

RESOLUTION NO. 16-37

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FIREBAUGH AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$4,000,000 PRINCIPAL AMOUNT OF WASTEWATER REVENUE REFUNDING BONDS, SERIES 2016A, AUTHORIZING AND DIRECTING EXECUTION OF AN INDENTURE OF TRUST, CONTINUING DISCLOSURE AGREEMENT, ESCROW INSTRUCTIONS AND A BOND PURCHASE CONTRACT, AUTHORIZING THE SALE OF BONDS, APPROVING AN OFFICIAL STATEMENT AND PROVIDING OTHER MATTERS PROPERLY RELATING THERETO

WHEREAS, the City of Firebaugh (the "City") is a municipal corporation duly organized and validly existing under and by the virtue of the Constitution and laws of the State of California, and is authorized pursuant to Articles 10 and 11, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended (the "Refunding Law") to borrow money for the purpose of refinancing indebtedness of the City; and

WHEREAS, the City has determined that it is in the interests of the City at this time to provide for the refinancing of its obligations relating to the Certificates of Participation (2007 Wastewater System Improvement Project) (the "Prior Obligations"); and

WHEREAS, in order to provide funds to refinance the Prior Obligations, the City proposes to issue its City of Firebaugh Wastewater Revenue Refunding Bonds, Series 2016A, in the aggregate principal amount of not to exceed \$4,000,000 (the "Bonds"), pursuant to an Indenture of Trust (the "Indenture"), currently dated as of October 1, 2016 between the City and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"); and

WHEREAS, the City proposes to sell the Bonds to Hilltop Securities Inc. (the "Underwriter") for offer and sale by the Underwriter to members of the general public, and in connection with the offering of the Bonds, the City has caused to be prepared an Official Statement describing, among other things, the City, the Indenture, the Net Revenues and the Bonds, a preliminary form of which is on file with the City Clerk of the City; and

WHEREAS, the Bonds will be sold pursuant to a Bond Purchase Contract (the "Purchase Contract") to be dated the date of sale, between the City and the Underwriter; and

WHEREAS, the City has duly considered such transactions, including, without limitation, the Indenture, the Bond Purchase Contract and the Official Statement, and wishes at this time to approve said transactions in the public interests of the City.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Firebaugh as follows:

Section 1. Issuance of Bonds; Approval of Indenture. The findings set forth in the recitals hereof are true and correct. The City hereby authorizes the issuance of the Bonds under and pursuant to the Refunding Law and the Indenture in the aggregate principal amount of not to exceed \$8,900,000 for the purposes hereinbefore described. The City hereby approves the Indenture in substantially the form on file with the City Clerk together with any additions thereto or changes therein deemed necessary or advisable by the Mayor, the City Manager, the Finance Director, or their authorized designees (collectively, the "Authorized Officers"), upon consultation with the City Attorney and Nossaman LLP ("Bond Counsel"), whose execution thereof shall be conclusive evidence of the approval of any such additions and changes. Such changes and additions shall include, without limitation, the final date of the Indenture, the final series designation of the Bonds, the insertion in the Indenture of the final annual maturities and final aggregate principal amount of the Bonds and the final annual interest rates payable with respect to the Bonds. Each of the Authorized Officers are hereby authorized and directed to execute the final form of the Indenture for and in the name and on behalf of the City.

The City hereby authorizes the delivery and performance of the Indenture, so long as net present value savings of the debt service on the Bonds, as compared to the debt service on the Prior Obligations, is at least three percent (3%), underwriter's discount (excluding original issue discount) does not exceed one and one-quarter percent (1.25%), the final maturity date does not exceed June 1, 2047 and the principal amount does not exceed \$4,000,000.

Section 2. Bond Purchase Contract. The City hereby authorizes the sale of the Bonds to the Underwriter pursuant to and in accordance with the Bond Purchase Contract, in substantially the form on file with the City Clerk together with any additions thereto or changes therein approved by Authorized Officers, the execution thereof to be conclusive evidence of such approval. The City hereby delegates to each of the Authorized Officers, the authority to accept an offer from the Underwriter to purchase the Bonds from the City and to execute and deliver the Bond Purchase Contract.

Section 3. Approval of Continuing Disclosure Agreement. The form of Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), between the City and the dissemination agent named therein, as presented to this meeting is hereby approved. An Authorized Officer is hereby authorized and directed, for and on behalf of the City, to execute, acknowledge and deliver the Continuing Disclosure Agreement, in substantially the form presented to this meeting, with such changes therein as such Authorized Officer may require or approve, with the advice and approval of City Attorney and Bond Counsel, such approval to be conclusively evidenced by the execution and delivery thereof. The City Council hereby authorizes the City Manager to execute and deliver an agreement with the dissemination agent named in the Continuing Disclosure Agreement in order to provide the services required by such agreement after the issuance of the Bonds.

Section 4. Approval of Escrow Instructions. The form of Escrow Instructions (the "Escrow Instructions"), from the City to The Bank of New York Mellon Trust Company, N.A., acting as escrow agent for the Prior Obligations, as presented to this meeting is hereby approved. An Authorized Officer is hereby authorized and directed, for and on behalf of the City, to execute, acknowledge and deliver the Escrow Instructions, in substantially the form presented to this meeting, with such changes therein as such Authorized Officer may require or approve, with the advice and approval of City Attorney and Bond Counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Official Statement. The City hereby approves the preparation of, and hereby authorizes the Authorized Officers to deem final within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934 except for permitted omissions, a preliminary form of Official Statement describing the Bonds. Distribution of such preliminary Official Statement to prospective purchasers of the Bonds is hereby approved. Each of the Authorized Officers are hereby authorized to execute the final form of the Official Statement, on behalf of the City, including as it may be modified by such additions thereto and changes therein as the Authorized Officers shall deem necessary, desirable or appropriate, and the execution of the final Official Statement by the Authorized Officers shall be conclusive evidence of the approval of any such additions and changes. The City hereby authorizes the distribution of the final Official Statement by the purchaser of the Bonds.

Section 6. Municipal Bond Insurance. The City hereby authorizes the City Manager to select a municipal bond insurer to insure payments of principal of and interest on all or a portion of the Bonds so long as the City Manager determines that obtaining the municipal bond insurance policy provided thereby will result in a lower interest rate or yield to maturity with respect to such Bonds. Bond Counsel is hereby directed to make all changes to the Indenture, the Escrow Instructions, the Preliminary Official Statement, the Bond Purchase Contract and the Continuing Disclosure Agreement, as are necessary to reflect the selection of a municipal bond insurer and the reasonable comments thereof.

Section 7. Official Action. The Authorized Officers of the City are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions, including purchase of bond insurance resulting in present value savings and purchase of a reserve fund surety policy and execution and delivery of any and all assignments, certificates, requisition, agreements, consents, instruments of conveyance, warrants and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance, sale and delivery of the Bonds and the refinancing of the Prior Bonds.

Section 8. Effective Date. This Resolution shall take effect immediately upon adoption.

* * * * *

I, the undersigned City Clerk of the City of Firebaugh, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted by the City Council of the City at a meeting thereof on the 19th day of September, 2016, by the following vote of the members thereof:

AYES:

NOES:

ABSTAINED:

ABSENT:

APPROVED:

ATTESTED:

Freddy Valdez, Mayor

Rita Lozano, Deputy City Clerk

INDENTURE OF TRUST

between the

CITY OF FIREBAUGH

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

RELATING TO THE

\$ _____

CITY OF FIREBAUGH

WASTEWATER REVENUE REFUNDING BONDS

SERIES 2016A

Dated as of October 1, 2016

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INDENTURE OF TRUST

This INDENTURE OF TRUST (the "Indenture"), dated as of October 1, 2016, between the CITY OF FIREBAUGH, a municipal corporation duly organized and validly existing under and by virtue of the Constitution and laws of the State of California (the "City") and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., a national banking association, duly organized and existing under and by virtue of the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H:

WHEREAS, the City has previously entered into an Installment Sale Agreement, dated as of November 1, 2007, (the "2007 Installment Sale Agreement") with the Firebaugh Public Financing Authority (the "Authority"). Pursuant to a Trust Agreement, dated as of November 1, 2007, (the "Prior Trust Agreement") among the City, the Authority and the Finance Director of the City of Firebaugh (the "Prior Trust Administrator"), the Prior Trust Administrator has executed and delivered the Certificates of Participation (2007 Wastewater System Improvement Project) (the "Prior Obligations"), each evidencing a direct, undivided fractional interest in the certain payments made by the City pursuant to the 2007 Installment Sale Agreement; and

WHEREAS, the City is authorized pursuant to Articles 10 and 11, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended, to issue revenue bonds to provide funds to refund its outstanding indebtedness which is payable from Net Revenues (as defined herein); and

WHEREAS, in order to prepay the Prior Obligations, the City has decided to issue its Wastewater Revenue Refunding Bonds, Series 2016A in an aggregate principal amount of \$_____, secured by Net Revenues as provided herein; and

WHEREAS, the City hereby certifies that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this Indenture by such party does exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Indenture;

NOW, THEREFORE, IN CONSIDERATION OF THE PROMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS; EQUAL SECURITY

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes hereof, and of any amendment hereof or supplement hereto, of the Bonds and of any certificate, opinion, request or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein:

“Additional Revenues” means, with respect to the issuance of any Bonds or Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Wastewater System adopted prior to the incurring of such Bonds or Parity Obligations and effective within eighteen (18) months following the date of incurring such Bonds or Parity Obligations, 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 the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Wastewater System prior to the incurring of such Bonds or Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Financial Consultant.

“Authority” means the Firebaugh Public Financing Authority, a joint powers authority, operating and acting pursuant to the laws of the State of California duly organized and existing under and by virtue of the Constitution and laws of the State of California, and its successors and assigns.

“Authorized Officer” means, with respect to the City, its Mayor, the City Manager, or the Finance Director or any other person designated as an Authorized Officer of the City by a Written Certificate of the City signed by its Mayor, City Manager, or Finance Director and filed with the Trustee.

“Bond Year” means the period from the Closing Date through August 15, 2017, and thereafter the twelve-month period commencing on August 16 of each year through and including August 15 of the following year.

“Bonds” means the \$_____ principal amount of Wastewater Revenue Refunding Bonds, Series 2016A authorized hereby and at any time Outstanding hereunder that are issued by the City under and pursuant to Article II of this Indenture.

“Bond Counsel” means Nossaman LLP or any other attorney or firm of attorneys appointed by and acceptable to the City, of nationally-recognized experience in the execution and

delivery of obligations the interest in which is excludable from gross income for federal income tax purposes under the Code.

