supplemental Installment Sale Agreement is specifically authorized under the either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be.

“Swap Revenues” means all regularly-scheduled amounts (but not termination payments) owed or paid to the Authority by any Counterparty under any Interest Rate Swap Agreement after offset for the regularly-scheduled amounts (but not termination payments) owed or paid by the Authority to such Counterparty under such Interest Rate Swap Agreement.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Sections 103, 141, 148 and all related sections of the Code.

“Term Bonds” means the Bonds maturing October 1, 2043, which are subject to mandatory Sinking Account redemption prior to their stated maturity dates.

“Term of the Installment Sale Agreement” means the time during which either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be, is in effect, as provided in Section 4.2 of either the Wastewater Installment Sale Agreement or the Water Installment Sale Agreement, as the case may be.

“Treasurer” means the Treasurer of the Authority.

“Trustee” means Wells Fargo Bank, National Association, a national banking association organized and existing under the laws of the United States of America, or its successor, as Trustee under the Indenture as provided in Section 8.01 thereto.

“Variable Rate Indebtedness” means any indebtedness, including Bonds, the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, treatment and disposal system owned or operated by the City, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, disposal or reuse of wastewater, including sewage treatment plants, outfall, force mains, pumping stations, ejector stations, pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment, purification or disposal of sewage, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Wastewater Installment Payments” means the Installment Payments required to be paid by the City pursuant Wastewater Installment Sale Agreement, as quantified in Exhibit A thereto.

“Wastewater Project” means, the wastewater system facilities and improvements to be acquired or constructed and equipped by the Authority and sold to the City pursuant to the Wastewater Installment Sale Agreement, all as more particularly described in Exhibit B to the Wastewater Installment Sale Agreement.

“Wastewater Project Fund” means the fund by that name established pursuant to Section 3.05 of the Indenture.

“Water Enterprise” means, collectively, the entire water collection, storage, treatment, transmission and distribution system now owned or operated by the City, and all other properties, structures or works hereafter acquired and constructed by the City and determined to be a part of the Water Enterprise, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the City, now or hereafter existing, used or pertaining to the collection, storage, treatment, transmission and distribution system, including all contractual rights to water supply and transmission, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, storage, treatment, transmission and distribution of water, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Water Installment Payments” means the Installment Payments required to be paid by the City pursuant Water Installment Sale Agreement, as quantified in Exhibit A thereto.

“Water Project” mean, the water system facilities and improvements to be acquired or constructed and equipped by the Authority and sold to the City pursuant to the Water Installment Sale Agreement, all as more particularly described in Exhibit B to the Water Installment Sale Agreement.

“Water Project Fund” means the fund by that name established pursuant to Section 3.04 of the Indenture.

INDENTURE

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Trustee. The Authority and the Trustee may deem and treat the registered owner of any Bonds as the absolute owner of such Bonds for the purpose of receiving payment thereof and for all other purposes, whether such Bonds shall be overdue or not, and neither the Authority nor the Trustee shall be affected by any notice or knowledge to the contrary; and payment of the interest on and principal of and redemption premium, if any, on such Bonds shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge liability on such Bonds to the extent of the sum or sums so paid.

The Trustee shall not be required to issue, register the transfer of or exchange any Bonds during the

fifteen (15) days preceding each interest payment date or the date of selection by the Trustee of Bonds for redemption, or to register the transfer of or exchange any Bonds which have been selected for redemption in whole or in part.

Whenever any Bond or Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and shall deliver a new Bond or Bonds for a like aggregate principal amount and of like maturity. The Trustee shall require the Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer.

Exchange of Bonds. Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity. Exchange of any Bond shall not be permitted during the period established by the Trustee for selection of Bonds for redemption or by the Trustee if such Bond has been selected for redemption pursuant to Article IV of the Indenture. The Trustee shall require the Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange.

Registration Books. The Trustee will keep or cause to be kept, sufficient records for the registration and transfer of ownership of the Bonds, which shall at all reasonable times be open to inspection during regular business hours by the Authority and the City; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the Bonds as hereinbefore provided.

Form and Execution of Bonds. Only such of the Bonds as shall bear thereon a certificate of authentication, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated and delivered under the Indenture and are entitled to the benefits of the Indenture.

Temporary Bonds. The Bonds may be issued in temporary form exchangeable for definitive Bonds when ready for delivery. Any temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority, shall be in fully registered form without coupons and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds it will execute and deliver definitive Bonds as promptly thereafter as practicable, and thereupon the temporary Bonds may be surrendered, for cancellation, at the Office of the Trustee and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Authority. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the City, the Authority and the

Trustee and, if such evidence be satisfactory to them and indemnity satisfactory to them shall be given, the Authority, at the expense of the Owner of such lost, destroyed or stolen Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee may pay the same without surrender thereof upon the presentment of indemnity satisfactory to it). The Authority may require payment by the Owner of a sum not exceeding the actual cost of preparing each new Bond issued under Section 2.09 of the Indenture and of the expenses which may be incurred by the City, the Authority and the Trustee in the premises. Any Bond issued under the provisions of Section 2.09 of the Indenture in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

Pledge and Assignment; Bond Fund.

(a) Subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of, premium (if any) and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in the Revenues and all other moneys on deposit in the funds and accounts established under the Indenture, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act.

(b) The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners and the Insurer to the extent set forth in the Indenture, from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in both the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the provisions of Article VIII of the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under both the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement.

(c) In order to carry out and effectuate the pledge, charge and lien contained in the Indenture, the Authority agrees and covenants that all Revenues, when and as received, shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which fund is created under the Indenture, and which fund Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be, to be deposited in either the Reserve Fund or the Redemption Fund, as the case may be, shall be promptly deposited in such Fund, as the case may be. Within the Bond Fund the Trustee shall establish and maintain a separate Interest Account

and Principal Account therein. All Revenues shall be accounted for through and held in trust in the Bond Fund, and the Authority shall have no beneficial right or interest in any of the Revenues except only the right to receive Additional Payments to the extent payable to the Authority, and as otherwise provided in the Indenture. All Revenues, whether received by the Authority in trust or deposited with the Trustee as provided in the Indenture, shall nevertheless be allocated, applied and disbursed solely to the purposes and uses set forth in the Indenture, and shall be accounted for separately and apart from all other accounts, funds, money or other resources of the Authority.

Allocation of Revenues.

(a) Not later than the Business Day immediately preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds, including any amounts owed to the Insurer, the amount of interest becoming due and payable on the mandatory sinking fund payment due on all Outstanding Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture). In the event that the amounts on deposit in the Interest Account on any Interest Payment Date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee shall apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(2) Principal Account. On each Interest Payment Date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date, including any amounts owed to the Insurer, the amount of principal becoming due and payable on the mandatory sinking fund payment due on all Outstanding Bonds Term Bonds, if any, and an amount due on the next redemption date on the Bonds to be redeemed (other than pursuant to mandatory sinking fund redemption). All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof.

(3) On each Interest Payment Date, the Trustee shall deposit in the Reserve Fund an amount, if any, required to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to either the Water Enterprise or the Wastewater Enterprise, as the case may be, due to the receipt of an insufficient payment from the City under either the Water Installment Sale Agreement or the Wastewater Installment Sale

Agreement, as the case may be).

(b) If on any Interest Payment Date or date for redemption of Bonds the amount on deposit in the Bond Fund is inadequate to make the transfers described in subsection (a) above, the Trustee shall immediately notify the City of the amount needed to make the required deposits under subsection (a) above and shall transfer to the Bond Fund any amounts on deposit from the Surplus Fund, as necessary to cure such deficiency.

(c) On each Interest Payment Date after making the transfers required under subsections (a) and (b) above, upon receipt of a Request of the Authority to do so, the Trustee shall transfer from the Bond Fund to the Rebate Fund the amounts specified in such Request.

Rebate Fund. The Rebate Fund will be administered in accordance with the provisions of the Indenture. The Rebate Fund will not be subject to the lien or encumbrance of the Indenture and will be held in trust by the Trustee for the benefit of the United States of America. The amounts deposited in the Rebate Fund will be subject to the claim of no other person, including that of the Trustee and Bondowners. Moneys transferred to the Rebate Fund pursuant to the Indenture will be used for no other purpose than to make payments to the United States Treasury, at the time and manner and in the amount and as more fully provided in the Indenture. The Trustee will be deemed conclusively to have complied with the provisions of the Indenture related to Rebatable Arbitrage if it follows the written directions of the City or Authority, and the Trustee will have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the City or the Authority with the provisions of the Indenture and the Tax Certificate with respect to Rebatable Arbitrage.

Surplus Fund. The Surplus Fund shall be held by the Trustee. Annually, following computation and deposit of the Rebatable Arbitrage for the preceding Bond Year in the Rebate Fund (to the extent required by the Indenture) and provided there is no deficiency in the Interest Account, the Principal Account, the Reserve Fund, or the Rebate Fund, any moneys in the Surplus Fund shall be released from the lien of the Indenture, not less frequently than annually, provided no Event of Default has been declared under the Indenture or the Installment Sale Agreements, the amounts on deposit in the Surplus Fund as of the conclusion of the immediately preceding Bond Year shall be transferred to the City for any lawful purpose.

If, on or before any Interest Payment Date, there is a deficiency in the Interest Account, the Principal Account, the Reserve Fund, or the Rebate Fund, the Trustee shall withdraw from the Surplus Fund and deposit in such Account, in the order and in the manner set forth in Section 5.02(a) of the Indenture, the amount necessary to remedy such deficiency and shall give written notice to the Authority of such withdrawal.

Application of Sinking Account. All moneys on deposit in the Sinking Account shall be used and withdrawn by the Trustee in the manner set forth in Section 5.02(a) of the Indenture for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to Section 4.01(a) of the Indenture, and, if applicable, any Supplemental Indenture.

Application of Reserve Fund. The Trustee shall establish and maintain the Reserve Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal

of and premium (if any) on the Bonds as set forth in the Indenture, and applied in the following manner:

(a) All amounts in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to Section 4.01(a) of the Indenture when due and payable to the extent that moneys deposited in the Interest Account, the Principal Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal and interest on the Bonds. On the date on which all Bonds shall be retired under the Indenture or provision made therefor pursuant to Article X of the Indenture, any respective Bonds moneys then on deposit in the Reserve Fund shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Bonds. The Authority shall cause the City to use the proceeds of any such refund in a manner which does not (i) impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds, or (ii) result in any violation of State law.

(b) If at any time the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Trustee shall promptly notify the City in writing of (i) which Installment Sale Agreement (i.e., either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be) caused such deficiency, and (ii) the amount of such deficiency; and the City shall pay to the Trustee the amount of such deficiency as provided in Section 4.5(c)(3) of either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be. Any amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement shall be transferred by the Trustee to the Bond Fund, as provided in Section 5.08 of the Indenture.

(c) If, on any date, moneys on deposit in the Reserve Fund, together with allocable amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Bonds, including all respective principal thereof, and interest thereon, the Trustee shall, upon written request of the Authority, transfer such allocable amounts then on deposit in the Reserve Fund, together with such allocable amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of such Bonds in accordance with the provisions of Section 4.01(b), of the Indenture. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Bonds, shall be withdrawn by the Trustee and paid to the City as a refund of overpaid Installment Payments. The Authority shall cause the City to use the proceeds of any such refund in a manner which (i) does not impair the exclusion from gross income for purposes of federal income taxation under the Code of the interest payable on the Bonds or (ii) result in any violation of State law.

(d) The Authority shall have the right at any time, upon prior consent of the Insurer, to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (i) a Qualified Reserve Fund Credit Instrument, and (ii) an opinion of Bond Counsel stating that neither the release of such funds nor the acceptance of such Qualified Reserve Fund Credit Instrument will cause interest on the Bonds to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, and upon delivery by the Authority to the Trustee of written calculation of the amount permitted to be released from the Reserve Fund (upon which calculation the Trustee may conclusively rely), the Trustee shall transfer such funds from the Reserve Fund to the Bond Fund to be used for the purposes thereof. The Trustee shall comply with all documentation relating to a Qualified Reserve Fund Credit Instrument as shall be required to maintain such Qualified Reserve Fund Credit Instrument in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under Section 5.06 of the Indenture. Upon the

expiration of any Qualified Reserve Fund Credit Instrument, the Authority shall either (i) replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (ii) deposit or cause to be deposited with the Trustee an amount of funds equal to the Reserve Requirement, to be derived from the first available Revenues. If the Reserve Requirement is being maintained partially in cash and partially with a Qualified Reserve Fund Credit Instrument, the cash shall be first used to meet any deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture. If the Reserve Requirement is being maintained with two or more Qualified Reserve Fund Credit Instruments, any draw to meet a deficiency which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to Section 5.06(a) of the Indenture shall be pro-rata with respect to each such instrument.

Application of Redemption Fund. The Trustee shall establish and maintain the Redemption Fund, amounts in which shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium (if any) on the Bonds to be redeemed pursuant to Section 4.01(b) or (c) of the Indenture, provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may, at the direction of the City or the Authority, apply amounts deposited or otherwise to be deposited in the Redemption Fund to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest on Bonds, which is payable from the Interest Account) as shall be directed pursuant to a Request of the Authority or a Request of the City, as agent of the Authority.

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal of and interest on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in Section 6.02 of the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created in favor of the Bonds by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues

and other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, subject to the provisions of Article VIII of the Indenture and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records. The Trustee shall at all times keep, or cause to be kept, proper books of record and account in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of Bonds, the Revenues, the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during business hours and under reasonable circumstances. The Trustee shall deliver a monthly accounting of all funds and accounts except for any fund or account which has a zero balance and has not had any activity since the last reporting date. The Trustee shall establish such other funds and accounts as it deems necessary to carry out its duties under the Indenture.

No Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part, except as provided in the Indenture with respect to the Bonds.

No Arbitrage. The Authority shall not take, or permit to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

Compliance with Rebate Requirements. The Authority shall take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investments earnings, if any, to the federal government.

Private Activity Bond Limitation. The Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Federal Guarantee Prohibition. The Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Continuing Disclosure. Pursuant to Section 5.11 of each Installment Sale Agreement, the City has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds and neither the Authority nor the Trustee shall have any liability to the Owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or

specific performance by court order. The Trustee shall have no duties or liabilities with respect to any such Continuing Disclosure Certificate.

Installment Sale Agreements. The Trustee shall collect all amounts due from the City pursuant to both the Water Installment Sale Agreement and the Wastewater Installment Sale Agreement, and, subject to the provisions of Article VIII of the Indenture, shall enforce, and take all steps, actions and proceedings provided in the Indenture and in the Installment Sale Agreements for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the City thereunder.

The Authority may at any time amend either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be, pursuant to Section 7.4 thereof for the purpose of providing for the issuance or incurrence of Parity Obligations (as defined therein), without the consent of the Trustee. Except for such amendment pursuant to the preceding sentence, the Authority shall not amend, modify or terminate any of the terms of either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be, or consent to any such amendment, modification or termination, without the prior written consent of the Trustee. The Trustee shall give such written consent only if the Trustee shall receive (a) the opinion of Bond Counsel that such amendment, modification or termination is permitted under the Indenture and will not materially adversely affect the interests of the Bond Owners, or (b) the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment, modification or termination.

Waiver of Laws. The Authority shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is expressly waived by the Authority to the extent permitted by law.

Further Assurances. The Authority will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of or premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration, or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable.

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority by the Trustee; provided, however, that if in the reasonable

opinion of the Authority the default stated in the notice can be corrected, but not within such thirty (30) day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The occurrence and continuation of an “Event of Default” within the meaning of Section 8.1 of either the Water Installment Sale Agreement or the Wastewater Installment Sale Agreement, as the case may be.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Authority and the City, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything else in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the City shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable fees, charges and expenses (including those of its attorneys, agents, and advisors) of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the City and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the reasonable opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable fees, charges and expenses of the Trustee (including internal costs of administration and in-house counsel and reasonable fees and disbursements of its outside counsel) incurred in and about the performance of its powers and duties under the Indenture. Any such costs and expenses are deemed to be reasonable costs of administration under the Indenture or as required under the Federal Bankruptcy Act;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or

surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto, including amounts owed to the Insurer, of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bond Owners. The Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the Bonds, the Indenture and applicable provisions of any law. Counsel to the Trustee is not counsel to the Bondholders and communications between the Trustee and such counsel are privileged. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the Bonds, the Indenture, the Act, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such Bonds, subject to the provisions of the Indenture.

Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bond Owners not parties to such direction or would expose the Trustee to liability.

Limitation on Bond Owners' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Installment Sale Agreements or any applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Installment Sale Agreement or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Authority. Nothing in Section 7.06 of the Indenture or in any other provision of the Indenture or in the Bonds contained shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the principal of and interest on the Bonds to the respective Owners of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, but only out of the Revenues and other assets pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bond Owners, then in every such case the Authority, the Trustee and the Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Authority, the Trustee and the Bond Owners shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

No Waiver of Default. No delay or omission of the Trustee or of any Owner of the Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Owners of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Amendments to Indenture.

(a) This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall at the written direction of the Authority, mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each rating agency then rating the Bonds and the Owners of the Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) This Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, without the consent of any Bond Owners, if the Trustee has been furnished an Opinion of Counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Authority;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(iii) to modify, amend or supplement the Indenture in such manner as to permit the qualification

hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(iv) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Code;

(v) to comply with the requirements of a provider of a Qualified Reserve Fund Credit Instrument;

(vi) to facilitate the issuance of Parity Obligations by the City pursuant to the Installment Sale Agreements, and

(vii) any amendment which does not materially adversely affect the interests of the Owners of the Bonds.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of Section 9.01 of the Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion from gross income for purposes of federal income taxes of interest on the Bonds.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to Article IX of the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Endorsement of Bonds; Preparation of New Bonds. Bonds delivered after the execution of any Supplemental Indenture pursuant to the Indenture may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any Bonds Outstanding at the time of such execution and presentation of his Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such Bonds. If the Supplemental Indenture shall so provide, new Bonds so modified as to conform, in the opinion of the Authority and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the Authority and authenticated by the Trustee, and upon demand on the Owners of any Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any Bond Owner, for Bonds then Outstanding, upon surrender for cancellation of such Bonds, in equal aggregate principal amount of the same series and maturity.

Amendment of Particular Bonds. The provisions of Article IX of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bonds held by him.

Discharge of Indenture. The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(a) by paying or causing to be paid the principal of, as applicable, and interest on the Bonds, or any portion thereof, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or Defeasance Obligations in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem all Bonds, or any portion thereof then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the Bonds, or any portion thereof then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture with respect to the Bonds so paid or delivered for cancellation, as applicable, shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee shall take all such actions and shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, including, without limitation, the selection by lot of the Bonds of any maturity that is to be defeased in part, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption to the City.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03 of the Indenture) to pay or redeem any Outstanding Bonds (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 of the Indenture.

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

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture (exclusive of the Project Fund) and shall be:

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

(b) Defeasance Obligations the principal of and interest on which when due will, in the written opinion of an Accountant (the "Verification") filed with the City, the Authority and the Trustee, provide money sufficient to pay the principal of, as applicable, and all unpaid interest to maturity, or to the redemption date, and, if applicable, redemptions premium as the case may be, on the Bonds to be paid or redeemed, as such principal, interest become due, provided that in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in Article IV of the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal, interest and (if applicable) redemption premium with respect to such Bonds, and (ii) the Authority shall have delivered to the Trustee an opinion of Bond Counsel to the effect that such Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Verification referred to above).

Payment of Bonds After Discharge of Indenture. Anything contained in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or premium (if any) on or principal of the Bonds which remains unclaimed for two (2) years after the date when the payments of such interest, premium and principal have become payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and premium (if any) on and principal of such Bonds have become payable, shall be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the Authority for the payment of the interest and premium (if any) on and principal of such Bonds.

Governing Law. The terms and provisions of the Trust Agreement shall be governed by the laws of the State.

Bond Insurance Provisions Under the Indenture. Notwithstanding anything to the contrary set forth in the Indenture or in the Bonds, the following provisions of this Article XII shall govern with respect to the Bonds:

(a) The prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Fund. Notwithstanding anything to the contrary set forth in the Indenture, amounts on deposit in the Reserve Fund shall be applied solely to the payment of debt service due on the Bonds.

(b) The Insurer shall be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds entitled to take pursuant to the Indenture pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Trustee. In furtherance thereof and as a term of the Indenture and each Bond, the Trustee and each Bondholder appoint the Insurer as their agent and attorney-in-fact and agree that the Insurer may at any time during the continuation of any proceeding by or against the Authority or Obligor under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Bondholder delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of the Trustee and each Bondholder in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding. Remedies granted to the Bondholders shall expressly include mandamus.

(c) The security for the Bonds shall include a pledge of the Water Installment Agreement and the Wastewater Installment Agreement and a default under either agreement shall constitute an Event of Default under the Indenture.

(d) The maturity of Bonds insured by the Insurer shall not be accelerated without the consent of the Insurer and in the event the maturity of the Bonds is accelerated, the Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued, on such principal to the date of acceleration (to the extent unpaid by the Authority) and the Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Insurer's obligations under the Insurance Policy with respect to such Bonds shall be fully discharged.

(e) No grace period for a covenant default shall exceed 30 days or be extended for more than 60 days, without the prior written consent of the Insurer. No grace period shall be permitted for payment defaults.

(f) The Insurer shall be included as a third party beneficiary to the Indenture.

(g) Upon the occurrence of an extraordinary optional, special or extraordinary mandatory redemption in part, the selection of Bonds to be redeemed shall be subject to the approval of the Insurer. The exercise of any provision of the Indenture which permits the purchase of Bonds in lieu of redemption shall require the prior written approval of the Insurer if any Bond so purchased is not cancelled upon purchase.

(h) Any amendment, supplement, modification to, or waiver of, the Indenture or any other transaction document, including any underlying security agreement (each a “Related Document”), that requires the consent of Bondowners or adversely affects the rights and interests of the Insurer shall be subject to the prior written consent of the Insurer.

(i) Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Project Fund shall not be disbursed, but shall instead be applied to the payment of debt service or redemption price of the Bonds.

(j) The rights granted to the Insurer under the Indenture or any other Related Document to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer’s contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of the Insurer, affirmative or negative, as to whether the consent of the Bondowners or any other person is required in addition to the consent of the Insurer.

(k) Only (1) cash, (2) non-callable direct obligations of the United States of America (“Treasuries”), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated, (4) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, or (5) subject to the prior written consent of the Insurer, securities eligible for “AAA” defeasance under then existing criteria of S & P or any combination thereof, shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves. To accomplish defeasance, the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer (“Accountant”) verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (“Verification”), (ii) an Escrow Deposit Agreement (which shall be acceptable in form and substance to the Insurer), (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer “Outstanding” under the Indenture and (iv) a certificate of discharge of the Trustee with respect to the Bonds; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the Authority, Trustee and Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow. Bonds shall be deemed “Outstanding” under the Indenture unless and until they are in fact paid and retired or the above criteria are met.

(l) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the Indenture and the Bonds relating to such payments shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the Indenture. The Indenture shall not be discharged unless all amounts due or to become due to the Insurer have been paid in full or duly provided for.

(m) Each of the Authority and Trustee covenant and agree to take such action (including, as applicable, filing of UCC financing statements and continuations thereof) as is necessary from time to time to preserve the priority of the pledge of the Trust Estate under applicable law.

(n) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date (“Payment Date”) there is not on deposit with the Trustee, after making all transfers and deposits required under the Indenture, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the “Insurer’s Fiscal Agent”) by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer’s Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Insurer and the Insurer’s Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy. The Trustee shall designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Insurer, registered in the name of Assured Guaranty Municipal Corp., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee’s failure to so designate any payment or issue any replacement Bond shall have no effect on the amount of principal or interest payable by the Authority on any Bond or the subrogation rights of the Insurer. The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account (defined below) and the allocation of such funds to payment of interest on and principal of any Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee. Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the “Policy Payments Account” and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments. Notwithstanding anything herein to the contrary, the Authority agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the “Insurer Advances”); and (ii) interest on such Insurer Advances from the date paid by the Insurer until payment thereof in full, payable to the Insurer at the Late Payment Rate per annum (collectively, the “Insurer Reimbursement Amounts”). “Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the date such change is announced by JPMorgan Chase

Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Bonds and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Authority hereby covenants and agrees that the Insurer Reimbursement Amounts are secured by a lien on and pledge of the Revenues and payable from such Revenues on a parity with debt service due on the Bonds. Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee. Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Insurer.

(o) The Insurer shall, to the extent it makes any payment of principal or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy (which subrogation rights shall also include the rights of any such recipients in connection with any Insolvency Proceeding). Each obligation of the Authority to the Insurer under the Related Documents shall survive discharge or termination of such Related Documents.

(p) After payment of reasonable expenses of the Trustee, the application of funds realized upon default shall be applied to the payment of expenses of the Authority or rebate only after the payment of past due and current debt service on the Bonds and amounts required to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

(q) The Insurer shall be entitled to pay principal or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Insurance Policy) and any amounts due on the Bonds as a result of acceleration of the maturity thereof in accordance with the Indenture, whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

(r) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director- Surveillance, Re: Policy No. _____, Telephone: (212) 974-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the Deputy General Counsel-Public Finance and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(s) The Insurer shall be provided with the following information by the Authority or Trustee, as the case may be:

(i) Notice of any draw upon the Reserve Fund within two Business Days after knowledge thereof other than (i) withdrawals of amounts in excess of the Reserve Requirement and (ii) withdrawals in connection with a refunding of Bonds;

(ii) Notice of any default known to the Trustee or Authority within five Business Days after knowledge thereof;

(iii) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(iv) Notice of the resignation or removal of the Trustee and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto;

(v) Notice of the commencement of any proceeding by or against the Authority commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an “Insolvency Proceeding”);

(vi) Notice of the making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

(vii) A full original transcript of all proceedings relating to the execution of any amendment, supplement, or waiver to the Related Documents; and

(viii) All reports, notices and correspondence to be delivered to Bondholders under the terms of the Related Documents.

(t) The Insurer shall have the right to receive such additional information as it may reasonably request.

(u) The Authority will permit the Insurer to discuss the affairs, finances and accounts of the Authority or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Authority and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Authority on any business day upon reasonable prior notice.

(v) The Trustee shall notify the Insurer of any failure of the Authority to provide notices, certificates and other information under the transaction documents.

(w) Notwithstanding satisfaction of the other conditions to the issuance of Additional Bonds set forth in the Indenture, no such issuance may occur (1) if an Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) exists unless such default shall be cured upon such issuance and (2) unless the Reserve Fund is fully funded at the Reserve Requirement (including the proposed issue) upon the issuance of such Additional Bonds, in either case unless otherwise permitted by the Insurer.