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

“Bond Insurer” means _____, or any successor thereto or assignee thereof.

“Bond Insurer Default” means (a) the Bond Insurer shall be in payment default under the Bond Insurance Policy and such failure shall continue for three business days, or (b) any material provision of the Bond Insurance Policy shall be held to be invalid by a final, non-appealable order of a court of competent jurisdiction, or the validity or enforceability thereof shall be contested by the Bond Insurer.

“Bond Reserve Policy” means the Municipal Bond Debt Service Reserve Insurance Policy, and any Endorsement thereto, issued by the Bond Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California or on which the Trust Office is authorized to be closed.

“Certificate of the City” means an instrument in writing signed by an Authorized Officer.

“City” means the City of Firebaugh, California, a municipal corporation duly organized and existing under the Constitution and laws of the State of California, and its successors and assigns.

“Closing Date” means the date on which the Bonds are delivered to the original purchasers thereof, which date is _____, 2016.

“Code” means the Internal Revenue Code of 1986, as amended. Each reference to a section of the Code herein shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

“Continuing Disclosure Agreement” shall mean the agreement by that name, dated as of October 1, 2016, between the City and the dissemination agent named therein.

“Debt Service” means, during any period of computation, the amount obtained for such period by totaling the following amount--

(a) The principal amount of all Outstanding serial Bonds and Parity Obligations coming due and payable by their terms in such period (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(b) The minimum principal amount of all Outstanding term Bonds and Parity Obligations scheduled to be redeemed by operation of mandatory sinking fund deposits in such period, together with any premium thereon (except to the extent that such principal has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the principal to which such amounts are pledged);

(c) The interest which would be due during such period on the aggregate principal amount of Bonds and Parity Obligations which would be Outstanding in such period if the Bonds or Parity Obligations are retired as scheduled (except to the extent that such interest has been fully capitalized and is invested in Federal Securities which mature at times and in such amounts as are necessary to pay the interest to which such amounts are pledged), but deducting and excluding from such aggregate amount the amount of Bonds and Parity Obligations no longer Outstanding; provided that, whenever interest as described herein accrues at other than a fixed rate, such interest shall be assumed to be a rate equal to the greater of (i) the actual rate on the date of calculation, or if the Parity Obligation is not yet outstanding, the initial rate (if established and binding), (ii) if the Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (x) if interest on the Parity Obligation is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published The Bond Buyer Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (y) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities, plus fifty (50) basis points; and

(d) amounts required to increase the Reserve Fund to the Reserve Requirement required to be paid hereunder during such period of computation.

“Debt Service Account” means the account of that name established by the Trustee pursuant to Section 3.04 hereof.

“Debt Service Fund” means the fund of that name established and held by the City pursuant to Section 3.03 hereof.

“Debt Service Reserve Agreement” means the Debt Service Reserve Agreement, dated _____, 2016, between the City and the Bond Insurer.

“Debt Service Payments” mean the payments of Debt Service on the Bonds due hereunder.

“Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the City relating to the refunding of the Prior Obligations, including but not limited to filing costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, transportation and safekeeping of Bonds and charges and fees in connection with the foregoing.

“Delivery Costs Fund” means the fund of that name established by Section 3.02 hereof.

“Depository” means (a) initially, DTC, and (b) any other qualified securities depository acting as Depository pursuant to Section 2.11 hereof.

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

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

“Due Date” means the fifteenth day of the month prior to each Interest Payment Date.

“Escrow Agent” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor or any other bank or trust company which may at any time be substituted in its place as provided in the Escrow Instructions.

“Escrow Fund” means the fund established by the Escrow Instructions.

“Escrow Instructions” means the escrow instructions from the City to the Escrow Agent, dated as of October 1, 2016.

“Event of Default” means an event of default described in Section 6.01 hereof.

“Federal Securities” mean (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above 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 government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the City as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” mean the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for cities in the State of California, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

“Governmental Loan” means a loan from the State or the United States of America, acting through any of its agencies, to finance improvements to the Wastewater System, and the obligation of the City to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Debt Service Payments.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to connection charges and investment earnings on such charges, income and receipts. Gross Revenues shall not include (i) refundable deposits made to establish credit, (ii) the proceeds of any *ad valorem* property taxes, (iii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System, and (iv) non-cash amounts recorded for accounting purposes representing imputed revenues from the sale of local wastewater run-off. Gross Revenues shall include interest with respect to any Parity Obligations reimbursed to or on behalf of the City by the United States of America. Gross Revenues shall also be increased by the amounts, if any, transferred during such Fiscal Year or other period from the Rate Stabilization Fund to the Utility Fund and shall be decreased by the amounts, if any, transferred during such Fiscal Year or other period from the Utility Fund to the Rate Stabilization Fund, pursuant to Section 3.06 hereof.

“Indenture” means this Indenture of Trust by and between the Trustee and the City, dated as of October 1, 2016, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith.

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

1. is in fact independent and not under the domination of the City;
2. does not have a substantial financial interest, direct or indirect, in the operations of the City; and
3. is not connected with the City as a board member, officer or employee of the City, but may be regularly retained to audit the accounting records of and make reports thereon to the City.

“Independent Financial Consultant” means any financial consultant or firm of such consultants of national reputation generally recognized to be well qualified in financial matters relating to systems similar to the Wastewater System, appointed and paid by the City, and who, or each of whom--

1. is in fact independent and not under the control of the City;
2. does not have a substantial financial interest, direct or indirect, in the City; and

3. is not connected with the City as a council member, officer or employee of the City, but may be regularly retained to make reports to the City.

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify in a certificate to the Trustee.

“Interest Payment Date” means each February 15 and August 15, commencing February 15, 2017.

“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, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) 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. Interest at the Late Payment Rate on any amount owing to the Reserve Insurer shall be computed on the basis of the actual number of days elapsed in a year of 360 days. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as the Reserve Insurer, in its sole and absolute discretion, shall designate.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year:

(a) the principal amount of the Bonds and Parity Obligations coming due and payable by their terms in such Bond Year, including the principal amount of any term Bonds and term Parity Obligations which are subject to mandatory sinking fund redemption in such Bond Year; and

(b) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Bonds and Parity Obligations which would be Outstanding in such Bond Year if such Bonds and Parity Obligations are retired as scheduled.

“Moody’s” means Moody’s Investors Service, Inc., its successors and assigns.

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

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

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of a Depository designated pursuant to Section 2.11 hereof.

“Operation and Maintenance Expenses” means the reasonable and necessary costs and expenses paid by the City to maintain and operate the Wastewater System, including but not limited to (a) costs of transportation and treatment of wastewater discharged into the Wastewater System, (b) costs of electricity and other forms of energy supplied to the Wastewater System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater System. Operation and Maintenance Costs shall not include (i) Debt Service Payments or other similar payments payable on obligations incurred by the City with respect to the Wastewater System, including but not limited to payments on any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) amortization of intangibles or other bookkeeping entries of a similar nature, and (iv) book-keeping entries to reflect imputed expenses for local wastewater run-off.

“Outstanding” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 8.02) all Bonds except:

- (1) Bonds canceled by the Trustee;
- (2) Bonds paid or deemed to have been paid within the meaning of Section 9.01; and
- (3) Bonds in lieu of or in substitution for which replacement Bonds shall have been executed and delivered hereunder.

“Owner” or “Bondowner” means the registered owner of any Outstanding Bond.

“Parity Obligations” means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues equally and ratably with the Debt Service Payments of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to this Indenture.

“Payment Fund” means the fund by that name established in Section 3.03 hereof.

“Permitted Investments” mean any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the City as a certification that such investment constitutes a Permitted Investment):

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, but excluding CATS and TIGRS) 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):

Farmers Home Administration (FmHA)

Certificates of beneficial ownership

Federal Housing Administration Debentures (FHA)

General Services Administration

Participation certificates

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.)

U.S. Maritime Administration

Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local District 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

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):

Federal Home Loan Bank System

Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)

Participation certificates

Senior debt obligations

Federal National Mortgage Association (FNMA or “Fannie Mae”)

Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit System

Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market mutual 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," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee receive and retain a fee for services provided to the fund, whether as investment advisor, custodian, transfer agent or otherwise.

5. Certificates of deposit secured at all times by collateral described in 1 and/or 2 above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks including the Trustee and its affiliates. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral. Unsecured certificates of deposit, time deposits, money market deposits, demand deposits and bankers' acceptances of any bank (including those of the Trustee, its parent and its affiliates) the short-term obligations of which are rated on the date of purchase in one of the two highest rating categories by S&P and by Moody's.

6. Certificates of deposit (including those placed by a third party pursuant to a separate agreement between the City and the Trustee, trust funds, trust accounts, time deposits, bank deposit products, overnight bank deposits, interest bearing money market accounts, interest bearing deposits, bankers acceptance, savings accounts, deposit accounts or money market deposits (including those of the Trustee or any of its affiliates) which are fully insured by FDIC.

7. Investment agreements, including GIC's, forward purchase agreements and reserve fund put agreements.

8. Commercial paper rated, at the time of purchase, "Prime -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 rating categories assigned by such agencies.

10. Bank deposit products, bank deposit accounts, federal funds or bankers acceptances with a maximum term of one year of any bank (including the Trustee or any of its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of "Prime -1" or "A2" or better by Moody's and "A-1" or "A" or better by S&P.

11. Repurchase or reverse repurchase agreements for 30 days or less (including those of the Trustee or any of its affiliates) must follow the following criteria:

(i) Repurchase or reverse 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.

12. Asset-backed Securities: As authorized in Government Code Section 53601(n), investment in any equipment lease-backed certificate, consumer receivable pass-through certificate or consumer receivable-backed bond with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service.

13. Mortgage-backed Securities: As authorized in Government Code Section 53601(n), investment in any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, with a maximum remaining final maturity of five years. Purchases will be restricted to securities with an expected weighted average life not to exceed three years. Securities eligible for investment under this subdivision shall be rated "AAA" by a nationally recognized rating service. Purchases of asset-backed and mortgage-backed securities may not exceed 20% of the City's portfolio in total.

14. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of "A" or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

15. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

16. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

17. The Fresno County Pooled Investment Fund.

"Principal Office" means the corporate trust office of the Trustee currently located in Los Angeles, California, except that solely for the purposes of the surrender or presentation of Bonds for payment, transfer or exchange, such office shall be the designated corporate trust agency or operations office of the Trustee, or such other office designated by the Trustee from time to time.

"Prior Trust Agreement" means the Trust Agreement, dated as of November 1, 2007, among the City, the Authority and the Prior Trust Administrator.