(x) In determining whether any amendment, consent, waiver or other action to be taken, or any failure to take action, under the Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Trustee shall consider the effect of any such amendment, consent, waiver, action or inaction as if there were no Insurance Policy.

(y) No contract shall be entered into or any action taken by which the rights of the Insurer or security for or sources of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

(z) If the Bonds are issued for refunding purposes, there shall be delivered an opinion of Bond Counsel addressed to the Insurer (or a reliance letter relating thereto), or a certificate of discharge of the

trustee for the Refunded Bonds, to the effect that, upon the making of the required deposit to the escrow, the legal defeasance of the Refunded Bonds shall have occurred. An executed copy of each of such opinion and reliance letter, if applicable, or Trustee's discharge certificate, as the case may be, shall be forwarded to the Insurer prior to delivery of the Bonds.

(aa) So long as any Bonds insured by the Insurer remain outstanding or any amounts are owed to the Insurer by the Authority, the Authority shall not issue or incur indebtedness payable from or secured in whole or in part by the Revenues that (i) bears interest at other than fixed rates or (ii) permits the holder to tender such indebtedness for purchase prior to the stated maturity thereof, in either case without the prior written consent of the Insurer.

(bb) Any interest rate exchange agreement ("Swap Agreement") entered into by the Authority, secured by and payable from Revenues, shall meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (iii) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Swap Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Insurer, any net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Bonds and on any debt on parity with the Bonds. The Authority shall not terminate a Swap Agreement unless it demonstrates to the satisfaction of the Insurer prior to the payment of any such termination amount that such payment will not cause the Obligor to be in default under the Related Documents, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement must have a rating of at least "A-" and "A3" by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor shall execute a credit support annex to the Swap Agreement, which credit support annex shall be acceptable to the Insurer. If the counterparty or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to the Insurer, shall be required.

INSTALLMENT SALE AGREEMENTS

Projects. The Authority, under the terms of the respective Installment Sale Agreement, agrees to sell, and sells, the Water Project and Wastewater Project, respectively, to the City. The City, under the terms of the respective Installment Sale Agreement, agrees to purchase and purchases, the Water Project and Wastewater Project, respectively, from the Authority on the terms and conditions specified in the respective Installment Sale Agreement.

Purchase Price. In consideration of the financing of the Water Project and Wastewater Project, the respective Purchase Price to be paid by the City to the Authority under each respective Installment Sale Agreement is the sum of the principal amount of the City's obligation under the respective Installment Sale Agreement plus the interest to accrue on the unpaid balance of such principal amount from the Closing Date over the term of the respective Installment Sale Agreement. The interest to accrue on the unpaid balance of such principal amount shall be paid by the City and shall constitute interest paid on the principal amount of the City's Purchase Price obligation under each respective Installment Sale Agreement. Interest on the

unpaid balance of the principal amount of the respective Purchase Price shall accrue, from the Closing Date, on the principal component of each Installment Sale Payment at the rates set forth in this Official Statement calculated on the basis of a 360-day year comprised of twelve 30-day months.

Pledge of Net Wastewater Revenues. All Net Water and Wastewater Revenues are, under the terms of the respective Installment Sale Agreement, irrevocably pledged to the payment of the Installment Payments thereunder; provided, that out of the Net Water and/or Wastewater Revenues, as the case may be, there may be apportioned such sums for such purposes as are permitted by the applicable Installments Sale Agreement. This pledge shall constitute a lien on the Net Water and/or Wastewater Revenues, as the case may be, for the payment of such Installment Payments, principal of and interest on all Bonds and Installment Payments on all other Contracts in accordance with the terms thereof.

Budget and Appropriation of Installment Payments. During the Term of the Installment Sale Agreements, the City shall adopt and make all necessary budgets and appropriations of the applicable Installment Payments from the Net Revenues, and shall, upon written request of the Trustee, furnish to the Trustee a Written Certificate stating that the applicable Installment Payments have been included in the final budget of the City for the current Fiscal Year. In the event any Installment Payment requires the adoption by the City of any supplemental budget or appropriation, the City shall promptly adopt the same. The covenants on the part of the City contained in Installment Sale Agreements shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements therein.

Special Obligation of the City; Obligations Absolute. The City's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable under each Installment Sale Agreement is a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required, obligated or liable to advance moneys derived from any source of income other than the Net Revenues for the payment of the Installment Payments and the Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable under each Installment Sale Agreement.

Covenant Regarding Gross Revenues. The City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise and the Wastewater Enterprise, respectively, during each Fiscal Year (together with other funds accumulated from respective Gross Revenues and which are lawfully available to the City for payment of any of the following amounts during such Fiscal Year), which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield respective Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

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

(ii) The Installment Payments and the principal of and interest on (a) any respective Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or such principal and interest on any respective Parity Obligations are payable from the proceeds of the Bonds or Parity Obligations, or from any other source of legally

available funds of the City which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement, but only to the extent that the diminution of the Reserve Fund resulted from Installment Payments being in an amount less than the corresponding amount called for in the respective Installment Sale Agreement; and

(iv) All Additional Payments and other payments required to meet any other obligations of the City which are charges, liens, encumbrances upon, or which are otherwise payable, from respective Gross Revenues during such Fiscal Year, including payments with respect to respective Subordinate Obligations.

Covenant Regarding Net Revenues. In addition, the City shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Water Enterprise and the Wastewater Enterprise, respectively, during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield respective Adjusted Annual Net Revenues for such Fiscal Year equal to at least the respective Coverage Requirement for such Fiscal Year. The City 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 rates, fees and charges then in effect unless the respective Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

Rate Stabilization Fund. Each respective "Rate Stabilization Fund," is to be held, replenished and maintained by the City. The City may at any time withdraw from the Rate Stabilization Fund any money therein for deposit in the respective Utility Fund or Bond Fund; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred twenty (120) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining respective Adjusted Annual Revenues; and provided further, that no deposit of respective Net Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the City from meeting the respective Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

Superior and Subordinate Obligations. The City shall not issue or incur any additional bonds or other obligations during the Term of each respective Installment Sale Agreement having any priority in payment of principal or interest out of the respective Gross Revenues or the respective Net Revenues over the respective Installment Payments. The City may at any time execute any respective Subordinate Obligations; provided that (i) no Event of Default has occurred and is continuing, (ii) the provisions of Section 4.9 of each Installment sale Agreement relating to the conditions for the execution of Parity Obligations are satisfied for the execution of such respective Subordinate Obligation, and (iii) for purposes of Subordinate Obligations only, the first paragraph of the definition of respective Coverage Requirement shall be defined as (i) one hundred five percent (105%) of the sum of the Annual Debt Service plus the Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period and (ii) one hundred percent (100%) of all obligations of the City payable in such Fiscal Year or twelve (12) calendar month period.

Nothing shall limit the ability of the City to execute obligations payable from a lien on Net Revenues that is subordinate to the lien of Net Revenues for both Parity Obligations and Subordinate

Obligations.

Issuance of Parity Obligations. The City shall have the right from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the City shall deem advisable, but only upon compliance with the following conditions which are hereby made conditions precedent to the issuance of respective Parity Obligations:

(a) There shall be on file with the City either:

(1) A Certificate of the Fiscal Consultant demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the respective Adjusted Annual Net Revenues were at least equal to the respective Coverage Requirement for all outstanding respective applicable Parity Obligations plus the Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the City may adjust the foregoing respective Adjusted Annual Net Revenues to reflect respective Additional Revenues; or

(2) An Engineer's Report that the estimated respective Adjusted Annual Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all respective Projects financed with the respective Parity Obligation proposed to be executed plus all respective Projects financed with all existing respective Parity Obligations are expected to commence operations, will be at least equal to the respective Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated respective Adjusted Annual Net Revenues to reflect respective Additional Revenues;

(b) A Certificate of the City that the Project to be acquired and constructed with the proceeds of such respective Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted respective Projects) the rates, fees and charges estimated to be fixed and prescribed for the wastewater service for each Fiscal Year from the Fiscal Year in which such respective Parity Obligation is executed to and including the first complete Fiscal Year after the latest respective Date of Operation of any uncompleted respective Project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of respective Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such respective Parity Obligations a reserve account may, but is not required to, be established for such respective Parity Obligations in an amount at least equal to the respective Reserve Requirement of such respective Parity Obligations.

Additional Payments. In addition to the respective Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority and the Trustee to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to Section 6.08 of

the Indenture, and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties under the Indenture or any related documents, and all costs and expenses of the Authority's and Trustee's attorneys, auditors, engineers and accountants.

Payment of Rebatable Amounts. The City agrees to furnish all information to, and cooperate fully with, the Authority, the Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of Section 6.08 of the Indenture. In the event that the Authority or the Trustee shall determine, pursuant to Section 6.08 of the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority or the Trustee shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the United States of America from any source of legally available funds of the Water Enterprise and/or the Wastewater Enterprise, respectively, the amounts determined by the Authority or the Trustee to be due and payable to the United States of America under such Section 6.08.

Maintenance, Utilities, Budget, Taxes and Assessments. Throughout the Term of each Installment Sale Agreement, all improvement, repair and maintenance of the Water Enterprise and Wastewater Enterprise, respectively, shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all respective Operation and Maintenance Costs and other services supplied to each respective Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the respective Enterprise resulting from ordinary wear and tear. On or before the first day of each Fiscal Year, the City will file with the Trustee a budget setting forth the estimated respective Operation and Maintenance Costs of each respective Enterprise for such Fiscal Year. The Trustee shall not be required to review, and shall not be deemed to have knowledge of, the contents of such budget, it being understood that the Trustee shall receive and hold such budget as repository for examination and copying by any Owner at such Owner's expense.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority, the Trustee or the City, affecting the Water Enterprise and Wastewater Enterprise, respectively, or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of each Installment Sale Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in its opinion, by nonpayment of any such items, the interest of the Authority hereunder or under the Indenture will be materially adversely affected, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Operation of Wastewater Enterprise. The City covenants and agrees to operate the Water

Enterprise and the Wastewater Enterprise, respectively, in an efficient and economical manner and to operate, maintain and preserve each respective Enterprise in good repair and working order. The City covenants that, in order to fully preserve and protect the priority and security of the Bonds, the City shall pay from the respective applicable Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with each respective applicable Enterprise which, if unpaid, may become a lien or charge upon the respective Gross Revenues or the respective Net Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the City to pay the respective Installment Payments.

Public Liability and Property Damage Insurance. The City shall maintain or cause to be maintained, throughout the Term of each Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, a standard comprehensive general insurance policy or policies in protection of the Authority, the City, the Trustee, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Water Enterprise and Wastewater Enterprise, respectively. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the City, and may be maintained in whole or in part in the form of self-insurance by the City, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Casualty Insurance. The City shall procure and maintain, or cause to be procured and maintained, throughout the Term of each Installment Sale Agreement, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Water Enterprise and Wastewater Enterprise, respectively, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the City and may be maintained in whole or in part in the form of self-insurance by the City, or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Water Enterprise and Wastewater Enterprise, respectively, shall be respective Gross Revenues of that applicable Enterprise and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water Enterprise and Wastewater Enterprise, as the case may be, or otherwise as permitted by the respective applicable Installment Sale Agreement.

Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of either the Water Enterprise and/or the Wastewater Enterprise, respectively, by the lawful exercise of eminent domain shall be set aside and shall be used for the acquisition or construction of improvements and extension of that respective Enterprise or otherwise as permitted by the applicable Installment Sale Agreement, and with respect to which the Trustee shall have a security interest.

Records and Accounts. The City shall keep proper books of record and accounts of the

Wastewater Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water Enterprise and the Wastewater Enterprise, respectively. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The City shall cause the books and accounts of the Water Enterprise and the Wastewater Enterprise, respectively, to be audited annually by an Independent Certified Public Accountant, not more than two hundred seventy (270) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the City.

Private Activity Bond Limitation. The City and the Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Maintenance of Tax-Exemption. The City and the Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Federal Guarantee Prohibition. The City and the Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Installment Sale Agreements, failure of the City to comply with the Continuing Disclosure Certificate shall not be an Event of Default hereunder; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City to comply with its obligations.

Sale of Enterprise. The City will only sell, transfer or otherwise dispose of any of the facilities of the Water Enterprise and/or the Wastewater Enterprise, respectively, or any real or personal property comprising a part thereof consistent with one or more of the following limitations:

(1) The City in its discretion may carry out such a sale, transfer or other disposition (each, as used in this section, a “transfer”) if the facilities or property of the respective Enterprise transferred are not material to the operation of the respective Enterprise, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the respective Enterprise, or are no longer necessary, material or useful to the operation of the respective Enterprise; or

(2) The City in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of the respective Enterprise transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of the respective Enterprise; or

(3) The City in its discretion may carry out such a transfer if the City receives from the transferee an amount equal to the fair market value of the facilities or property of the respective Enterprise transferred (as used in this subparagraph, “fair market value” means the most probable price that a property should

bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to the respective Enterprise; provided, that before any such transfer is made under this subparagraph, (A) the City shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the City, the remaining facilities or property of the respective Enterprise will retain their operational integrity and the estimated respective Adjusted Annual Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated respective Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in respective Net Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the Parity Payments and thereafter, the Subordinate Payments, (y) the estimated additional respective Gross Revenues from customers anticipated to be served by any additions, betterments or improvements to the respective Enterprise financed by the portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the preparation of an Engineer's Report under Section 4.9, or (B) the City shall obtain confirmation from the Rating Agencies to the effect that the ratings then in effect will not be reduced or withdrawn upon such transfer.

Amendment of Installment Sale Agreement. The City and the Authority shall have the right to modify or amend the Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds or the owners of any Parity Obligations in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes:

(a) to provide for the issuance of Parity Obligations pursuant to Section 4.9 of the respective Installment sale Agreement;

(b) to add to the covenants and agreements of the City contained in the respective Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;

(c) to cure any ambiguity, or to cure, correct or supplement any defective provision, or in any other respect whatsoever as the Authority, the Trustee and the City may deem necessary or desirable; or

(d) to amend any provision thereof for the purpose of complying with the applicable requirements of the Code.

Events of Default Defined. The following events shall be Events of Default under each respective Installment Sale Agreement:

(a) Failure by the City to pay any respective Installment Payment when and as the same become due and payable thereunder.

(b) Failure by the City to pay any Additional Payment when due and payable thereunder, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; provided, however, that if the City shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default hereunder if the City shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence and continuation of any event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations or any event that allows the acceleration of Parity Obligations.

Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VIII of the Indenture, to:

(a) declare all principal components of the unpaid respective Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

(b) take whatever action at law or in equity may appear necessary or desirable to collect the respective applicable Installment Payments then due or thereafter to become due during the Term of the applicable Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under this Installment Sale Agreement; and

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners under the respective Installment Sale Agreement, cause the appointment of a receiver or receivers of the respective Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid respective applicable Installment Payments shall have been so declared due and payable pursuant to the preceding clause (a), and before any judgment or decree for the

payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all principal components of the respective Installment Payments coming due prior to such declaration and all matured interest components (if any) of the respective Installment Payments, with interest on such overdue principal and interest components calculated at the rate of ten percent (10%) per annum and the reasonable fees and expenses of the Trustee (including any reasonable fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. The Trustee shall be required to exercise the remedies provided in each respective Installment Sale Agreement in accordance with the Indenture.

No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the respective Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

Agreement to Pay Attorneys' Fees and Expenses. In the event either party to a respective Installment Sale Agreement should default under any of the provisions thereof and the nondefaulting party, the Trustee or the Owner of any Bonds should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred.

No Additional Waiver Implied by One Waiver. In the event any agreement contained in a respective Installment Sale Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder.

Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under each respective Installment Sale Agreement have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City has consented. Such rights and remedies shall be exercised by the Trustee, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, and the Owners of the Bonds as provided in the Indenture.

Security Deposit. Notwithstanding any other provision of each respective Installment Sale Agreement, the City may on any date secure the payment of respective Installment Payments in whole or in part by irrevocably depositing with the Trustee an amount of cash which, together with amounts on deposit in the Bond Fund, the accounts therein and the Reserve Fund, is either (a) sufficient to pay all such respective Installment Payments, including the principal and interest components thereof, in accordance with the respective Installment Payment schedule set forth in Exhibit A of each respective Installment Sale Agreement, or (b) invested in whole or in part in non-callable Defeasance Obligations in such amount as

will, in the written opinion of an Independent Certified Public Accountant, addressed to the Authority and the Trustee, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such respective Installment Payments when due pursuant to Section 4.4(a) of each respective Installment Sale Agreement or when due on any optional prepayment date pursuant to a respective Installment Sale Agreement as the City shall instruct at the time of said deposit. In the event of a security deposit with respect to all of the respective Installment Payments, and provided that other amounts due and payable by the City thereunder have been paid in full, all obligations of the City under the respective Installment Sale Agreement, and all security provided by this Installment Sale Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all of such respective Installment Payments from such security deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of respective Installment Payments in accordance with the provisions of the respective Installment Sale Agreement.

Bond Insurance Provisions Relating to the Installment Sale Agreements. Notwithstanding anything to the contrary set forth in the Installment Sale Agreements, the following provisions of Article XI of each respective Installment Sale Agreement shall govern:

(a) The City shall pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in the Indenture, the Installment Sales Agreements or any other related document (each a “Related Document”); (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document.

(b) Amounts due to the Insurer, as issuer of the Policy and the Reserve Policy shall be included as an Installment Payment, an Additional Payment or amounts to be deposited into the Utility Fund.

(c) This Installment Sales Agreement shall not be amended, supplemented or modified and no provision may be waived without the prior written consent of the Insurer.

(d) Subordinate Obligations shall not be accelerated without the prior written consent of the Insurer.

(e) The City will permit the Insurer to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Authority and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the City on any business day upon reasonable prior notice.

(f) The notice address of the Insurer is: Assured Guaranty Municipal Corp., 31 West 52nd Street, New York, New York 10019, Attention: Managing Director-Surveillance, Telephone: (212) 974-0100; Telecopier: (212) 339-3556. In each case in which notice or other communication refers to an Event

of Default, then a copy of such notice or other communication shall also be sent to the attention of the Deputy General Counsel Public Finance and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

(g) So long as any Bonds insured by the Insurer remain outstanding or any amounts are owed to the Insurer by the Authority, the City shall not issue or incur indebtedness payable from or secured in whole or in part by the Net Revenues of the Water Enterprise that (i) bears interest at other than fixed rates or (ii) permits the holder to tender such indebtedness for purchase prior to the stated maturity thereof, in either case without the prior written consent of the Insurer.

(h) Any interest rate exchange agreement (“Swap Agreement”) entered into by the City, secured by and payable from Net Revenues of the enterprise, shall meet the following conditions: (i) the Swap Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, or (b) debt then outstanding, or (iii) debt reasonably expected to be issued within the next twelve (12) months, and (ii) the Swap Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Insurer, any net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Bonds and on any Parity Obligations. The City shall not terminate a Swap Agreement unless it demonstrates to the satisfaction of the Insurer prior to the payment of any such termination amount that such payment will not cause the City to be in default under the Related Documents, including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to any Swap Agreement must have a rating of at least “A-” and “A3” by Standard & Poor’s (“S&P”) and Moody’s Investors Service (“Moody’s”). If the counterparty or guarantor’s rating falls below “A-” or “A3” by either S&P or Moody’s, the counterparty or guarantor shall execute a credit support annex to the Swap Agreement, which credit support annex shall be acceptable to the Insurer. If the counterparty or the guarantor’s long term unsecured rating falls below “Baa1” or “BBB+” by either Moody’s or S&P, a replacement counterparty or guarantor, acceptable to the Insurer, shall be required.

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY
FOR FISCAL YEAR ENDING JUNE 30, 2014**

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CITY OF SAN JUAN BAUTISTA

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

JUNE 30, 2014

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FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of San Juan Bautista, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Juan Bautista, California, (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Juan Bautista, California, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

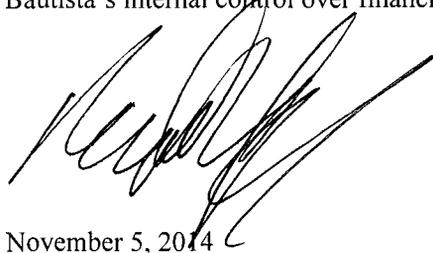
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, on our consideration of the City of San Juan Bautista's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of San Juan Bautista's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to be 'M. J. ...', is written over the date 'November 5, 2014'.

November 5, 2014

CITY OF SAN JUAN BAUTISTA

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 1,606,711	\$ 956,229	\$ 2,562,940
Restricted cash and investments	-	791,093	791,093
Accounts receivable, net	-	124,787	124,787
Interest receivable	-	8,591	8,591
Due from other governmental agencies	201,141	-	201,141
Internal balances	1,895,884	(1,895,884)	-
Prepaid expense and other assets	7,057	-	7,057
Deferred loan charges, net	-	316,395	316,395
Capital assets (net of allowance for depreciation)	883,972	14,357,940	15,241,912
Total assets	<u>4,594,765</u>	<u>14,659,151</u>	<u>19,253,916</u>
LIABILITIES			
Accounts payable and accrued expense	238,599	84,070	322,669
Accrued interest	-	160,211	160,211
Deposits	500	92,910	93,410
Long-term liabilities			
Due within one year	-	194,312	194,312
Due in more than one year	-	10,648,526	10,648,526
Total liabilities	<u>239,099</u>	<u>11,180,029</u>	<u>11,419,128</u>
NET POSITION			
Net investment in capital assets	883,972	3,515,102	4,399,074
Restricted for debt service	-	791,093	791,093
Restricted for specific projects and programs	395,624	-	395,624
Unrestricted/(deficit)	3,076,070	(827,073)	2,248,997
Total net position	<u>\$ 4,355,666</u>	<u>\$ 3,479,122</u>	<u>\$ 7,834,788</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2014

Functions/Programs	Expense	Program Revenue			Net Revenue/(Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities							
General government	\$ 365,206	\$ 10,985	\$ -	\$ -	\$ (354,221)	\$ -	\$ (354,221)
Public works	281,416	-	63,855	6,868	(210,693)	-	(210,693)
Parks and recreation	58,976	1,006	-	-	(57,970)	-	(57,970)
Public safety	429,115	1,902	152,567	6,172	(268,474)	-	(268,474)
Community development	188,637	68,633	-	23,256	(96,748)	-	(96,748)
Total governmental activities	<u>1,323,350</u>	<u>82,526</u>	<u>216,422</u>	<u>36,296</u>	<u>(988,106)</u>	<u>-</u>	<u>(988,106)</u>
Business-type activities							
Water	835,046	736,597	-	30,200	-	(68,249)	(68,249)
Sewer	877,811	841,769	-	20,960	-	(15,082)	(15,082)
Total business-type activities	<u>1,712,857</u>	<u>1,578,366</u>	<u>-</u>	<u>51,160</u>	<u>-</u>	<u>(83,331)</u>	<u>(83,331)</u>
Total primary government	<u>\$ 3,036,207</u>	<u>\$ 1,660,892</u>	<u>\$ 216,422</u>	<u>\$ 87,456</u>	<u>(988,106)</u>	<u>(83,331)</u>	<u>(1,071,437)</u>
General Revenues							
Property taxes and assessments					291,071	-	291,071
Sales taxes					417,486	-	417,486
Lodging taxes					52,707	-	52,707
Franchise taxes					56,161	-	56,161
Business licenses					19,598	-	19,598
Motor vehicle in-lieu					105,992	-	105,992
Interest and rent					44,360	49,280	93,640
Other					74,373	-	74,373
Total general revenue					<u>1,061,748</u>	<u>49,280</u>	<u>1,111,028</u>
Change in Net Position					73,642	(34,051)	39,591
Net Position							
Beginning of year					<u>4,282,024</u>	<u>3,513,173</u>	<u>7,795,197</u>
End of year					<u>\$ 4,355,666</u>	<u>\$ 3,479,122</u>	<u>\$ 7,834,788</u>

See accompanying notes.

CITY OF SAN JUAN BAUTISTA

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2014

	<u>General</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 1,186,871	\$ 419,840	\$ 1,606,711
Due from other governmental agencies	169,391	31,750	201,141
Due from other funds	1,895,884	-	1,895,884
Prepaid expense and other assets	7,057	-	7,057
Total assets	<u>\$ 3,259,203</u>	<u>\$ 451,590</u>	<u>\$ 3,710,793</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable and accrued expense	\$ 177,287	\$ 61,312	\$ 238,599
Deposits	500	-	500
Total liabilities	<u>177,787</u>	<u>61,312</u>	<u>239,099</u>
Fund Balance			
Nonspendable			
Advances to other funds	1,895,884	-	1,895,884
Prepaid	7,057	-	7,057
Restricted			
Public safety	-	6,172	6,172
Capital improvement projects	-	128,317	128,317
Circulation improvements	-	207,670	207,670
Lighting and landscape maintenance	-	53,465	53,465
Unassigned	<u>1,178,475</u>	<u>(5,346)</u>	<u>1,173,129</u>
Total fund balance	<u>3,081,416</u>	<u>390,278</u>	<u>3,471,694</u>
Total liabilities and fund balance	<u>\$ 3,259,203</u>	<u>\$ 451,590</u>	<u>\$ 3,710,793</u>

CITY OF SAN JUAN BAUTISTA

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2014

Total governmental fund balances \$ 3,471,694

Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds 883,972

Net position of governmental activities \$ 4,355,666

CITY OF SAN JUAN BAUTISTA

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2014

	<u>General</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue			
Taxes	\$ 912,514	\$ 30,501	\$ 943,015
Intergovernmental	52,567	163,855	216,422
Charges for services	31,251	-	31,251
Licenses, permits and impact fees	49,366	36,296	85,662
Fines and forfeitures	1,909	-	1,909
Interest and rent	44,360	-	44,360
Other	74,373	-	74,373
Total revenue	<u>1,166,340</u>	<u>230,652</u>	<u>1,396,992</u>
Expenditures			
Current			
General government	364,829	-	364,829
Public works	206,579	40,594	247,173
Parks and recreation	43,154	-	43,154
Public safety	293,493	121,770	415,263
Community development	188,637	-	188,637
Capital outlay	171,649	-	171,649
Total expenditures	<u>1,268,341</u>	<u>162,364</u>	<u>1,430,705</u>
Revenue over/(under) expenditures	(102,001)	68,288	(33,713)
Other Financing Sources/(Uses)			
Operating transfers in	-	-	-
Operating transfers (out)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Fund Balance	(102,001)	68,288	(33,713)
Fund Balance			
Beginning of year	3,183,417	321,990	3,505,407
End of year	<u>\$ 3,081,416</u>	<u>\$ 390,278</u>	<u>\$ 3,471,694</u>