“Prior Obligations” means the City’s obligations under the Installment Sale Agreement, as evidenced by the Certificates of Participation (2007 Wastewater System Improvement Project).

“Prior Trust Administrator” means the Finance Director of the City of Firebaugh, as trust administrator for the Prior Obligations.

“Rate Stabilization Fund” means the fund of that name established by the City pursuant to Section 3.06 hereof.

“Record Date” means the fifteenth day of the calendar month prior to an Interest Payment Date.

“Redemption Account” means the account of that name established by the Trustee pursuant to Section 3.04 hereof.

“Reserve Fund” means the fund by that name established in Section 3.07 hereof.

“Reserve Requirement” means, as of any date of calculation, the lesser of (i) 10% of the initial offering price of the Bonds to the public, (ii) an amount equal to maximum annual Debt Service payable by the City between the date of such calculation and the final maturity of the Bonds, or (iii) 125% of average annual Debt Service payable hereunder.

“Responsible Officer” means any officer of the Trustee assigned by the Trustee to administer the trusts established hereunder.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, its successors and assigns.

“Securities Depositories” mean The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in writing to the Trustee.

“State” means the State of California.

“Subordinate Debt” means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues subordinate to the Bonds.

“Trust Office” means the office of the Trustee designated in Section 11.13 hereof, except that solely for the purposes of the surrender or presentation of Bonds for payment, transfer or exchange, such office shall be the designated corporate trust agency or operations office of the Trustee, and such other offices as the Trustee may designate from time to time.

“Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor or any other bank or trust company which may at any time be substituted in its place as provided in Section 7.01.

“2007 Certificates” means the \$3,800,000 Certificates of Participation (2007 Wastewater System Improvement Project) executed and delivered on February 20, 2008.

“Utility Fund” means the fund of the City into which it deposits Gross Revenues.

“Wastewater System” means the entire wastewater system of the City serving the City and its inhabitants, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City.

Section 1.02. Equal Security. In consideration of the acceptance of the Bonds by the Owners, this Indenture shall be deemed to be and shall constitute a contract by and among the Trustee, the City and the Owners to secure the full and final payment of the interest and principal and redemption premiums, if any, to be made by the City on the Bonds, subject to the agreements, conditions, covenants and terms contained herein; and all agreements, conditions, covenants and terms contained herein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Bonds over any other Bonds by reason of the number or date thereof or the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided herein or therein.

ARTICLE II

TERMS AND CONDITIONS OF BONDS

Section 2.01. Authorization of Bonds. The City hereby authorizes the issuance of the Bonds in the aggregate principal amount of \$_____. The Bonds shall be designated “City of Firebaugh Wastewater Revenue Refunding Bonds, Series 2016A.”

Section 2.02. Denominations, Medium, Method and Place of Payment and Dating of Bonds. The Bonds shall be issued in the form of fully registered Bonds in denominations of five thousand dollars (\$5,000) or any integral multiple thereof. Subject to the provisions of Section 2.11 hereto, the interest, principal and redemption premiums, if any, on the Bonds shall be payable by check in lawful money of the United States of America. Subject to the provisions of Section 2.11 hereof, interest on the Bonds shall be payable on their Interest Payment Dates by wire or check mailed via first class mail on the Interest Payment Date by the Trustee to the respective Owners thereof as of the Record Date at their addresses as they appear in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 hereof or, upon the written request from any Owner of Bonds aggregating at least \$1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment

Date, by wire in Federal Reserve funds to an account within the United States on the Interest Payment Date, with regard to which such payment is made. The principal of the Bonds shall be payable on August 15 in each of the years and in the principal amounts as follows, or on redemption prior thereto, upon surrender thereof at the Trust Office of the Trustee.

<u>Year</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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The Bonds shall be dated as of the Closing Date, and bear interest from the Interest Payment Date immediately preceding the date of authentication thereof by the Trustee, unless such date of authentication is on or after the fifteenth (15th) day of the calendar month prior to an Interest Payment Date, in which case they shall bear interest from such Interest Payment Date, or unless such date of authentication is on or before November 15, 2016, in which case they shall bear interest from the Closing Date.

Section 2.03. Interest on the Bonds. Interest on the Bonds shall be paid on each Interest Payment Date at the rates per annum set forth in Section 2.02 hereof, calculated on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.04. Form of Bonds. The Bonds and the assignment to appear thereon shall be in substantially the form set forth in Appendix A hereto with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

Section 2.05. Execution of Bonds. The Bonds shall be executed by the manual or facsimile signature of the Mayor of the City, or his authorized representatives and shall be attested to by the manual or facsimile signature of the City Clerk. The Bonds shall be authenticated by the manual signature of an authorized officer of the Trustee.

Section 2.06. Transfer and Exchange of Bonds. Subject to the provisions of Section 2.11 hereof, (a) each Bond shall be transferable only upon a register of the names of each Owner (the "Bond Register"), which shall be kept for that purpose at the Trust Office, by the Owner thereof in person or by his or her attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his or her duly authorized attorney. Upon the transfer of any such Bond, the Trustee shall provide in the name of the transferee, a new Bond or Bonds, of the same aggregate principal amount, interest rate and maturity as the surrendered Bonds (unless there has occurred a partial redemption of such Bond pursuant to Section 4.01 hereof, in which case the principal amount of the new Bond shall be equal to the unredeemed principal amount of the Bond submitted for transfer).

(b) The Trustee shall deem and treat the person in whose name any Outstanding Bond shall be registered upon the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such Owner or upon his or her order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City nor the Trustee shall be affected by any notice to the contrary. The City agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it in so treating such Owner.

In all cases in which the privilege of exchanging or transferring Bonds is exercised, the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Article. All Bonds surrendered in any such exchanges or transfers shall forthwith be canceled by the Trustee. For every such exchange or transfer of Bonds, whether temporary or definitive, the City and the Trustee may make a charge sufficient to reimburse any of them for any tax, fee or other governmental charge, other than one imposed by the City, required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provision hereof, the cost of preparing each new Bond and any other expenses of the City or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge other than one imposed by the City) shall be paid by the City. The Trustee shall not be obliged to effect any exchange or transfer of any Bond during the period after the mailing of notice calling such Bond or a portion thereof for redemption, nor during the fifteen (15) days preceding the giving of such notice of redemption.

Section 2.07. Bond Registration Books. The Trustee shall keep or cause to be kept at its Principal Office sufficient records for the registration and registration of transfers of the Bonds, which shall, during normal business hours upon reasonable prior written notice be open to inspection by the City; and, upon presentation for such purpose, the Trustee shall, under such

reasonable regulations consistent herewith as it may prescribe, register or transfer or cause to be registered or transferred, on the Bond Register, Bonds as herein before provided.

Section 2.08. Temporary Bonds. Pending preparation of the definitive Bonds, any Bonds delivered under the Indenture may be initially delivered in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, shall be without coupons and may contain such reference to any of the provisions hereof as may be appropriate. Every temporary Bond shall be authenticated by the Trustee and be delivered by the Trustee upon the same conditions and in substantially the same manner as definitive Bonds. If the Trustee delivers temporary Bonds, it shall authenticate and furnish definitive Bonds without delay and, thereupon, the temporary Bonds shall be surrendered for cancellation at the Principal Office of the Trustee and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations of the same interest rate or rates and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds delivered pursuant hereto.

Section 2.09. Bonds Mutilated, Destroyed, Lost or Stolen. If any Bond shall become mutilated, the Trustee, at the expense of the Owner of said Bond, shall 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 canceled by it and destroyed or redelivered to, or upon the order of, the City. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner, shall authenticate and deliver a new Bond of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of a reasonable fee for each new Bond delivered under this Section and of the reasonable expenses which may be incurred by the Trustee in carrying out the duties under this Section 2.09. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds secured by the Indenture. The Trustee shall not be required to treat both the original Bond and any replacement Bond as being Outstanding for the purpose of determining the principal amount of Bonds which may be issued under the Indenture or for the purpose of determining any percentage of Bonds Outstanding under the Indenture, but both the original and replacement Bond shall be treated as one and the same. Notwithstanding any other provision of this Section 2.09, in lieu of delivering a new Bond for a Bond which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such Bond upon receipt of indemnification satisfactory to the Trustee.

Section 2.10. Evidence of Signatures of Bond Owners and Ownership of Bonds. Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bond Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bond Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney

or agent, and of the holding and ownership of Bonds shall be sufficient for any purpose hereof (except as otherwise herein provided), if made in the Form of the Assignment attached to the Bond in Appendix A hereto.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which to the Trustee may seem sufficient. Any request or consent of the Owner of any Bond shall bind every future Owner of the same Bond in respect of anything done or suffered to be done by the City or the Trustee in pursuance of such request or consent.

Section 2.11. Book Entry System.

(a) Original Delivery. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each maturity. Upon initial delivery, the ownership of each such Bond shall be registered on the Bond Register kept by the Trustee in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Bonds shall be registered in the name of the Nominee.

With respect to Bonds the ownership of which shall be registered in the name of the Nominee, the City and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the City holds an interest in the Bonds. Without limiting the generality of the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Depository System Participant or any other person, other than a Bond Owner as shown in the Bond Register, or any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository of the beneficial interests in the Bonds to be redeemed in the event the City elects to redeem the Bond in part, (iv) the payment to any Depository System Participant or any other person, other than a Bond Owner as shown in the Bond Register, of any amount with respect to principal, premium, if any, or interest on the Bonds, or (v) any consent given or other action taken by the Depository as Owner of the Bonds. The City and the Trustee may treat and consider the person in whose name each Bond is registered as the absolute owner of such Bonds for the purpose of payment of principal of, premium, if any, and interest on such Bonds for the purpose of giving notices of redemption and other matters with respect to such Bonds, for the purpose of registering transfers of ownership of such Bonds, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Bonds only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Bonds to the extent of the sum or sums so paid. No person other than an Owner shall receive a Bond evidencing the obligation of the City to make payments of principal, interest and premium, if any, pursuant to this Indenture. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice

of the City shall promptly, but in no event later than two (2) Business Days after receipt thereof, deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, to the extent it has not already done so the City shall execute and deliver to such Depository a letter (the "Letter of Representations") representing such matters as shall be necessary to so qualify the Bonds. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the City or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Bond Owners. In addition to the execution and delivery of such letter, the City may take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. In the event that either (i) the Depository determines not to continue to act as Depository for the Bonds, or (ii) the City determines to terminate the Depository as such, then the City shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the City and the Trustee in the issuance of replacement Bonds by providing the Trustee with a list showing the interests of the Depository System Participants in the Bonds, and by surrendering the Bonds, registered in the name of the Nominee, to the Trustee on or before the date such replacement Bonds are to be issued. The Depository, by accepting delivery of the Bonds, agrees in the Letter of Representations to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the City fails to identify another qualified securities depository to replace the Depository, then the Bonds shall no longer be required to be registered in the Bond Register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Section 2.11 hereof.

In the event the City determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain Bonds, the City may notify the Depository System Participants of the availability of such Bond through the Depository. In such event, the Trustee will, at the expense of the City, authenticate, transfer and exchange Bonds as required by the Depository and others in appropriate amounts; and whenever the Depository so requests, the City shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate Bonds evidencing the Bonds to any Depository System Participant having Bonds credited to its account with the Depository, or (ii) to arrange for another qualified securities depository to maintain custody of a single Bond evidencing such Bonds, all at the City's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of the Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Bonds and all notices with respect to such Bonds shall be made and given, respectively, as provided in the Letter of Representations or as otherwise instructed in writing by the Depository.

Section 2.12. Limitations on Future Obligations Secured by Net Revenues.

(a) No Obligations Superior to Debt Service Payments. In order to protect further the availability of the Gross Revenues or Net Revenues and the security for the Debt Service Payments and any Parity Obligations, the City hereby agrees that the City shall not, so long as any Bonds are outstanding, issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the Debt Service Payments or such Parity Obligations. The City may issue or incur Parity Obligations and or other obligations subordinate to the pledge of Net Revenues as provided herein.

(b) Parity Obligations. The City further covenants that, except for bonds issued to fully or partially refund the Bonds or Parity Obligations, the City shall not issue or incur any Parity Obligations unless:

(i) The City is not in default under the terms of this Indenture unless such default shall be cured simultaneously with the issuance of such Parity Obligations; and

(ii) The City obtains or provides a certificate prepared by an Independent Certified Public Accountant or Independent Financial Consultant showing that the Net Revenues as shown by the books of the City for any 12 consecutive calendar months during the 18 calendar month period ending prior to the incurring of such Bonds or Parity Obligations shall have amounted to at least 125% of the Maximum Annual Debt Service for all Bonds or Parity Obligations to be outstanding immediately after incurring such additional Bonds or Parity Obligations.

For purposes of preparing the certificate described in subsection (ii), as set forth above, the Independent Certified Public Accountant or Independent Financial Consultant may rely upon financial statements prepared by the City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available. For purposes of demonstrating compliance with the foregoing, Net Revenues may be adjusted (at the option of the City) to include the Additional Revenues.

(c) If interest on any Parity Obligation is reasonably anticipated to be reimbursed to or on behalf of the City by the United States of America, then interest payments with respect to such Parity Obligations shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations required in subsection (b)(ii) above.

The provisions of subsection (b)(ii) of this Section shall not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make the reserve fund deposit required pursuant to subsection (b)(iii) of this Section) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, if (i) at the time of the incurring of such Parity Obligations, the City certifies in writing that Maximum Annual Debt Service on such Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding

Bonds or Parity Obligations to be refunded, and (ii) the final maturity of such Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

In order to maintain the parity relationship of the Debt Service Payments to all Parity Obligations permitted hereunder, the City covenants that all payments in the nature of principal and interest or reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Record Dates and in each year as such payments are due with respect to the Debt Service Payments, and reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Debt Service Payments and not prior thereto; provided that the City shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the City to fail to pay Debt Service Payments of the Bonds or Parity Obligations on a timely basis. In such event, the City shall make Debt Service Payments and payments on such Governmental Loan on a pro rata basis.

(d) Subordinate Debt. The City may issue bonds or other obligations secured by a lien on Gross Revenues or Net Revenues which is subordinate to the lien established under this Indenture, upon such terms and in such principal amounts as the City may determine.

ARTICLE III

PROCEEDS OF BONDS; PLEDGE OF NET REVENUES

Section 3.01. Delivery of Bonds; Payment of Debt Service; Pledge of Net Revenues. The Trustee is hereby authorized to authenticate the Bonds and upon receipt of the proceeds of sale thereof deliver the Bonds to the initial purchaser thereof upon receipt of a Certificate of the City.

All of the Net Revenues are pledged hereunder for the payment of Parity Obligations, including the Bonds, and all moneys on deposit in the Payment Fund and the Redemption Account established under this Indenture are hereby irrevocably pledged, charged and assigned to the punctual payment of the Bonds, and except as otherwise provided herein, the Net Revenues and such other funds shall not be used for any other purpose so long as any of the Bonds remain Outstanding. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Debt Service Payments, the Bonds and any Parity Obligations in accordance with the terms hereof.

The City's obligation to pay the Debt Service Payments and any other amounts coming due and payable hereunder shall be a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Debt Service Payments and the Bonds, nor shall any other funds or property of the City be liable for the payment of the Debt Service Payments, the Bonds or any other amounts coming due and payable hereunder.

The obligations of the City to make the Debt Service Payments from the Net Revenues and to perform and observe the other agreements contained herein 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 or the Trustee of any obligation to the City or otherwise with respect to the Wastewater System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Trustee. The City hereby acknowledges that its obligation to make Debt Service Payments hereunder is absolute and unconditional, free of deductions and without abatement, offset, recoupment, diminution or set-off whatsoever. Until such time as all of the Debt Service Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Debt Service Payments or such other amounts with respect to the Bonds, (b) will perform and observe all other agreements contained in this Indenture, and (c) will not terminate this Indenture 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 System, sale of the Wastewater System, the taking by eminent domain of title to or temporary use of any component of the Wastewater System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of 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.

Nothing contained in this Section shall be construed to release the Trustee from the performance of any of the agreements on its part contained herein, and in the event the Trustee shall fail to perform any such agreements, the City may institute such action against the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights hereunder.

Section 3.02. Depositing of Proceeds of Bonds and Other Amounts. On the Closing Date the Trustee shall receive \$_____ (principal amount of the Bonds of \$_____, less an underwriter's discount of \$_____, and plus net original issue premium of \$_____) as the purchase price of the Bonds. From the purchase price of the Bonds, at the request of the City, the Underwriter will wire the Bond Insurance Policy and Bond Reserve Policy premiums totaling \$_____ to the Bond Insurer, resulting in a net wire to the Trustee on behalf of the City of \$_____. The Trustee shall deposit \$_____ of the Bond proceeds to the Delivery Costs Fund, which fund is hereby established and shall be held hereunder by the Trustee. The Trustee shall transfer \$_____ of the Bond proceeds to the Escrow Agent for deposit in the Escrow Fund established pursuant to the Escrow Instructions. The Trustee may establish a temporary fund or account in its records to facilitate such deposits or transfers.

Section 3.03. Deposit of Debt Service Payments. All Debt Service Payments with respect to the Bonds shall be paid directly by the City to the Trustee on the applicable Due Date. Such payments received by the Trustee shall be held in trust by the Trustee under the terms

hereof and shall be deposited by it as and when received in the Debt Service Account of the Payment Fund, which fund the Trustee hereby agrees to establish and maintain as provided in Section 3.04 so long as any Bonds are Outstanding.

The Net Revenues of the Wastewater System shall be received and deposited by the City in the Debt Service Fund to be established and held by the City. On or before each Due Date, the City shall withdraw from the Debt Service Fund an amount, together with the balance then on deposit in the Payment Fund, if any (other than amounts held for the defeasance of Bonds pursuant to Article IX and any amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not yet been presented for payment), equal to the aggregate amount of the Debt Service Payments coming due on the next succeeding Interest Payment Date, and transfer the same to the Trustee for deposit into the Payment Fund on the following dates and in the following amounts:

- (1) Interest Component. On or before the fifteenth day of each May and November, an amount which is equal to the amount of interest to become due on such Bonds on the next succeeding Interest Payment Date; provided, however, that the City may be entitled to certain credits on such payments as set forth above.
- (2) Principal Component. On or before the fifteenth day of May of each year, an amount which, together with any moneys already on deposit with the Trustee and available to make such payment, is not less than the entire amount of the next succeeding maturing principal or mandatory sinking account payment coming due on the Bonds after such date; provided, however, that the City may be entitled to certain credits on such payments as set forth above.

Section 3.04. Payment Fund. Within the Payment Fund, which is hereby established, the Trustee shall establish a Debt Service Account and a Redemption Account. Debt Service Payments made by the City shall be deposited by the Trustee in the Debt Service Account. Such payments shall be net of amounts already on deposit therein that are in excess of the amount required to accumulate therein pursuant to Section 3.01. The Trustee shall transfer the money contained in the Debt Service Account and the Redemption Account at the following respective times in the following respective accounts in the following order of priority in the manner hereinafter provided, each of which accounts the Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding, and the money in each of such accounts shall be disbursed only for the purposes and uses hereinafter authorized:

(a) Debt Service Account. All moneys in the Debt Service Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of and interest on the Bonds on each Interest Payment Date or mandatory redemption dates, as applicable.

(b) Redemption Account. The Trustee, on the optional redemption date specified in the Certificate of the City filed with the Trustee at the time that any moneys to accomplish any such optional redemption are paid to the Trustee, shall deposit in the Redemption

Account the amount of such payment. All money in the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal on the Bonds to be optionally redeemed on their respective redemption dates.

Section 3.05. Use of Money in the Delivery Costs Fund.

(a) The Trustee shall disburse funds from the Delivery Costs Fund to pay Delivery Costs only upon receipt of a signed Certificate of the City (stating the amount to be disbursed and the party or parties being paid) approved by an Authorized Officer of the City and accompanied by an invoice or statement for each such amount.

(b) Upon payment of all Delivery Costs, which shall be determined by a Certificate of the City to that effect by an Authorized Officer of the City delivered to the Trustee, or upon the date occurring four (4) months after the Closing Date, whichever occurs first, the Trustee shall transfer all funds remaining in the Delivery Costs Fund to the Debt Service Account, and the Delivery Costs Fund shall thereupon be closed.

Section 3.06. Receipt and Deposit of Gross Revenues; Utility Fund; Rate Stabilization Fund.

The City covenants and agrees that all Gross Revenues, when and as received, will be received and held by the City in trust for the benefit of Bond owners and payments with respect to Parity Obligations, and will be deposited by the City in the Utility Fund (which the City hereby covenants and agrees to maintain so long as any Bonds remain Outstanding) and will be accounted for and held in trust for the benefit of Bond owners and for payments with respect to Parity Obligations in the Utility Fund. All Gross Revenues shall be disbursed, allocated and applied solely to the uses and purposes set forth in this Article III.

All Gross Revenues in the Utility Fund shall be set aside by the City or deposited by the City with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority:

(1) Operation and Maintenance Expenses. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants to pay all Operation and Maintenance Expenses (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Expenses, the payment of which is not then immediately required) from the Utility Fund as they become due and payable.