CITY OF SAN JUAN BAUTISTA

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION YEAR ENDED JUNE 30, 2014

Net change in fund balance - total governmental funds \$ (33,713)

Amounts reported for governmental activities in the statement of activities are different because:

Depreciation expense on capital assets is reported in the Statement of Activities, but they do not require the use of current financial resources. Therefore, depreciation expense is not required as expenditures in Governmental Funds (64,294)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 171,649

Change in net position of governmental activities \$ 73,642

CITY OF SAN JUAN BAUTISTA

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Proprietary Funds
ASSETS			
Current assets			
Cash and investments	\$ 448,328	\$ 507,901	\$ 956,229
Restricted cash and investments	435,102	355,991	791,093
Accounts receivable, net	52,752	72,035	124,787
Interest receivable	4,725	3,866	8,591
Total current assets	<u>940,907</u>	<u>939,793</u>	<u>1,880,700</u>
Non-current assets			
Deferred loan charges, net	174,017	142,378	316,395
Property, plant and equipment (net of allowance for depreciation)	7,487,523	6,870,417	14,357,940
Total noncurrent assets	<u>7,661,540</u>	<u>7,012,795</u>	<u>14,674,335</u>
Total assets	<u>8,602,447</u>	<u>7,952,588</u>	<u>16,555,035</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expense	42,203	41,867	84,070
Accrued interest	88,116	72,095	160,211
Due to other funds	1,042,736	853,148	1,895,884
Deposits	92,910	-	92,910
Current portion of long-term debt	106,872	87,440	194,312
Total current liabilities	<u>1,372,837</u>	<u>1,054,550</u>	<u>2,427,387</u>
Noncurrent Liabilities			
Long-term debt	5,856,689	4,791,837	10,648,526
Total liabilities	<u>7,229,526</u>	<u>5,846,387</u>	<u>13,075,913</u>
NET POSITION			
Net investment in capital assets	1,523,962	1,991,140	3,515,102
Restricted for debt service	435,102	355,991	791,093
Unrestricted	(586,143)	(240,930)	(827,073)
Total net position	<u>\$ 1,372,921</u>	<u>\$ 2,106,201</u>	<u>\$ 3,479,122</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Proprietary Funds
Operating Revenue			
Charges for services	\$ 723,186	\$ 841,769	\$ 1,564,955
Other fees	13,411	-	13,411
Total operating revenue	<u>736,597</u>	<u>841,769</u>	<u>1,578,366</u>
Operating Expense			
Contractual services and utilities	103,112	230,435	333,547
Personnel	14,912	16,710	31,622
Supplies, materials and repairs	39,232	33,487	72,719
Depreciation and amortization expense	311,431	297,431	608,862
Total operating expense	<u>468,687</u>	<u>578,063</u>	<u>1,046,750</u>
Operating income/(loss)	<u>267,910</u>	<u>263,706</u>	<u>531,616</u>
Nonoperating Revenue/(Expense)			
Development impact fees	30,200	20,960	51,160
Interest income	24,640	24,640	49,280
Interest expense	<u>(366,359)</u>	<u>(299,748)</u>	<u>(666,107)</u>
Total nonoperating revenue/(expense)	<u>(311,519)</u>	<u>(254,148)</u>	<u>(565,667)</u>
Net income/(loss) before transfers	(43,609)	9,558	(34,051)
Operating Transfers In/(Out)	-	-	-
Change in Net Position	<u>(43,609)</u>	<u>9,558</u>	<u>(34,051)</u>
Net Position			
Beginning of year	1,416,530	2,096,643	3,513,173
End of year	<u>\$ 1,372,921</u>	<u>\$ 2,106,201</u>	<u>\$ 3,479,122</u>

CITY OF SAN JUAN BAUTISTA

STATEMENT OF CASH FLOW - PROPRIETARY FUNDS YEAR ENDED JUNE 30, 2014

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total Business-Type Funds
Operating Activities			
Receipts from customers and users	\$ 762,178	\$ 852,755	\$ 1,614,933
Payments for contractual services and utilities	(60,015)	(192,767)	(252,782)
Payments to employees	(14,912)	(16,710)	(31,622)
Payments to suppliers	(39,232)	(33,487)	(72,719)
Net cash provided by operating activities	<u>648,019</u>	<u>609,791</u>	<u>1,257,810</u>
Capital and Related Financing Activities			
Payments from developers	30,200	20,960	51,160
Purchase of property, plant and equipment	(79,372)	(169)	(79,541)
Principal paid on long-term debt	(219,345)	(179,464)	(398,809)
Interest paid on long-term debt	(367,074)	(300,333)	(667,407)
Net cash used by capital and related financing activities	<u>(635,591)</u>	<u>(459,006)</u>	<u>(1,094,597)</u>
Investing Activities			
Interest received	<u>24,640</u>	<u>24,640</u>	<u>49,280</u>
Net cash provided by investing activities	<u>24,640</u>	<u>24,640</u>	<u>49,280</u>
Net Increase in Cash	37,069	175,424	212,493
Cash			
Beginning of year	<u>846,361</u>	<u>688,468</u>	<u>1,534,829</u>
End of year	<u>\$ 883,430</u>	<u>\$ 863,892</u>	<u>\$ 1,747,322</u>
Cash Flows from Operating Activities			
Operating income (loss)	\$ 267,910	\$ 263,706	\$ 531,616
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization expense	311,431	297,431	608,862
(Increase) Decrease in Accounts Receivable	25,581	10,986	36,567
Increase (Decrease) in Accounts Payable and Accrued Liabilities	43,097	37,668	80,765
Net Cash Provided by Operating Activities	<u>\$ 648,019</u>	<u>\$ 609,791</u>	<u>\$ 1,257,810</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of San Juan Bautista (the City) have been prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The City of San Juan Bautista, State of California (the "City"), was incorporated in 1869. The City operates under a Council-Manager form of government. The City's major operations include public safety; highways and streets; sewer and water; parks and recreation; building inspection; public improvements; planning and zoning, and general administrative services.

Basis of Presentation – Fund Accounting

Government-Wide Financial Statements - The Government-Wide Financial Statements (the Statement of Net Position and the Statement of Activities and Changes in Net Position) report information of all of the nonfiduciary activities of the primary government. For the most part, eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely significantly on fees charged to external parties.

The Statement of Activities and Changes in Net Position presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Net Position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Governmental Fund Financial Statements - The Governmental Fund Financial Statements provide information about the City's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund – The General Fund is the general operating fund of the City. It is used for all financial resources except those required legally, or by sound financial management to be accounted for in another fund. Generally, the General Fund is used to account for those traditional governmental services of the City, such as police and fire protection, planning and general administrative services.

The City reports the following major enterprise funds:

Water Fund – The Water Fund accounts for the operation and maintenance of the City's water treatment and water transmission and distribution systems.

Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

Basis of Accounting

The Government-Wide and Proprietary Fund Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental Funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Proprietary Funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating.

Financial Statement Amounts

Cash and Investments - Cash and investments represent the City's cash bank accounts including but not limited to certificates of deposit, money market funds and cash management pools for reporting purposes in the Statement of Cash Flows. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents in the Statement of Cash Flows.

The City maintains a cash and investment pool that is available for use by all funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month end cash balances in each fund.

Accounts Receivable - Billed but unpaid services provided to individuals or non-governmental entities are recorded as accounts receivable. An allowance for doubtful accounts is provided to account for potentially uncollectible amounts.

San Benito County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property taxes are levied in equal installments on November 1 and February 1. They become delinquent on December 10 and April 10, respectively. The lien date is March 1 of each year. Property taxes are accounted for in the General Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after year end. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year end accrual.

The City is permitted by Article XIII A of the State of California Constitution (known as Proposition 13) to levy a maximum tax of \$1.00 per \$100 of full cash value.

Interfund Receivables/Payables - Items classified as interfund receivable/payable represent short-term lending/borrowing transactions between funds. This classification also includes the current portion of an advance to or from another fund.

Capital Assets - Capital outlays are recorded as expenditures of the General and Special Revenue Funds and as assets in the Government-Wide Financial Statements to the extent the City's capitalization threshold is met.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the Government-Wide Financial Statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities are included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings, structures and improvements	40
Infrastructure	40
Equipment	5 - 10

Compensated Absences - It is the City's policy to permit all employees to accumulate earned but unused vacation and compensatory time benefits. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

Sick leave can be accumulated, but vesting is limited and will not be paid upon termination. For this reason, the City does not accrue any costs relating to sick leave.

Long-Term Obligations - In the Government-Wide Financial Statements, and Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund Type Statement of Net Position. Debt principal payments of both government and business-type activities are reported as decreases in the balance of the liability on the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, however, debt principal payments of Governmental Funds are recognized as expenditures when paid. Governmental Fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

Non-Current Governmental Assets/Liabilities - GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the Government-Wide Statement of Net Position.

Net Position - The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Net Investment in Capital Assets - This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position - This category presents external restrictions on net position imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This category represents net position of the City, not restricted for any project or other purpose.

Fund Equity – In the fund financial statements, governmental fund balance is made up of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, long-term portion of loans receivable, nonfinancial assets held for resale and other items that must be maintained intact pursuant to legal or contractual requirements, such as endowments.
- Restricted fund balance category includes amounts that can be spent only for specific purposes imposed by creditors, grantors, contributors, or laws or regulations of other governments or through enabling legislations.
- Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council. The City Council has the authority to establish, modify, or rescind a fund balance commitment.
- Assigned fund balance are amounts designated by the City Council for specific purposes and do not meet the criteria to be classified as restricted or committed.
- Unassigned fund balance is the residual classification that includes all spendable amounts in the General Fund not contained in other classifications.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 1 – Summary of Significant Accounting Policies (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy is to apply restricted first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

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

Implementation of New GASB Pronouncement – For the year ended June 30, 2014, the City implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB 65 is to reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). Upon implementation, there was no effect on the City's accounting or financial reporting.

New GASB Pronouncements Not Yet Adopted - In June 30, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for the fiscal year ended June 30, 2015.

In January 2014, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for the fiscal year ended June 30, 2015.

In April 2014, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for the fiscal year ended June 30, 2015.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 2 – Stewardship, Compliance and Accountability

California law authorizes the City to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit or time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation.

In accordance with applicable sections of the California Government Code and the San Juan Bautista Municipal Code, the City prepares and legally adopts an annual balanced budget on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund, specific Special Revenue Funds, and specific Capital Projects Funds. Budget plans are adopted for Proprietary Funds. A proposed budget is presented to the City Council during June of each year for review. The Council holds public hearings and may add to, subtract from, or change appropriations within the revenues and reserves estimated as available. Expenditures may not legally exceed budgeted appropriations at the fund level. Supplementary appropriations which alter the total expenditures of any fund, or expenditures in excess of total budgeted fund appropriations, must be approved by the City Council.

All annual appropriations lapse at fiscal year end to the extent they have not been expended or encumbered.

Note 3 – Cash and Investments

The City pools all of its cash and investments except those funds required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash is allocated to the various funds on average cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 2,562,940
Restricted Cash and Investments	<u>791,093</u>
Total Cash and Investments	<u>\$ 3,354,033</u>

Cash and investments as of June 30, 2014 consist of the following:

Cash on hand	\$ 200
Deposits with Financial Institutions	2,499,493
Local Agency Investment Fund	63,247
Held by Fiscal Agent:	
Money Market Mutual Funds	15,311
Private Debt Obligations	<u>775,782</u>
Total Cash and Investments	<u>\$ 3,354,033</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

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

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Banker's Acceptances	180 days	None	20%	10% or \$5 million
Commercial Paper	180 days	A	15%	10%
Negotiable Certificates of Deposit	2 years	None	30%	None
Medium-Term Notes	5 years	AA	20%	10%
Money Market Mutual Funds	N/A	AAA	20%	10%
Repurchase Agreements	1 year	None	None	None
Time Deposits	2 years	None	10%	None
County Pooled Investment Funds	N/A	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$40 million	None

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of June 30, 2014 the City had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity Date</u>
Local Agency Investment Fund	\$ 63,247	N/A
Held by Fiscal Agent:		
Money Market Mutual Funds	15,311	N/A
Private Debt Obligations	<u>775,782</u>	10/1/2018
Total	<u>\$ 854,340</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum</u>	<u>Rating as of Year End</u>
		<u>Legal</u>	<u>Not</u>
		<u>Rating</u>	<u>Rated</u>
Local Agency Investment Fund	\$ 63,247	N/A	\$ 63,247
Held by Fiscal Agent:			
Money Market Mutual Funds	15,311	N/A	15,311
Private Debt Obligations	<u>775,782</u>	N/A	<u>775,782</u>
Total	<u>\$ 854,340</u>		<u>\$ 854,340</u>

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At times, the City's bank accounts may exceed federally insured limits. The City has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As of June 30, 2014, the carrying amount of the City's bank deposits was \$2,499,493, and the respective bank balances totaled \$2,551,363, of the total bank balance. Of the bank balances, only \$688,349 is insured through the Federal Depository Insurance Company. The remaining balance is to be collateralized by the bank.

The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated				
Land	\$ 22,610	\$ -	\$ -	\$ 22,610
Construction in progress	10,000	-	(10,000)	-
Total capital assets, not being depreciated	<u>32,610</u>	<u>-</u>	<u>(10,000)</u>	<u>22,610</u>
Capital assets, being depreciated				
Buildings and improvements	939,164	154,579	-	1,093,743
Infrastructure	559,200	-	-	559,200
Machinery and equipment	782,138	27,070	-	809,208
Total capital assets, being depreciated	<u>2,280,502</u>	<u>181,649</u>	<u>-</u>	<u>2,462,151</u>
Less accumulated depreciation for:				
Buildings and improvements	(620,528)	(21,443)	-	(641,971)
Infrastructure	(156,835)	(26,955)	-	(183,790)
Machinery and equipment	(759,132)	(15,896)	-	(775,028)
Total accumulated depreciation	<u>(1,536,495)</u>	<u>(64,294)</u>	<u>-</u>	<u>(1,600,789)</u>
Total capital assets, being depreciated, net	<u>744,007</u>	<u>117,355</u>	<u>-</u>	<u>861,362</u>
Governmental activities capital assets, net	<u>\$ 776,617</u>	<u>\$ 117,355</u>	<u>\$ (10,000)</u>	<u>\$ 883,972</u>
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 234,783	\$ -	\$ -	\$ 234,783
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>234,783</u>	<u>-</u>	<u>-</u>	<u>234,783</u>
Capital assets, being depreciated				
Building	323,861	-	-	323,861
Improvements other than buildings	17,787,637	78,799	-	17,866,436
Machinery and equipment	423,095	-	(7,268)	415,827
Total capital assets, being depreciated	<u>18,534,593</u>	<u>78,799</u>	<u>(7,268)</u>	<u>18,606,124</u>
Less: accumulated depreciation	<u>(3,892,052)</u>	<u>(598,183)</u>	<u>7,268</u>	<u>(4,482,967)</u>
Total capital assets, being depreciated, net	<u>14,642,541</u>	<u>(519,384)</u>	<u>-</u>	<u>14,123,157</u>
Business-type activities capital assets, net	<u>\$ 14,877,324</u>	<u>\$ (519,384)</u>	<u>\$ -</u>	<u>\$ 14,357,940</u>

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 4 – Capital Assets (Continued)

Depreciation expense was charged to the following functions in the Statement of Activities:

Governmental Functions:

General Government	\$	377
Public Works		34,243
Parks and Recreation		15,822
Public Safety		13,852
	<u>\$</u>	<u>64,294</u>

Business-Type Functions:

Water	\$	305,558
Sewer		292,624
	<u>\$</u>	<u>598,182</u>

Note 5 – Long-Term Debt

The City generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

In governmental fund types, debt discounts and issuance costs are recognized in the current period. Debt discounts and issuance costs incurred in proprietary funds are deferred and amortized over the term of the debt using the bonds-outstanding method, which approximates the effective interest method. The City's debt transactions are summarized below and discussed in detail thereafter:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
<u>Business-Type Activity Long Term Debt</u>					
2008 Water and Sewer COP	\$ 10,670,000	\$ -	\$ 130,000	\$ 10,540,000	\$ 135,000
Pavex Note Payable	<u>571,647</u>	<u>-</u>	<u>268,809</u>	<u>302,838</u>	<u>59,312</u>
Total Business-Type Activity Debt	<u>\$ 11,241,647</u>	<u>\$ -</u>	<u>\$ 398,809</u>	<u>\$ 10,842,838</u>	<u>\$ 194,312</u>

Long-term debt payable at June 30, 2014 was comprised of the following individual issues:

2008 Water and Sewer COP – In October 2008, the city issued \$11,145,000 in water and wastewater revenue certificates of participation to fund major improvements to the city water and sewer facilities. As the project is a joint water and sewer undertaking, upon project completion, the debt was allocated 55% to the Water Fund and 45% to the Sewer Fund. The bonds require semi-annual interest payments with rates ranging from 3% to 6.25% per annum through 2044.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 5 – Long-Term Debt (Continued)

Pavex Note Payable – In June 2011, the city entered into a note payable to fund major improvements to the city water and sewer facilities. As the project is a joint water and sewer undertaking, upon project completion, the debt was allocated 55% to the Water Fund and 45% to the Sewer Fund. Interest and principal payments are payable monthly, with interest at 6.0 percent through July 2016. Subsequent to the fiscal year ending June 30, 2013, the City made a principal payment of \$200,000 and renegotiated the terms of the note with interest at 5.0 percent and interest and principal payments payable monthly through April 2018.

The annual requirement to amortize the principal and interest on long-term debt at June 30, 2014, were as follows:

Years ending June 30,	<u>Principal</u>	<u>Interest</u>
2015	194,312	648,275
2016	222,615	642,249
2017	236,842	631,475
2018	229,069	619,913
2019	165,000	610,507
2020-2024	960,000	2,901,498
2025-2029	1,305,000	2,562,610
2030-2034	1,780,000	2,088,126
2035-2039	2,430,000	1,436,564
2040-2044	3,320,000	544,690
	<u>\$ 10,842,838</u>	<u>\$ 12,685,907</u>

Note 6 – Deferred Compensation Plan

On October 1, 1999, the City established a deferred compensation plan for its employees which provides them an opportunity to save for retirement. The plan meets the requirements of Internal Revenue Code Section 457. Under the plan, employees make tax deferred contributions up to the limits established by the Internal Revenue Service. The contributions made to the plan may be withdrawn only upon retirement separation from service, death or unforeseeable emergency. Employees are 100% vested in their contributions from the first date of participation. The plan provides for varying matching contributions.

The plan is administered by the City. The participants are offered a choice of investment options and make their own investment decisions. The City has fiduciary obligation for due care in the administration of the plan, but is not responsible for the investments or performance results of the investment products offered under the plan, therefore, the City is not required to report these funds on the City's financial statements.

CITY OF SAN JUAN BAUTISTA

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2014

Note 7 – Risk Management

The City of San Juan Bautista is insured under the Public Agency Risk Sharing Authority of California (PARSAC) liability program. Protection is afforded for “bodily injury, property damage, personal injury and public officials’ errors and omissions, subject to certain limitations”.

Limit of protection - \$995,000 ultimate net loss as the result of any occurrence because of bodily injury, property damage, personal injury or public officials’ errors and omissions or any combination thereof in excess of the retained limit.

Retained limit - \$5,000 ultimate net loss as the result of any occurrence because of bodily injury, property damage, personal injury or public officials’ errors and omissions or any combination thereof.

Complete audited financial statements for PARSAC can be obtained from PARSAC’s office at 1525 Response Road, Suite One, Sacramento, CA 95815.

Note 8 – Interfund Receivables, Payables and Transfers

Interfund receivables and payables consist of short-term loans resulting from regular transactions. These loans are expected to be repaid as soon as the borrowing fund has cash, and carry an interest rate equal to the rate earned on pooled cash.

Individual fund interfund receivables and payables balances as of June 30, 2014 are as follows:

	<u>Due From</u>	<u>Due To</u>
Major Governmental Funds:		
General Fund	\$ 1,895,884	\$ -
Proprietary Funds:		
Water Fund	-	1,042,736
Sewer Fund	-	853,148
	<u>\$ 1,895,884</u>	<u>\$ 1,895,884</u>

Note 9 – Subsequent Events

The City evaluated subsequent events for recognition and disclosure through November 5, 2014, the date which these financial statements were available to be issued. With exception to the principal payment discussed in Note 6, management concluded that no material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in such financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SAN JUAN BAUTISTA

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive/ (Negative)
Revenue				
Taxes	\$ 837,500	\$ 837,500	\$ 912,514	\$ 75,014
Intergovernmental	76,961	76,961	52,567	(24,394)
Charges for services	25,910	25,910	31,251	5,341
Licenses, permits and impact fees	21,700	21,700	49,366	27,666
Fines and forfeitures	3,800	3,800	1,909	(1,891)
Interest and rent	34,000	34,000	44,360	10,360
Other	27,150	27,150	74,373	47,223
Total revenue	<u>1,027,021</u>	<u>1,027,021</u>	<u>1,166,340</u>	<u>139,319</u>
Expenditures				
Current				
General government	357,597	357,597	364,829	(7,232)
Public works	209,786	209,786	206,579	3,207
Parks and recreation	47,625	47,625	43,154	4,471
Public safety	327,934	327,934	293,493	34,441
Community development	117,343	117,343	188,637	(71,294)
Capital outlay	175,900	175,900	171,649	4,251
Total expenditures	<u>1,236,185</u>	<u>1,236,185</u>	<u>1,268,341</u>	<u>(32,156)</u>
Revenue over (under) expenditures	(209,164)	(209,164)	(102,001)	107,163
Other Financing Sources				
Transfers in (out) - net	-	-	-	-
Net Change in Fund Balance	<u>\$ (209,164)</u>	<u>\$ (209,164)</u>	(102,001)	<u>\$ 107,163</u>
Fund Balance				
Beginning of year			3,183,417	
End of year			<u>\$ 3,081,416</u>	

SUPPLEMENTAL ONLY INFORMATION

CITY OF SAN JUAN BAUTISTA

**COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Special Revenue Funds</u>						
	<u>COPS Grant</u>	<u>Impact Fees</u>	<u>Public Parking Fund</u>	<u>Gas Tax Fund</u>	<u>Roads & Restrooms Fund</u>	<u>Valley Vista Lighting & Landscaping Assessment District District</u>	<u>Non-major Governmental Funds</u>
ASSETS							
Cash and investments	\$ 25,004	\$ 36,296	\$ 17,447	\$ 200,014	\$ 87,614	\$ 53,465	\$ 419,840
Due from other governmental agencies	25,000	-	-	6,750	-	-	31,750
Total assets	<u>\$ 50,004</u>	<u>\$ 36,296</u>	<u>\$ 17,447</u>	<u>\$ 206,764</u>	<u>\$ 87,614</u>	<u>\$ 53,465</u>	<u>\$ 451,590</u>
LIABILITIES AND FUND BALANCE							
Liabilities							
Accounts payable and accrued expense	\$ 55,350	\$ -	\$ -	\$ 5,962	\$ -	\$ -	\$ 61,312
Total liabilities	<u>55,350</u>	<u>-</u>	<u>-</u>	<u>5,962</u>	<u>-</u>	<u>-</u>	<u>61,312</u>
Fund Balance							
Restricted							
Public safety	-	6,172	-	-	-	-	6,172
Capital improvement projects	-	23,256	17,447	-	87,614	-	128,317
Circulation improvements	-	6,868	-	200,802	-	-	207,670
Lighting and landscape maintenance	-	-	-	-	-	53,465	53,465
Unassigned	(5,346)	-	-	-	-	-	(5,346)
Total fund balance	<u>(5,346)</u>	<u>36,296</u>	<u>17,447</u>	<u>200,802</u>	<u>87,614</u>	<u>53,465</u>	<u>390,278</u>
Total liabilities and fund balance	<u>\$ 50,004</u>	<u>\$ 36,296</u>	<u>\$ 17,447</u>	<u>\$ 206,764</u>	<u>\$ 87,614</u>	<u>\$ 53,465</u>	<u>\$ 451,590</u>

CITY OF SAN JUAN BAUTISTA

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE NON-MAJOR GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2014

	Special Revenue Funds						Non-major Governmental Funds
	COPS Grant	Impact Fees	Public Parking Fund	Gas Tax Fund	Roads & Restrooms Fund	Valley Vista Lighting & Landscaping Assessment District	
Revenue							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 8,786	\$ 21,715	\$ 30,501
Intergovernmental	100,000	-	-	63,855	-	-	163,855
Licenses, permits and impact fees	-	36,296	-	-	-	-	36,296
Total revenue	<u>100,000</u>	<u>36,296</u>	<u>-</u>	<u>63,855</u>	<u>8,786</u>	<u>21,715</u>	<u>230,652</u>
Expenditures							
Current							
Public works	-	-	-	26,780	-	13,814	40,594
Public safety	121,770	-	-	-	-	-	121,770
Capital outlay	-	-	-	-	-	-	-
Total expenditures	<u>121,770</u>	<u>-</u>	<u>-</u>	<u>26,780</u>	<u>-</u>	<u>13,814</u>	<u>162,364</u>
Revenue over (under) expenditures	(21,770)	36,296	-	37,075	8,786	7,901	68,288
Other financing sources/(uses)							
Operating transfers in	-	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-	-
Revenue and other financing sources over (under) expenditures and other financing uses	(21,770)	36,296	-	37,075	8,786	7,901	68,288
Fund Balance							
Beginning of year	<u>16,424</u>	<u>-</u>	<u>17,447</u>	<u>163,727</u>	<u>78,828</u>	<u>45,564</u>	<u>321,990</u>
End of year	<u>\$ (5,346)</u>	<u>\$ 36,296</u>	<u>\$ 17,447</u>	<u>\$ 200,802</u>	<u>\$ 87,614</u>	<u>\$ 53,465</u>	<u>\$ 390,278</u>

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

To the Honorable Mayor and City Council
City of San Juan Bautista, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Juan Bautista, California, (the "City") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated November 5, 2014.

Internal Control Over Financial Reporting

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

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

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

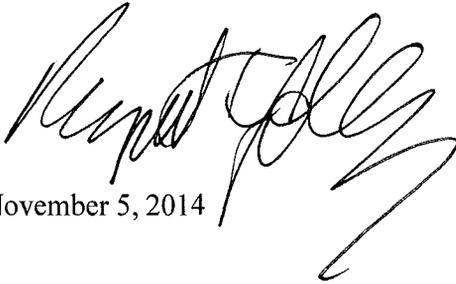
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Rupert Kelly", written over the date.