(2) Debt Service Funds. Debt Service Payments payable pursuant to Section 3.01 hereof and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. Payments required to restore the Reserve Fund to the Reserve Requirement and the debt service reserve funds established for Parity Obligations to their reserve requirement levels (which shall include payments to

reimburse the Insurer for draws against the Reserve Policy and payments to reimburse the providers of any surety bond, letter of credit or guaranty policy issued to fund the debt service reserve funds established for Parity Obligations for draws thereagainst, respectively) shall be made in accordance with the terms of the Indenture and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures/Rate Stabilization Fund. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the City, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations. The City may maintain and hold a separate fund to be known as the "Rate Stabilization Fund." From time to time the City may deposit in the Rate Stabilization Fund, from remaining Net Revenues described in this subsection (4) or other available funds of the City, such amounts as the City shall determine. The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Utility Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the City. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues. Amounts transferred from the Rate Stabilization Fund to the Utility Fund pursuant to this Section 3.06 during or within 270 days after a Fiscal Year, may be taken into account as Gross Revenues for purposes of the calculations in Section 5.17 in such Fiscal Year.

The parties hereto acknowledge that although all Parity Obligations are secured equally and ratably by applicable Net Revenues, moneys with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture, and the Indenture imposes no obligations upon the Trustee with respect to such other obligations. The City shall make such transfers from the Utility Fund necessary to effectuate such obligations' parity claim on such Net Revenues contemplated hereby.

Section 3.07. Reserve Fund. The Trustee hereby agrees to establish and maintain so long as any Bonds are Outstanding the Reserve Fund. [The Bond Reserve Policy shall be deposited in the Reserve Fund which shall satisfy the Reserve Requirement. The Trustee shall hold the Reserve Fund in trust. So long as the Bond Reserve Policy is in force and effect, the Trustee shall draw on the Bond Reserve Policy in accordance with the provisions of Section 10.02. Otherwise, the Trustee shall apply moneys in the Reserve Fund in accordance with the following provisions.]

If, two (2) Business Days prior to any Interest Payment Date, the money in the Payment Fund does not equal the amount required to be paid to the Bond Owners on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund to the Payment Fund the amount of such insufficiency; provided, if the Reserve Fund is funded with a letter of credit, surety bond, insurance policy or other comparable credit facility as described below, the Trustee shall take such action as is necessary to either (i) make a drawing under the letter of credit or (ii) make a claim under the surety bond or insurance policy, respectively, so that the amount of such

insufficiency is paid or available to the Trustee on such Interest Payment Date under the terms of such instrument.

If, following valuation or calculation thereof, the amount available and contained in the Reserve Fund (valued as provided in Section 11.09 hereof) exceeds the Reserve Requirement and if the Trustee does not have actual knowledge of an Event of Default hereunder, the Trustee shall withdraw the amount of such excess from the Reserve Fund. The Trustee shall transfer such amount to the City. Solely for purposes of determining the amount on deposit in the Reserve Fund, the Trustee shall make a valuation of the Reserve Fund as of February 15 and August 15 of each year. All money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of making the payments of principal and interest on the Bonds in the event that amounts on deposit in the Payment Fund are insufficient for such purposes, or with respect to a redemption of the Bonds in whole.

If amounts on deposit in the Reserve Fund shall, at any time, be less than the applicable Reserve Requirement, such deficiency shall be immediately made up by the City from available Net Revenues, if any, and the Reserve Fund shall be valued monthly until amounts on deposit therein equal the Reserve Requirement.

In lieu of making the Reserve Fund deposits in compliance herewith, or in replacement of moneys then on deposit in the Reserve Fund, the City may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations at the time of delivery of such letter of credit rated not less than the current rating categories of S&P on the Bonds, in an amount, together with moneys, or surety bonds or insurance policies (as described below) on deposit in the Reserve Fund, equal to the Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final maturity of the Bonds and such letter of credit shall provide by its terms that it may be drawn upon as provided herein. At least one year prior to the stated expiration of such letter of credit, the City shall either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least an additional year or, if less, the final maturity of the Bonds, or (iii) deliver to the Trustee a surety bond or an insurance policy satisfying the requirements set forth below. Upon delivery of such replacement letter of credit, extended letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the written order of the City. If the City shall fail to deposit a replacement letter of credit, extended letter of credit or surety bond or insurance policy with the Trustee, the City shall immediately commence to make monthly deposits with the Trustee so that an amount equal to the Reserve Requirement will be on deposit in the Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Reserve Fund one week prior to the stated expiration date of the letter of credit, the Trustee shall draw on the letter of credit to fund the deficiency resulting therefrom in the Reserve Fund.

Additionally, the City may, with an opinion of nationally recognized bond counsel that such delivery complies with the provisions hereof, deliver to the Trustee a surety bond or an insurance policy securing an amount, together with moneys or letters of credit on deposit in the Reserve Fund, equal to the Reserve Requirement. Such surety bond or insurance policy shall be

issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) at the time of delivery of such surety bond or insurance policy are rated not less than the current rating category of S&P on the Bonds. Such surety bond or insurance policy shall have a term of no less than the final maturity of the Bonds. In the event that such surety bond or insurance policy for any reason lapses or expires, the City shall immediately implement clause (i) or (iii) of the preceding paragraph or make the required deposits to the Reserve Fund.

The Trustee shall, on a pro rata basis with respect to the portion of the Reserve Fund held in cash and amounts held in the form of letters of credit, surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit, surety bonds and insurance policies and the amount of the initial deposit of such cash), draw under each letter of credit, surety bond or insurance policy, in a timely manner and pursuant to the terms of such letter of credit, surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed as required herein. In the event that the Trustee has received written notice that any payment of principal or interest on a Bond has been recovered from an Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit, surety bond or insurance policy, if any, securing such Bonds so provide, shall so notify the issuer thereof and draw on such letter of credit, surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit, surety bond or insurance policy in order to pay such Bond Owners the principal and interest so recovered.

Following the replacement of moneys then on deposit in the Reserve Fund by an irrevocable letter of credit, surety bond, or insurance policy as provided herein, the Trustee shall notify S&P in writing and any moneys on deposit in the Reserve Fund in excess of the Reserve Requirement shall be transferred by the Trustee to the Payment Fund to be credited as provided herein, or, with the written approval of nationally recognized bond counsel to the effect that such transfer other than to the Payment Fund is hereby authorized, to such other fund or account as may be directed by the City.

Section 3.08. Held in Trust. The moneys and investments held by the Trustee under Sections 3.03, 3.04, 3.05 and 3.07 are irrevocably held in trust for the benefit of the Owners, and for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Indenture, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the Trustee or the City.

Section 3.09. Commingling of Moneys in Funds. The Trustee is directed by the City to commingle any of the funds held by it pursuant to this Indenture into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee.

Section 3.10. Liability of City Limited. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than

Net Revenues legally available therefor in the Utility Fund and the other funds provided herein for the payment of the Debt Service Payments or for the performance of any agreements or covenants contained herein required to be performed by it. The City may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Debt Service Payments and the other amounts due hereunder is a special obligation of the City payable solely from the moneys legally available therefor hereunder, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

ARTICLE IV

REDEMPTION OF BONDS

Section 4.01. Terms of Redemption.

(a) Optional Redemption. The Bonds maturing on or before August 15, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 15, 20__, are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part (by such maturities as may be specified by the City and by lot within a maturity) on any date on or after August 15, 20__, at a redemption price equal to the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

(b) Sinking Fund Redemption of Bonds. (i) The Bonds maturing August 15, 20__ shall be subject to mandatory sinking fund redemption in part, by lot, commencing on August 15, 20__, from mandatory sinking fund payments set aside in the Debt Service Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

Bonds maturing August 15, 20__

Redemption Date (August 15)	Redemption Amount
<hr/>	<hr/>

[†] Final Maturity

(ii) The Bonds maturing August 15, 20__ shall be subject to mandatory sinking fund redemption in part, by lot, commencing on August 15, 20__, from mandatory sinking fund payments set aside in the Debt Service Account, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

Bonds maturing August 15, 20__

Redemption Date (August 15)	Redemption Amount
<hr/>	<hr/>

[†] Final Maturity

If some but not all of such Bonds have been redeemed pursuant to subsection (a) above the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City (written notice of which determination shall be given by the City to the Trustee).

(c) Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such call and redemption, moneys of the City may be used to purchase Outstanding Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds may be made by the City prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the City may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date. If any Bond so purchased is not canceled upon purchase, the purchase of such Bond shall be subject to the prior written consent of the Bond Insurer.

Section 4.02. Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by the Trustee among maturities as designated in writing by the City and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the City, the Bonds may be redeemed by any maturity or maturities selected by the City, and by lot within a maturity. For the purpose of the selection described in this Section, all Bonds registered in the name of the same Owner shall be aggregated and treated as a single Bond held by such Owner. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of \$5,000.

Section 4.03. Notice of Redemption; Rescission. When redemption is authorized or required pursuant to this Article, the Trustee shall give notice (the "Redemption Notice"), at the

expense of the City, of the redemption of the Bonds. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Redemption notices may state that no representation is made as to the accuracy of the CUSIP numbers printed thereon or on the Bonds. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Subject to the provisions stated above, the Trustee shall take the following actions with respect to such Redemption Notice:

(a) (i) At least thirty (30) but not more than forty-five (45) days prior to the redemption date or (ii) immediately upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds, the Trustee shall cause Redemption Notices to be given to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register maintained by the Trustee.

(b) At least thirty (30) days prior to the redemption date, such Redemption Notice shall be given to each of the Securities Depositories.

(c) At least thirty (30) days prior to the redemption date, such Redemption Notice shall be given to one of the Information Services selected by the City.

Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds. Each check or other payment method used by the Trustee for the purpose of redeeming Bonds shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

The City shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under this Indenture. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Trustee shall authenticate and deliver to the Owner thereof a new Bond or Bonds equal to the unredeemed principal amount of the Bond surrendered.

Section 4.05. Effect of Redemption. Notice having been given as aforesaid, and the moneys for the redemption, including interest to the applicable redemption date of the Bonds to be redeemed, having been set aside in the Redemption Account or Payment Account, the portion of Bonds to be redeemed shall become due and payable on said redemption date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Bonds shall be paid at the unpaid principal amount and premium, if any, with respect thereto, plus any unpaid and accrued interest to said redemption date.