November 5, 2014

CITY OF SAN JUAN BAUTISTA
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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To the Honorable Mayor and City Council
City of San Juan Bautista, California

In planning and performing our audit of the basic financial statements of the City of San Juan Bautista (City) for the year ended June 30, 2014, in accordance with generally accepted auditing standards in the United States, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal controls.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties. We thank the City's staff for its cooperation during our audit.



November 5, 2014

To the Honorable Mayor and City Council
City of San Juan Bautista, California

We have audited the financial statements of the City of San Juan Bautista, California (City) for the year ended June 30, 2014, and have issued our report thereon dated November 5, 2014. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles of the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide assurance concerning such internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in the notes to the financial statements.

We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance and consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates affecting the financial statements.

Corrected and Uncorrected Misstatements

For purposes of this letter, professional standards define significant audit adjustments as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). We did not identify any significant audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. Our professional standards require a consulting accountant to check with us if a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements. This is to ensure that the consultant has all of the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

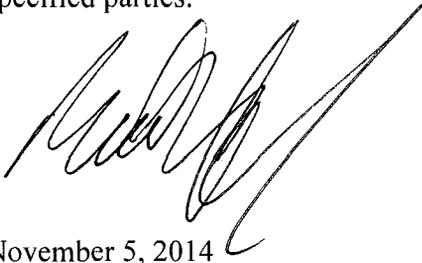
Management Representations

We have requested certain representations from management that are included in the management representation letter.

Other Audit Findings and Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This report is intended for the use of management, the City Council, and others within the organization, and it's not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to be 'M. J. ...', written over the date.

November 5, 2014

APPENDIX C

FORM OF THE CONTINUING DISCLOSURE CERTIFICATE

\$11,640,000

**SAN JUAN BAUTISTA PUBLIC FINANCING AUTHORITY
(San Benito County, California)
SERIES 2015 ENTERPRISE REVENUE BONDS
(Water and Wastewater Financing Projects)**

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the City of San Juan Bautista, a municipal corporation and general law city (the “City”) in connection with the issuance of \$11,640,000 San Juan Bautista Public Financing Authority, Series 2015 Enterprise Revenue Bonds (the “Bonds”) by the San Juan Bautista Public Financing Authority (the “Authority”). The Bonds are being issued pursuant to an Indenture of Trust (the “Indenture”), dated as of December 1, 2015, by and between the Authority and Wells Fargo Bank, National Association (the “Trustee”).

The Bonds are limited obligations of the Authority payable from the Revenues (defined herein) pledged under the Indenture, consisting primarily of (i) water installment payments (the “Water Installment Payments”) to be made by the City under a water installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Water Installment Sale Agreement”), and (ii) wastewater installment payments (the “Wastewater Installment Payments,” and together with the Water Installment Payments, the “Installment Payments”) to be made by the City under a wastewater installment sale agreement, dated as of December 1, 2015, by and between the Authority and the City (the “Wastewater Installment Sale Agreement,” and together with the Water Installment Sale Agreement, the “Installment Sale Agreements”). The Water Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal water enterprise (the “Water Enterprise”), and the Wastewater Installment Payments are secured by a pledge of and lien on the net revenues of the City’s municipal wastewater enterprise (the “Wastewater Enterprise”).

Pursuant to the Installment Sale Agreements, the City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

Section 2. Definitions. In addition to the definitions set forth in the Indenture or the Installment Sale Agreements, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms will have the following meanings:

“*Annual Report*” will mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Dissemination Agent*” will mean Bartle Wells Associates, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

“*Listed Events*” will mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” will mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Official Statement” will mean the final Official Statement, dated December 9, 2015, prepared in connection with the sale and offering of the Bonds.

“*Participating Underwriter*” will mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” will mean rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The City will, or will cause the Dissemination Agent to, not later than nine (9) months after the end of the City’s Fiscal Year, commencing with the report for the 2011-12 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee and the Participating Underwriter. Not later than fifteen (15) Business Days prior to said date, the City will provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent will contact the City to determine if the City is in compliance with the previous sentence. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City’s Fiscal Year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City will send a notice to the MSRB, in an electronic format as prescribed by the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent will (if the Dissemination Agent is other than the City) file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB pursuant to this Disclosure Certificate.

Section 4. Content of Annual Reports. The City's Annual Report will contain the following information:

(i) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report will contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements will be filed in the same manner as the Annual Report when they become available.

(ii) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report will contain information with respect to the City's Water Enterprise showing:

(a) Annual water service structure and pricing, together with adopted rates in a format comparable to Table 5 of the Official Statement for the prior Fiscal Year, if such information is not otherwise included elsewhere in the Annual Report;

(b) Largest ten users of the Water Enterprise, based on annual billings for the prior calendar year, if such information is not otherwise included elsewhere in the Annual Report;

(c) Any additional indebtedness incurred during the prior Fiscal Year which is payable from revenues of the Water Enterprise on a parity with the Bonds, if such information is not otherwise included elsewhere in the Annual Report; and

(d) An update of the information contained in Table 3 under the heading "THE FINANCING PLAN – Debt Service Coverage Projections – Water: Historical and Projected Operating Results and Debt Service Coverage" in the Official Statement for the Bonds, if such information is not otherwise included elsewhere in the Annual Report.

(iii) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report will contain information with respect to the City's Wastewater Enterprise showing:

(a) Annual wastewater service structure and pricing, together with adopted rates in a format comparable to Table 10 of the Official Statement for the prior Fiscal Year, if such information is not otherwise included elsewhere in the Annual Report;

(b) Largest ten users of the Wastewater Enterprise, based on annual billings for the prior calendar year, if such information is not otherwise included elsewhere in the Annual Report;

(c) Any additional indebtedness incurred during the prior Fiscal Year which is payable from revenues of the Wastewater Enterprise on a parity with the Bonds, if such information is not otherwise included elsewhere in the Annual Report; and

(d) An update of the information contained in Table 4 under the heading “THE FINANCING PLAN – Debt Service Coverage Projections – Wastewater: Historical and Projected Operating Results and Debt Service Coverage” in the Official Statement for the Bonds, if such information is not otherwise included elsewhere in the Annual Report.

Any or all of the items listed above may be included by specific reference to other documents, including Official Statements of debt issues of the City or related public entities, which have been submitted to MSRB. If the document included by reference is a final Official Statement, it must be available from the MSRB. The City will clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (vii) Modifications to rights of security holders, if material;
- (viii) Optional, contingent or unscheduled bond calls, if material;
- (ix) Defeasances;
- (x) Release, substitution, or sale of property securing repayment of the Bonds, if material.
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the City;
- (xiii) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, or will cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(ii), (a)(vii), (a)(viii) (if the event is a bond call), (a)(x), (a)(xiii), and (a)(xiv) of this Section 5 contain the qualifier “if material.” The City will cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event’s occurrence is material for purposes of U.S. federal securities law.

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

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

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent will be Wells Fargo Bank, National Association.

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

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

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

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

The Dissemination Agent will agree to any amendment so requested by the City; provided neither the Trustee nor the Dissemination Agent will be obligated to enter into any amendment increasing or affecting its duties or obligations.

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

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made will present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison will include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison will be quantitative. A notice of the change in the accounting principles will be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate will be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate will not be deemed an Event of Default under the Indenture or any Supplemental Indenture or the Installment Sale Agreements, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent will have only duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under the Indenture, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this Section will survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Section 14. Future Determination of Obligated Persons. In the event that the Securities Exchange Commission amends, clarifies or supplements the Rule in such a manner that requires any landowner within the City to be an obligated person as defined in the Rule, nothing contained herein will be construed to require the City to meet the continuing disclosure requirements of the Rule with respect to such obligated person and nothing in this Disclosure Certificate will be deemed to obligate the City to disclose information concerning any owner of land within the City except as required as part of the information required to be disclosed by the City pursuant to Section 4 and Section 5 hereof.

Date: December 23, 2015

CITY OF SAN JUAN BAUTISTA

By: _____
City Manager

Accepted and Acknowledged:

Bartle Wells Associates,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: City of San Juan Bautista
Name of Bond Issue: San Juan Bautista Public Financing Authority
Series 2015 Enterprise Revenue Bonds
(the "Bonds").
Date of Issuance: December 23, 2015

NOTICE IS HEREBY GIVEN that the City of San Juan Bautista, a municipal corporation and general law city (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated December 23, 2015. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF SAN JUAN BAUTISTA

By _____

APPENDIX D

GENERAL INFORMATION REGARDING THE CITY AND SURROUNDING AREA

The following information, unless otherwise cited, was directly transcribed from material provided by the City of San Juan Bautista (the “City”), the County of San Benito (the “County”), and the area Chamber of Commerce. The following information is intended to merely provide the reader with a better understanding of certain socioeconomic and demographic characteristics of the City, the County and surrounding area. The information set forth in this Appendix “D” has not been researched for accuracy or veracity, and therefore it must not be relied upon when making an investment decision. The Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. The full faith and credit of neither the Authority nor the City is pledged for the payment of the interest on or principal of the Bonds and no tax or other source of funds, other than the Revenues, is pledged to pay the interest on or principal of the Bonds. The payment of principal of or interest on the Bonds does not constitute a debt, liability or obligation of the Authority or the City for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power. See “SECURITY FOR THE BONDS” in the forepart of this Official Statement.

General

The City of San Juan Bautista is located in San Benito County, in the San Jose-Sunnyvale metropolitan area, approximately 40 miles south of San Jose. Incorporated in 1869, the general law City of San Juan Bautista is situated in the heart of the noted San Juan Valley between the Gabilan Mountains and Flint Hills. Rich with culture and history, the City offers residents and visitors a refreshing small town atmosphere filled with the charm and character of the past. The San Juan Bautista Plaza Historic District is a National Historic Landmark that celebrates this history and provides an intact example of traditional Spanish-Mexican colonial architecture that dates from between 1813 and 1870. Mission San Juan Bautista, the 15th and largest of the 21 California Missions, was founded in 1797 and faces the City’s central plaza. The San Juan Bautista Plaza Historic District includes the buildings surrounding the plaza at Washington, Mariposa, and Second Streets. Significant buildings include San Juan Bautista Church, constructed from 1803-1813, (partially rebuilt following the 1906 earthquake), the José Castro House (1840-1841), the Plaza Hotel (1858) and stables (1861), and the Zanetta House/Plaza Hall (1868). As both a nationally registered historic place and an official California State Historic Park, the San Juan Bautista Plaza District represents one of the nation’s most spectacular collections of publicly accessible Monterey-Colonial style buildings.

The City Council is comprised of five elected council members served by a full-time City Manager and staff. Council members are elected at large for staggered four-year terms. At the regular meeting in December of each year the City Council chooses one of its members to serve as Mayor and one of its members to serve as Mayor Pro Tempore, each to serve until successors are chosen at the regular meeting in the following December. The City Manager is appointed by the City Council solely on the basis of executive and administrative qualifications. The City Manager holds office for an indefinite term at the pleasure of the City Council. The City Manager is the chief executive of the City government under the direction and control of the Council, and has authority over all other officers and employees except the City Clerk, City Treasurer and City Attorney.

Population

The City of San Juan Bautista is currently estimated to have a population of approximately 1,930. The following table sets forth population statistics for the City, the County and the State since 2010.

CITY OF SAN JUAN BAUTISTA Population Estimates

<u>Year (January 1)</u>	<u>City of San Juan Bautista</u>	<u>San Benito County</u>	<u>State of California</u>
2010	1,862	55,269	37,253,956
2011	1,862	55,474	37,427,946
2012	1,883	56,659	37,680,593
2013	1,895	57,126	38,030,609
2014	1,917	57,909	38,357,121
2015	1,930	58,344	38,714,725

Source: Demographic Research Unit, California State Department of Finance.

Commercial Activity

Total taxable transactions during calendar year 2013 in the City were reported to be \$11.64 million, a 4% increase over the total taxable transactions of \$11.19 reported during calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table.

CITY OF SAN JUAN BAUTISTA Taxable Retail Sales Number of Permits and Valuation of Taxable Transactions

<u>Year</u>	<u># of Permits (Retail)</u>	<u>Retail Stores</u>	<u># of Permits (Total)</u>	<u>Total All Outlets</u>
2009	147	\$8,608,000	174	\$9,438,000
2010	151	9,750,000	177	10,726,000
2011	146	10,590,000	171	13,610,000
2012	153	11,190,000	177	11,997,000
2013 ⁽¹⁾	163	11,637,000	192	12,528,000

(1) Most recent year for which data is available.
Source: California State Board of Equalization.

Total taxable transactions during calendar year 2013 in the County were reported to be \$560.24 million, a 5.7% increase over the total taxable transactions of \$530.02 million reported during calendar year 2012. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table.

COUNTY OF SAN BENITO
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions

Year	# of Permits (Retail)	Retail Stores	# of Permits (Total)	Total All Outlets
2009	816	\$245,237,000	1,219	\$422,942,000
2010	833	257,233,000	1,244	449,872,000
2011	803	281,201,000	1,217	486,490,000
2012	786	308,777,000	1,199	530,017,000
2013 ⁽¹⁾	844	329,051,000	1,260	560,238,000

(1) Most recent year for which data is available.
Source: California State Board of Equalization.

Employment and Industry

The City is located in San Benito County. The labor force employment and unemployment figures over the last five years for which data is available for San Benito County are as follows.

SAN BENITO COUNTY
Civilian Labor Force, Employment and Unemployment; Employment by Industry
(Annual Averages)

	2010	2011	2012	2013	2014⁽³⁾
Total Farm	1,600	1,600	1,500	1,700	1,800
Construction	800	700	700	800	900
Manufacturing	2,500	2,700	2,700	2,700	2,700
Trade, Transportation and Utilities	2,700	2,800	2,900	3,200	3,300
Information	100	100	100	100	100
Financial Activities	300	300	300	400	400
Professional and Business Services	700	700	900	1,100	1,200
Educational and Health Services	1,000	1,000	1,000	1,100	1,100
Leisure and Hospitality	1,100	1,100	1,200	1,200	1,300
Other Services	400	500	400	400	400
Government	<u>3,000</u>	<u>2,800</u>	<u>2,700</u>	<u>2,700</u>	<u>2,800</u>
Total All Industries ⁽¹⁾	<u>\$14,200</u>	<u>\$14,100</u>	<u>\$14,500</u>	<u>\$15,400</u>	<u>\$16,100</u>
Total Civilian Labor Force ⁽²⁾	27,900	28,200	28,700	28,800	29,200
Total Unemployment	4,200	4,100	3,800	3,200	2,700
Unemployment Rate	15.1%	14.5%	13.1%	11.1%	9.3%

(1) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers and workers on strike. Columns may not total due to rounding.

(2) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers and workers on strike.

(3) Most recent year for which industry data is available.

Source: California Employment Development Department, Labor Market Information Division.

COUNTY OF SAN BENITO
Major Employers (Listed alphabetically)
2015

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

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

Recreation

The County contains several large and significant parks that are owned and operated by the federal and state governments, including Pinnacles National Park, Hollister Hills State Recreational Vehicle Area, and Fremont Peak State Park. These recreational areas are complemented by several County-owned parks, historical sites, and special use areas that provide important recreational amenities for County residents and visitors. All of these facilities are open to the public and provide information kiosks, restrooms, marked off-road vehicle and trail routes, and passive recreational activities such as wildlife viewing, hiking, hunting, and biking. There are two public golf courses in San Benito County and two semi-private golf courses at a resort that accept public play. The San Benito County Fairgrounds are located fifteen miles from the City, and seven miles southeast of Hollister. The fairgrounds hosts weddings, family picnics, dinners, dances, and conferences. In June the fairgrounds hosts the San Benito County Saddle Horse Rodeo. During the fall it hosts the San Benito County Fair.

Cultural Resources

There are currently 1,374 documented historical resources in San Benito County, including 213 prehistoric archeological sites, 287 historic archeological sites, 15 multi-component archeological sites, and 859 historic properties (buildings or structures). Of the 859 historic properties in the County, 393 are located in the City of San Juan Bautista and 360 in the City of Hollister. Of these 859 historic properties, 14 are of national importance.

Transportation

The City and County are served by an extensive roadway network of freeways, arterials, and local roads. These roadways provide access to the surrounding counties and to local destinations, such as employment areas, shopping centers, schools, recreational opportunities, and residential communities.

The County is served by one United States Route (U.S. 101) and four State Routes - 25, 129, 146, and 156. The primary highway corridors within the County are State Routes 25 and 156. State Route 25 connects Hollister and South Santa Clara County and carries traffic between the southern and northern parts of the County. State Route 156 carries mostly local traffic with some regional traffic traveling between the Monterey Peninsula and the State Route 152 and Interstate (I-5) corridors. U.S. 101 is a major expressway/freeway that extends from southern California to northern California. The on ramp to U.S. 101 is conveniently located approximately 4 miles from the City on State Route 156.

The City and County are also served by bus lines and freight rail service. The San Benito Express operates three fixed routes within Hollister: the Green, Blue, and Red lines. Buses operate between the hours of 6:20 AM to 5:40 PM Monday through Friday. The County Express Transit System provides Dial-a-Ride services to northern San Benito County, including Hollister, San Juan Bautista, and Tres Pinos, on weekdays between 7 AM to 6 PM and on weekends between 7 AM to 5 PM. County Express Transit System's inter-County service includes service to the Gilroy Transit Center and Gavilan Community College in Gilroy. Shuttle services to the Gilroy Transit Center and Gavilan Community College (school year only) operate Monday through Friday from 4:30 AM to 8 PM and connects to all trains operating between Gilroy and San Jose (six per day). There is no passenger rail service in the County. Freight rail service in San Benito County is provided by Union Pacific Rail Road.

The Hollister Municipal Airport provides passenger air service and is located approximately ten miles from the City adjacent to State Route 156 and is owned and operated by the City of Hollister. The facility is a general aviation airport and is included in the National Airport Systems Plan. In its operational role it is classed as General Utility and accommodates all current aviation aircraft except certain business jets. There are 167 aircraft based at the airport, with an estimated 53,000 takeoffs and landings in annual operations. Facilities include a 6,500 feet long and 100 feet wide runway, and a 3,150 feet long and 100 feet wide runway.

There are two regional airports near, but not within San Benito County. The first being the San Jose International Airport, which is a major carrier airport that provides San Benito County residents with airline service throughout the state, nation, and selected foreign countries, and is located approximately 45 miles north of the City. The second being the Monterey Peninsula Airport, which is a smaller regional airport that provides San Benito County residents with airline service within California and a few out-of-state destinations. The Monterey Peninsula Airport is located approximately 32 miles southwest of the City.

Public Services

Fire Services. Structural fire management responsibilities in the county are distributed between the San Benito County Fire Department, the Aromas Tri-County Fire Department, the Hollister Fire Department, and the San Juan Bautista Volunteer Fire Department. When resources are available and under existing aid agreements, CAL FIRE may assist other departments with structural fires and other types of wildland fire calls.

Law Enforcement Services. The County's Sheriff's Office has the primary responsibility of protecting the life and property of citizens living in the City and the unincorporated areas of the County. The Sheriff's Office is led by the Sheriff Coroner. Executive staff includes the Undersheriff, Lieutenant/Jail Commander, and the Operations Lieutenant. The County Sheriff's Office is located in Hollister and operates a substation in San Juan Bautista. In 2014 the Sheriff's Office had 11 deputy positions designated for street patrol, which does not include patrol services provided in Hollister and San Juan Bautista. There is also the Sheriff, two captains, five sergeants, and four deputies working special assignments. The County Jail is a 28,000 square foot facility with an average daily population of approximately 100 inmates and a rated capacity of 124 inmates. It has two maximum-security modules with a capacity of 27 inmates each and two medium-security modules with a maximum of 35 inmates each.

Educational Services. The County Office of Education coordinates educational services for the residents of the County. Pre-kindergarten through Grade 12 educational services are offered through nine elementary school districts, one high school district, and one unified district for a total of 12 districts in the County. The Office of Education also provides alternative education at Santa Ana Opportunity School, San Andreas Continuation High School, and Pinnacles Community/Court School. The 12 school districts include 17 elementary schools, two middle schools, and two high schools. The Office of Education operates a Juvenile Hall/Community School and the San Benito County Opportunity School.

Library Services. The County library is consolidated with the Hollister Public Library, and located in a single library building in the City of Hollister. Services at the library are available on weekdays. The library is a member of the Monterey Bay Cooperative Library System, a multi-type library consortium of 19 full members (public, academic and special) and several networking members in Monterey, San Benito, and Santa Cruz counties. The County Library Bookmobile operates three days each week, with stops scheduled at various schools, convalescent and nursing facilities, apartment facilities, the Tres Pinos Post Office, and the Visitors Center at Pinnacles National Monument. The San Benito County Free Library also offers an Adult Literacy Program, a Kids' Place Program, and a Teen Space Program. The Library also has The San Benito County Free Library has entered into a contract to bring high-speed computer networking to certain facilities, improving connection speeds.

Agriculture

Agriculture is the dominant land use in San Benito County, accounting for about 75 percent of the total land area. It is also a major part of the local economy, considering the direct work of farms and ranches, the activities of processing and other businesses that give value to the commodities produced by the land, and the services that support agricultural enterprises. Agriculture is the county's largest industry with a gross value of agricultural commodity sales in excess of \$328 million.

The top ten crops for the year 2014 were as follows:

Miscellaneous Vegetables and Row Crops	\$59,842,000
Lettuce Salad Mix	\$33,547,000
Spinach	\$31,281,000
Peppers	\$30,132,000
Lettuce, Romaine	\$26,129,000
Cattle	\$23,284,000
Grape, Wine	\$15,335,000
Fruits and Nuts	\$14,979,000
Other Livestock and Poultry Products	\$12,175,000
Nursery Stock	\$10,260,000

As of 2012, San Benito County had 628 farms with 604,319 acres in crop production. The average farm size was 962 acres. With an accumulated total of 604,319 acres, the 146 largest farms (all 500 acres or greater) together comprise roughly 95 percent of all agricultural land in the County. Compared to California as a whole, San Benito County had a lesser share of smaller farms and a greater share of larger farms.

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APPENDIX E

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, The Weist Law Firm, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

December 23, 2015

Board of Directors
San Juan Bautista Public Financing Authority
San Juan Bautista CA, 94505

OPINION: \$11,640,000 San Juan Bautista Joint Powers Authority
Series 2015 Enterprise Revenue Bonds
(Water and Wastewater Financing Projects)

Ladies and Gentlemen:

We have acted as Bond Counsel to the San Juan Bautista Public Financing Authority (the “Authority”) in connection with the issuance by the Authority of its \$11,640,000 aggregate principal amount of Series 2015 Enterprise Revenue Bonds, (Water and Wastewater Financing Projects) (the “Bonds”), pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code, a Resolution adopted by the Board of Directors of the Authority (the “Authority Resolution”) on May 19, 2015, a Resolution adopted by the City Council of the City (the “City Resolution,” and together with the Authority Resolution, the “Resolutions”) on May 19, 2015, and the Indenture, dated as of December 1, 2015 (the “Indenture”), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”).

The Bonds are special limited obligations of the Authority. The Bonds are payable solely from and secured by a first pledge of the Revenues (defined herein) received by the Authority from the City under (i) an Installment Sale Agreement related to the City’s Water Enterprise (the “Water Enterprise”), dated as of December 1, 2015, by and between the City, as purchaser, and the Authority, as seller (the “Water Installment Sale Agreement”), and (ii) an Installment Sale Agreement related to the City’s Wastewater Enterprise (the “Wastewater Enterprise,” and together with the Water Enterprise the “Enterprises”), dated as of December 1, 2015, by and between the City, as purchaser, and the Authority, as seller (the “Wastewater Installment Sale Agreement” and, together with the Water Installment Sale Agreement, the “Installment Sale Agreements”), and from certain interest and other income derived from certain funds and accounts held under the Indenture (collectively, the “Revenues”).

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture and in the Installment Sale Agreements.

In such connection, we have reviewed the Indenture, the Installment Sale Agreements, the Tax Certificate of the City and the Authority, dated the date hereof (the "Tax Certificate"), opinions of general counsel to the City and Authority, certifications of the City, the Authority, and others, and such other documents, opinions, and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon representations of the City and the Authority contained in the Resolutions and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

The opinions expressed herein are expressed only on and as of the date hereof and are based on an analysis of existing laws, regulations, rulings, and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. Changes to existing law may occur hereafter and could have retroactive effect. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or copies) and the due and legal execution and delivery thereof by, and validity against, all parties thereto. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted, or certified in the documents, and of the legal conclusions contained in the opinions referred to in the paragraph directly above.

Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions, the Indenture, the Installment Sale Agreements, and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions, or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Resolutions, the Indenture, the Installment Sale Agreements and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, and other similar laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities, joint powers authorities, and nonprofit public benefit corporations in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, severability, or waiver provisions contained in the documents mentioned in the previous sentence.

Furthermore, the viability and enforceability of the Installment Sale Agreements and Indenture is subject to the validity and limitations on the imposition of certain fees and charges by the City related to each respective Water Enterprise and Wastewater Enterprise, under Articles XIIC and XIID of the California Constitution, which we express no opinion with respect thereto.

We undertake no responsibility for the accuracy, completeness, or fairness of the transactions or other economic terms relating to the Bonds or the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto. We express no opinion regarding the perfection or priority of the lien on the respective Installment Payments or the respective Net Revenues.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge to secure the payment of the principal of and interest on the Bonds of the Revenues and any other amounts (including certain proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The Water Installment Sale Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Water Installment Payments constitutes a valid and binding limited obligation of the City.

4. The Wastewater Installment Sale Agreement has been duly executed and delivered by the City and the obligation of the City to pay the Wastewater Installment Payments constitutes a valid and binding limited obligation of the City.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income.

Except as stated in paragraph 5 above, we express no opinion as to federal or State of California tax consequences of the ownership of the Bonds. We also express no opinion regarding any other tax consequences with respect to the acquisition, ownership, or disposition of, or the accrual or receipt of interest on, the Bonds.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution, the Indenture and the Installment Sale Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Respectfully submitted,

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APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

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

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

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

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust

companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

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

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

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

6. Redemption notices will be sent to DTC. If less than all of the Securities within an issue are

being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
31 West 52nd Street, New York, N.Y. 10019
(212) 974-0100