If, on said redemption date, moneys sufficient for the redemption of all the Bonds to be redeemed, together with interest to said redemption date shall be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof shall have been given as aforesaid, then, from and after said redemption date, interest with respect to the portion of Bonds to be redeemed shall cease to accrue and become payable. If said moneys shall not be so available on said redemption date, interest with respect to such portion of Bonds shall continue to be payable until paid at the same rates as they would have been payable had they not been called for redemption. All moneys held by or on behalf of the Trustee for the redemption or payment of particular Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed or paid for the lesser of two (2) years or the period ending one day prior to the date such moneys would escheat to the State. Subject to any applicable escheat laws, after the earlier of two (2) years or the period ending one day prior to the date such moneys would escheat to the State, the Trustee will pay over to the City the unclaimed money for the years to which such money applies (without liability for interest), if any, and thereafter the Owners of such Bonds shall be entitled to payment on their Bonds only from the City and only from the amounts so paid to the City. The Trustee shall have no obligation to determine what applicable escheat law applies, but shall only be required to follow the City's written instructions to comply with this Section.

ARTICLE V

COVENANTS OF THE CITY AND THE TRUSTEE

Section 5.01. Compliance with Indenture. The City will not suffer or permit any material default by it to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by it.

Section 5.02. Observance of Laws and Regulations. The City will truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Wastewater System by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the City with respect to the Wastewater System to the end that such rights, privileges

and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 5.03. Prosecution and Defense of Suits. The City shall promptly, upon request of the Trustee (who has no duty or obligation to make such request) or any Owner holding at least 25% in principal amount of the Bonds from time to time, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System, whether now existing or hereafter developing and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

Section 5.04. Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Debt Service Payments, and such accounting records shall be available for inspection by the City or any Owner or his or her agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee. So long as any Bonds are Outstanding, the Trustee will furnish each month to the City and any Owner who may so request in writing (at the expense of such Owner) a statement covering the receipts, deposits and disbursements of the Debt Service Payments for the preceding monthly period; provided, that the Trustee shall not be obligated to deliver a statement for any fund or account that (i) has a balance of zero, or (ii) has not had any activity since the last reporting date.

Section 5.05. Further Assurances. Whenever and so often as requested to do so by the Trustee (who has no duty or obligation to make such request) or any Owner, the City will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by this Indenture.

Section 5.06. Against Encumbrances. The City hereby covenants that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Bonds. The City will not make any pledge of or place any lien on the Net Revenues, provided that the City may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations, or subordinate to the pledge of Net Revenues herein.

Section 5.07. Against Sale or Other Disposition of Property. Except as provided herein, the City covenants that the Wastewater System shall not be encumbered, sold, leased, pledged, have any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole. Neither the Net Revenues nor any other funds pledged or otherwise made available to secure payment of the Debt Service Payments shall be mortgaged, encumbered, sold, leased, pledged, have any charge placed thereon, or disposed or used except as authorized by the terms hereof. The City shall not enter into any agreement which impairs the operation of the Wastewater

System or any part of it necessary to secure adequate Net Revenues to pay the Debt Service Payments, or which otherwise would materially impair the rights of the Owners and the owners of any Parity Obligations with respect to the Net Revenues. If any substantial part of the Wastewater System shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of facilities constituting part of the Wastewater System, or (b) to the extent not so used, be paid to the Trustee to be applied to pay or redeem the Bonds or any Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Section 5.08. Against Competitive Facilities. Except for any wastewater system existing as of the date hereof, the City will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, authority, city or political subdivision or any person whomsoever to acquire, maintain or operate within the City any utility system competitive with the Wastewater System; provided, however, that the City may assign all or a portion of the Wastewater System to another entity upon delivery to the Trustee of an opinion of nationally recognized bond counsel that such assignment will not adversely affect the tax-exempt status of the Bonds, and provided such entity assumes the obligations of the City hereunder.

Section 5.09. Tax Covenants. The City shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest on the Bonds to become includable in gross income for federal income tax purposes. To that end, the City hereby makes the following specific covenants:

(a) The City hereby covenants that it shall not make or permit any use of the proceeds of the Bonds that may cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The City covenants that the proceeds of the Bonds will not be used as to cause the proceeds on 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.

(c) The City covenants not to 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.

In furtherance of the covenants stated in this Section, the City shall comply with the requirements of the Tax Certificate executed on the date of delivery of the Bonds in connection therewith.

Section 5.10. Operation of the Wastewater System. The City covenants and agrees to operate, or cause to be operated, the Wastewater System in accordance with customary standards and practices applicable to similar facilities.

Section 5.11. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net

Revenues or any part thereof or on any funds in the control of the City or the Trustee prior or superior to the lien of the Bonds or which might impair the security of the Bonds; provided the City shall not be obligated to make such payment so long as the City contracts such payment in good faith.

Section 5.12. Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Wastewater System and all other contracts affecting or involving the Wastewater System to the extent that the City is a party thereto.

Section 5.13. Insurance. So long as the Bonds are Outstanding, the City shall at all times maintain insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System, either in the form of self-insurance or with responsible insurers. The City shall also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the City, the Trustee and the Owners, either in the form of self-insurance or with responsible insurers. The Trustee is not responsible for the adequacy of such insurance.

The Net Proceeds of any insurance award resulting from any damage to or destruction of the Wastewater System by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee (which fund the Trustee hereby agrees to establish and maintain as needed) promptly upon receipt thereof and shall be applied to the prompt replacement, repair, restoration, modification or improvement of the Wastewater System by the City, upon receipt of a requisition (on which the Trustee may conclusively rely, without investigation), signed by an Authorized Officer stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed shall be transferred to the Utility Fund. The City covenants that it will commence such replacement, repair, restoration, modification or improvement or indicate that such replacement, repair, restoration, modification or improvement is not economically feasible within 180 days of receipt of such Net Proceeds.

Section 5.14. Books and Accounts; Financial Statements. The City shall keep proper books of record and accounts of the Wastewater System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater System. 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 Wastewater System to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Owners at the office of the City.

The Trustee shall not be required to review, and shall not be deemed to have notice of, the contents of the books and records of the City, any financial statement or statement of insurance coverage delivered to the Trustee hereunder, it being expressly understood that the Trustee shall only receive and hold such documents as repository for examination and copying by any Owner at such Owner's expense during business hours on Business Days.

Section 5.15. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Wastewater System or any part thereof or upon the Net Revenues when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the City shall not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Section 5.16. Collection of Rates and Charges The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater System and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 5.17. Amount of Rates and Charges.

(a) To the fullest extent permitted by law, the City will fix and prescribe rates and charges for the Wastewater System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of Debt Service on the Bonds and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements of this Section.

(b) So long as the City has complied with its obligations set forth in subsection (a) above, the failure of Net Revenues to meet the threshold set forth in Section 5.17(a) above at the end of a Fiscal Year shall not constitute a default or an Event of Default so long as the City has complied with Section 5.17(a) at the commencement of the succeeding Fiscal Year.

Section 5.18. Eminent Domain Proceeds. The Net Proceeds of any eminent domain award shall be deposited in the Insurance and Condemnation Fund by the Trustee promptly upon receipt thereof and shall be applied to the prompt replacement, modification or improvement of the Wastewater System by the City, upon receipt of a requisition (on which the Trustee may conclusively rely, without investigation), signed by an Authorized Officer stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. Any balance of the Net Proceeds remaining after such work has been completed, or upon receipt by the Trustee of notification from an Authorized

Officer in writing of the City's determination that the replacement, modification or improvement of the Wastewater System is not economically feasible or in the best interest of the City, shall be transferred to the Utility Fund.

Section 5.19 Continuing Disclosure to Owners The City shall comply with and carry out all of its respective duties under the Continuing Disclosure Agreement. Notwithstanding any other provisions of this Indenture, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; provided, however, any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the holders of at least 25% aggregate principal amount of Outstanding Bonds may take such actions as may be necessary and appropriate to compel performance, including seeking mandamus or specific performance by court order.

ARTICLE VI

DEFAULT AND LIMITATIONS OF LIABILITY

Section 6.01. Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities. If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the City of any Debt Service Payment when and as the same shall become due and payable;

(b) default shall be made by the City in the performance of any of the agreements or covenants contained herein required to be performed by it, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee;

(c) the City shall file a petition seeking arrangement or reorganization under federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, subject to the provisions of Section 6.02, exercise any remedies available to the Trustee and the Bondowners in law or at equity.

The Trustee shall notify the City promptly of any default under Section 6.01(a) hereof. Upon the occurrence of an Event of Default hereunder, the Trustee may declare the principal and interest with respect to all such Bonds immediately due and payable and such principal and

interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts in accordance with Section 6.07 hereof.

This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such Outstanding principal amount of the Bonds and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay such amount due prior to such date and the accrued interest thereon, with interest on such overdue payments at the rate on such Bonds, and the reasonable fees and expenses of the Trustee, including those of its attorneys, and any and all other defaults known to the City (other than in the payment of such principal amount of the Bonds and the accrued interest thereon 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 Trustee, by written notice to the City, may rescind and annul such declaration and its consequences; but 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.

Section 6.02. Other Remedies of the Trustee. The Trustee may (subject to the receipt of indemnity as provided herein):

(a) by mandamus or other action or proceeding or suit at law or in equity enforce its rights against the City, or any board member, officer or employee thereof, and compel the City or any such board member, officer or employee to perform and carry out its or his or her duties under applicable law and the agreements and covenants contained herein required to be performed by it or him;

(b) by suit in equity enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Bondowners hereunder;

(c) intervene in judicial proceedings that affect the Bonds or the security therefor or hereunder; or

(d) by suit in equity upon the happening of an Event of Default require the City and its officers and employees to account as the trustee of an express trust.

Section 6.03. Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

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

When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Section 6.04. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

Section 6.05. No Liability by the Trustee to the Owners. Except for the duty of the Trustee to make payments of principal, redemption premiums and interest with respect to the Bonds from moneys received from the City, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Debt Service Payments by the City, or with respect to the performance by the City of the other agreements and covenants required to be performed by it contained herein.

Section 6.06. Limitation on Owners' Right to Bring Suit. No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, under or with respect to this Indenture, or for the appointment of a receiver or trustee or for any other remedy hereunder, at law or in equity, unless:

- (1) such Owner has previously given written notice to the Trustee of a continuing Event of Default;
- (2) the owners of not less than a majority in principal amount of the Bonds Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;
- (3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the lien of this Indenture or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Bonds and Parity Obligations. Notwithstanding the foregoing, the Owner of any Bond shall have the right which is absolute and unconditional to receive payment of interest on such Bond when due in accordance with the terms thereof and hereof and the principal of such Bond at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of this Indenture and such rights shall not be impaired without the consent of such Owner.

Section 6.07. Application of Funds Upon Default. All monies received by the Trustee or by any receiver pursuant to any right given or action taken under the provisions of this Article VI, and any other funds then held by the Trustee, shall, after payment of the reasonable costs and fees of, and the reasonable fees, expenses, liabilities and advances incurred or made by the Trustee (including fees and expenses of its attorneys and advisors), be deposited in the Debt Service Account and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the funds and accounts maintained by the Trustee under Article III hereof, shall be applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and any Parity Obligations, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the persons entitled thereto without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any of the Bonds and any Parity Obligations which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of this Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds and any Parity Obligations due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the persons entitled thereto without any discrimination or privilege.

Third: To provide for payment of any other amount then due and owing the Bond Insurer.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds and any Parity Obligations, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Bonds over any other Bonds or any Parity Obligations, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

Whenever the Trustee shall apply such moneys (which shall not include the application of moneys upon the occurrence of any acceleration pursuant to the provisions hereof), it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the special record date in accordance with Article II hereof. The Trustee shall not be required to make payment to the Owner of any unpaid Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Section 6.08. Rights of the Owners of Parity Obligations. Notwithstanding anything in this Article VI to the contrary, it is hereby acknowledged and agreed that the rights of the Trustee and the Owners hereunder in and to the Net Revenues and the Wastewater System shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of this Article VI, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

ARTICLE VII

THE TRUSTEE

Section 7.01. Trustee; Duties, Removal and Resignation. By executing and delivering the Indenture, the Trustee accepts the duties and obligations of the Trustee provided in the Indenture, but only upon the terms and conditions set forth in the Indenture.

The City, in its sole discretion, or the Owners of a majority in aggregate principal amount of all Bonds Outstanding may, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the City shall appoint a successor Trustee, but any such successor shall be a bank, national banking association or trust company in good standing doing business and having an office in Los Angeles or San Francisco, California, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of

condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Trustee may at any time resign by giving written notice to the City and by giving to the Bond Owners notice by mailing a notice of such resignation to their addresses appearing in the Bond Register. Upon receiving any such notice of resignation, the City shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event that the City does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition at the expense of the City an appropriate court having jurisdiction to appoint a successor Trustee or to resign. Subject to the prior sentence, any resignation or removal of the Trustee shall not become effective until written acceptance of appointment by the successor Trustee under the Indenture.

Any Trustee which shall resign or be removed pursuant to this Section shall be entitled to compensation in accordance with Section 7.02 and to reimbursement for all reasonable and proper expenses and advances incurred and not previously reimbursed for its activities in connection with the Indenture and for any indemnification due pursuant to the Indenture and not previously paid. Any Trustee which resigns or is removed, upon payment of its unpaid compensation and expenses hereunder, shall fully discharge all the right, title and interest of the retiring Trustee and amounts on deposit hereunder shall vest in said successor Trustee, and such retiring Trustee shall promptly pay over, assign and deliver to the successor Trustee any money or other property on deposit pursuant hereto then held by such Trustee, and deliver any and all records, or copies thereof, in respect of the Trustee which it may have.

Section 7.02. Compensation of the Trustee. The City shall pay from time to time, upon receipt of a statement, to the Trustee reasonable compensation for the Trustee's services and shall reimburse the Trustee for all its reasonable advances and expenditures incurred by it in the exercise and performance of its powers and duties under the Indenture. The lien of the Trustee on amounts held by it under the Indenture for its services rendered under the Indenture shall be superior to the rights of the Bond Owners to receive scheduled payments of principal and interest with respect to their Bonds; provided that the Trustee shall have no lien on moneys in the Redemption Account.

The City shall hold harmless and indemnify the Trustee for all costs, claims, expenses and liabilities incurred by or asserted against the Trustee in the performance of its duties under this Indenture or any related document, including any such reasonable costs, claims, expenses (including legal fees and expenses) and liabilities incurred in the course of defending itself against any claims or actions or enforcing any remedies under this Indenture or any related document. Any such indemnity shall not extend to any costs, claims, expenses or liabilities adjudicated to have been caused by the negligence or willful misconduct of the Trustee. The indemnification of the Trustee under this Indenture shall extend to its directors, officers, employees and agents. The obligations of the City under this Section shall survive the payment of the Bonds and the discharge of this Indenture, and the resignation or removal of the Trustee.

The City shall hold harmless and indemnify the Trustee for all costs, claims, expenses, suits, losses, judgements, damages and liabilities incurred by or asserted against the Trustee in the performance of its duties under this Indenture or any related document, including any such reasonable costs, claims, expenses (including legal fees and expenses) and liabilities incurred, asserted or arising hereunder and in connection with the transactions contemplated herein, including without limitation, in the course of defending itself against any claims or actions or enforcing any remedies under this Indenture or any related document. Any such indemnity shall not extend to any costs, claims, expenses or liabilities adjudicated to have been caused by the negligence or willful misconduct of the Trustee. The indemnification of the Trustee under this Indenture shall extend to its directors, officers, employees and agents. The obligations of the City under this Section shall survive the payment of the Bonds and the discharge of this Indenture, and the resignation or removal of the Trustee.

Section 7.03. Protection to Trustee. The City shall indemnify, protect and hold the Trustee harmless and the Trustee shall incur no liability for acting upon any notice, resolution, consent, order, certificate, report, certificate or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee, in its discretion, may consult with counsel, who may be counsel to the City, with regard to legal questions, and the advice or opinion of such counsel, in the absence of negligence or willful misconduct on the part of the Trustee, shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith in accordance therewith.

Whenever in the administration of its duties under the Indenture, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the City and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter.

The Trustee may in good faith buy, sell, own, hold and deal in any of the Bonds issued pursuant to the Indenture, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee and its affiliates, either as sponsor, advisor, principal or agent, may also engage in or be interested in any financial or other transaction with the City, and may act as depository, trustee, or agent for any committee or body of Owners of Bonds or other obligations of the City as freely as if it were not Trustee under the Indenture.

The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication of the Bonds, shall be taken and construed as made by and on the part of the City, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof. The Trustee shall not be deemed to make any representations with respect to the security afforded by this Indenture.

The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Indenture by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Indenture. The Trustee shall be fully reimbursed by the City for reasonable expenses incurred in connection with the performance of its obligations under the Indenture. Upon any default by, or misconduct of, any agent, attorney or receiver appointed by the Trustee, the Trustee shall (to the extent commercially reasonable) fully pursue all remedies available to it against such attorney, agent or receiver, and the proceeds of the exercise of such remedies shall be used to reimburse the City for any loss it may have suffered as a result of the default or misconduct of such agent, attorney or receiver.

Before taking any remedial action hereunder the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or willful misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Bonds.

The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in this Indenture and no implied duties or obligations shall be read into this Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use in the conduct of such person's own affairs.

The Trustee shall not be deemed to have knowledge of an Event of Default (except in connection with a failure of the City to make Debt Service Payments when due) until a Responsible Officer has actual knowledge thereof, or until notified in writing of such Event of Default.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

No provision of this Indenture or any other document related hereto shall require the Trustee to risk or advance its own funds or otherwise incur any financial liability in the performance of its duties or the exercise of its rights hereunder.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

The Trustee agrees to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Indenture and delivered using Electronic Means (as defined below), provided, however, that the City shall provide to the Trustee an incumbency certificate listing officers with the City to provide such Instructions ("Authorized Officers") and containing specimen signatures of such Authorized Officers, which incumbency certificate shall be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions shall be deemed controlling. The City understands and agrees that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The City shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The City agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures. "Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

The Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of *force majeure*. The term "*force majeure*" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. *Force majeure* shall include but not be limited to acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other similar occurrences.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys, including the proceeds of the Bonds, which shall be released or withdrawn in accordance with the provisions hereof.

The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct.

The Trustee's rights to immunities and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, agents and employees of the Trustee.

Section 7.04. Payment Limited. All payments to be made by the Trustee under and pursuant to this Indenture shall be made only from the corpus, income and proceeds of the amounts on deposit pursuant hereto and only to the extent that the Trustee shall have received sufficient contribution, income and proceeds in accordance with the terms of this Indenture.

Section 7.05. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under Section 7.01 hereof, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

Section 7.06. Funds and Accounts. The Trustee may establish such funds and accounts as it reasonably deems necessary or appropriate to perform its obligations hereunder.

ARTICLE VIII

AMENDMENT OF OR SUPPLEMENT TO INDENTURE

Section 8.01. Amendment or Supplement by Consent of Owners. The Indenture may be amended in writing by agreement between the City and the Trustee, but no such amendment or supplement shall (i) reduce the rate of interest evidenced by the Bonds or extend the time of payment of such interest or reduce the amount of principal thereof or extend the Maturity Date thereof without the prior written consent of the Owner thereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

This Indenture and the rights and obligations of the City, 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 which the City and the Trustee may enter into, but without the consent of any Bondowners, if the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds (as evidenced by the opinion of counsel delivered pursuant to Section 8.03 hereof), including, without limitation, for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the City 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 herein reserved to or conferred upon the City;
- (b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in this Indenture, or in regard to matters or questions arising under this Indenture, as the City may deem necessary or desirable;
- (c) to modify, amend or supplement this 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;
- (d) to make such additions, as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds, in the opinion of Bond Counsel filed with the City and the Trustee; or
- (e) to authorize the issuance of Parity Obligations.

In the event of any such amendment or supplement, copies of such amendment or supplement and any other documents relating thereto shall be provided by the City to S&P (provided such rating agency is currently rating the Bonds, or any Parity Obligations) at least fifteen (15) days prior to the effective date thereof.

Section 8.02. Disqualified Bonds. Bonds owned or held by or for the account of the City shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in this Article VIII, and shall not be entitled to consent to or take any other action provided in this Article VIII, and the Trustee may adopt appropriate regulations to require each Owner, before his or her consent provided for herein shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this Section 8.02; except that in determining whether the Trustee shall be protected in relying upon any such consent or other action of an Owner, only Bonds which a Responsible Officer of the Trustee actually knows to be owned or held by or for the account of the City, shall be disregarded unless all Bonds are so owned or held, in which case such Bonds shall be considered outstanding for the purpose of such determination. Upon request of the Trustee, the City shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

Section 8.03. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture or amendment permitted by this Article or the modification thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such supplemental indenture or amendment is authorized or permitted by this Indenture and complies with the terms hereof. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture or amendment which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

ARTICLE IX

DEFEASANCE

Section 9.01. Defeasance. Any Outstanding Bonds shall be paid and discharged in any one or more of the following ways:

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

(b) by depositing with the Trustee, in trust, before maturity, money which, together with the amounts which are then on deposit in the Payment Fund and available therefor, is fully sufficient to pay such Bonds, including all principal and interest; or

(c) by depositing with the Trustee, under an escrow deposit and irrevocable trust agreement, cash, non-callable Federal Securities (the "Defeasance Obligations") in such amount as an Independent Certified Public Accountant shall determine will, together with the interest to accrue thereon and moneys then on deposit (or a pro rata share thereof) in the Payment Fund available therefor, together with the interest to accrue thereon, be fully sufficient to pay and discharge such Bonds (including all principal and interest) at or before their respective maturity dates.

In the event of a refunding as described in paragraph (c) above (i) the City shall cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay such Bonds in full on the maturity or redemption date (the "Verification"), (ii) the escrow instructions shall provide that (A) substitution of a Defeasance Obligation shall not be permitted except with another Defeasance Obligation and upon delivery of a new Verification and (B) reinvestment of a Defeasance Obligation shall not be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) there shall be delivered an opinion of nationally recognized bond counsel to the effect that such Bonds are no longer "Outstanding" under the Indenture. Each Verification and defeasance opinion shall be addressed to the City, the Trustee, the escrow agent, if any, and any other parties as are deemed appropriate by the City at the time of such refunding. In the event a forward purchase agreement will be employed in the refunding, such agreement shall be accompanied by such opinions of counsel.

Notwithstanding that some Bonds may not have been surrendered for payment, all obligations of the City and the Trustee under the Indenture with respect to such defeased Bonds shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of such Bonds all sums due thereon and the obligation of the City to indemnify and pay the Trustee in accordance with Sections 7.02 and 7.03 hereof.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a), (b) or (c), which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the City, shall be paid over to the City pursuant to written instruction from an Authorized Officer of the City and delivery of a certificate of a certified public accountant that such funds are not required to be paid to the Owners.

Section 9.02. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal of the Bonds which remains unclaimed for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date when the payments evidenced and represented by such Bonds have become payable, if such money was held by the Trustee at such date, or for the lesser of the period ending one day prior to the date such money would escheat to the State or two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Bonds have become payable, the Trustee shall pay such amounts to the City (without liability for interest) as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the City for interest and principal represented by such Bonds; provided, however, that before being required to make any such payment to the City, the Trustee may, at the expense of the City, cause to be published once a week for two (2) successive weeks in a financial newspaper a notice that such money remains unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of such notice, the balance of such money then unclaimed will be returned to the City.

ARTICLE X BOND INSURANCE

Section 10.01. Bond Insurance Provisions. [TO COME]

Section 10.02. Bond Reserve Policy Provisions. [TO COME]

ARTICLE XI MISCELLANEOUS

Section 11.01. Benefits of Indenture Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained herein required to be observed or performed by or on behalf of the City shall be for the sole and exclusive benefit of the Trustee and the Owners.

Section 11.02. Successor Deemed Included in all References to Predecessor. Whenever either the City, the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City, the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the City, the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 11.03. Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his or her attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which she purports to act, that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee or the paying agent, as the case may be, may accept which it may deem sufficient.

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

Section 11.04. Waiver of Personal Liability. No board member, officer or employee of the City shall be individually or personally liable for the payment of the interest or principal the

Bonds, but nothing contained herein shall relieve any board member, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 11.05. Acquisition of Bonds by the City. All Bonds acquired by the City, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Section 11.06. Content of Certificates. Every Certificate of the City with respect to compliance with any agreement, condition, covenant or term contained herein shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions herein relating thereto; (b) a statement that, in the opinion of the signers they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (c) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the City may be based, insofar as it relates to legal matters, upon an opinion of counsel unless the person making or giving such certificate knows that the opinion of counsel with respect to the matters upon which such certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any opinion of counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the City, upon a representation by an officer or officers of the City unless the counsel executing such opinion of counsel knows that the representation with respect to the matters or upon which his or her opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Section 11.07. Notice by Mail. Any notice required to be given hereunder by mail to any Owners of Bonds shall be given by mailing a copy of such notice, first class postage prepaid, to the Owners of such Bonds at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 not less than thirty (30) days nor more than sixty (60) days following the action or prior to the event concerning which notice thereof is required to be given unless this Indenture expressly provides a different provision; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and failure to receive any such notice shall not affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Section 11.08. Funds. Any fund or account required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with industry practice and with due regard for the protection of the security of the Bonds and the rights of the owners.

Section 11.09. Investments.

(a) Amounts on deposit in any fund or account created pursuant to this Indenture shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement hereunder, in accordance with such written directions as the City may from time to time provide to the Trustee. Investment directions shall be received at least two (2) Business Days prior to the date of making the investment. If no such direction has been received by the Trustee in sufficient time, in the judgment of the Trustee to comply with such instructions the Trustee may invest such amounts in Permitted Investments of the type described in paragraph (4) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received investment directions from the City specifying a specific money market fund and, if no such written investment directions is so received, the Trustee shall hold such moneys uninvested. The Trustee and any affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this Section 11.09. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. To the extent possible, the Trustee shall provide notice to the City prior to any such sale. Interest or profit received on such investments (other than the Reserve Fund) shall be deposited to the Payment Fund. All interest, profits and other income received from the investment of moneys in the Reserve Fund shall be retained in the Reserve Fund to the extent amounts on deposit therein shall not be at least equal to the Reserve Requirement, and thereafter shall be transferred to the Payment Fund.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the City will not receive confirmations to the extent permitted by law. The Trustee will furnish the City periodic cash transaction statements which shall include detail for all investment transactions made by the Trustee hereunder.

The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

(b) In computing the amount in any fund or account, Permitted Investments shall be valued at market value, exclusive of accrued interest. Valuation shall occur as determined by the City, but not less often than annually. In determining the market value of Permitted Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available.

(c) Except for investment agreements and repurchase agreements, if at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-conforming investments,

exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated upon the written direction of the City.

Section 11.10. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith,” “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular article, section, subdivision or clause hereof.

Section 11.11. Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms contained herein required to be observed or performed by or on the part of the City or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law.

Section 11.12. California Law. This Indenture shall be construed and governed in accordance with the laws of the State of California.

Section 11.13. Notices. All written notices to be given hereunder shall be given by certified mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other parties in writing from time to time.

If to the City:

City of Firebaugh
1122 “P” Street
Firebaugh, CA 93622
Attention: City Manager

If to the Trustee:

The Bank of New York Mellon Trust Company, N.A.
400 South Hope Street, Suite #500
Los Angeles, CA 90071
Attn:

Section 11.15. Effective Date. This Indenture shall become effective upon its execution and delivery.

Section 11.16. Execution in Counterparts. This Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 11.17. Payments Due on Days that are not Business Days. In any case where the date fixed for payment of principal or interest on the Bonds or the date fixed for redemption of

Bonds shall not be a Business Day, then payment of such principal or interest or redemption price shall be made on the next succeeding Business Day, with the same force and effect as if made on such non-Business Day and no interest shall accrue on such amounts from and after such non-Business Day.

IN WITNESS WHEREOF, the parties hereto have executed this Indenture by their officers thereunto duly authorized as of the day and year first written above.

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee**

By: _____
Authorized Officer

CITY OF FIREBAUGH

By: _____
City Manager

**APPENDIX A
(FORM OF BOND)**

NO. _____

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA
CITY OF FIREBAUGH
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2016A**

Rate of Interest

Maturity Date

Dated Date

CUSIP

REGISTERED OWNER: CEDE & CO.
PRINCIPAL AMOUNT:

DOLLARS

The City of Firebaugh, a municipal corporation and public entity duly created and lawfully existing under the laws of the State of California (the "City"), for value received, hereby promises to pay (but only out of the Net Revenues hereinafter referred to) to the registered owner specified above or registered assigns on the maturity date specified above (subject to any right of prior redemption provided for) the principal sum specified above, together with interest thereon from the Interest Payment Date (defined below) next preceding the date of authentication hereof (unless such date of authentication is during the period commencing after the fifteenth day of the month preceding an Interest Payment Date (the "Record Date") through and including the next succeeding Interest Payment Date, in which event this Bond shall bear interest from such Interest Payment Date, or unless such date of authentication is on or prior to the first Record Date, in which event it shall bear interest from the Dated Date until the principal hereof shall have been paid at the interest rate per annum specified above, payable on February 15, 2017, and semiannually thereafter on August 15 and February 15 in each year (each, an "Interest Payment Date"); provided, however, that if on the date of authentication of this Bond, interest is then in default on this Bond, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment.

The principal of this Bond shall be payable in lawful money of the United States of America at the Principal Office (as provided in the Indenture, defined below) of The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), upon presentation and surrender of this Bond at the Principal Office.

Payment of interest on this Bond due on or before the maturity or prior redemption thereof shall be made to the person in whose name such Bond is registered, as of the Record Date preceding the applicable Interest Payment Date, on the registration books kept by the Trustee at its Trust Office, such interest to be paid by check mailed by first class mail on such interest payment date to the registered owner at his or her address as it appears on such books, or, upon the written request from any Owner of Bonds aggregating, at least \$1,000,000, received on or prior to the applicable Record Date, by wire transfer to an account within the United States.

Interest on this Bond shall be payable in lawful money of the United States of America and shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

This Bond is one of a duly authorized issue of bonds of the City designed as its "City of Firebaugh Wastewater Revenue Refunding Bonds, Series 2016A" (the "Bonds"), in the aggregate principal amount of _____ Million S____ Hundred ____ Thousand Dollars (\$____), all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates), and is issued under and pursuant to the provisions of an indenture of trust, dated as of October 1, 2016 (the "Indenture"), between the City and the Trustee.

The Bonds are issued to provide funds to refinance certain outstanding obligations of the City. The Bonds are limited obligations of the City and are payable, as to interest thereon and principal solely from Net Revenues (as defined in the Indenture). All the Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of the Net Revenues (together with all of the moneys in the Reserve Fund, as defined in the Indenture), which Net Revenues (together with all of the moneys in the Reserve Fund) shall be held in trust for the security and payment of the interest on, principal of and redemption premiums, if any, on the Bonds as provided in the Indenture. Neither the faith and credit of the City, the State of California, nor any of its political subdivisions are pledged to the payment of the principal of or interest on the Bonds.

Copies of the Indenture are on file at the Principal Office of the Trustee. Reference is hereby made to the Indenture and to any and all amendments thereof and supplements thereto for a description of the agreements, conditions, covenants and terms securing the Bonds, for the nature, extent and manner of enforcement of such agreements, conditions, covenants and terms, for the rights and remedies of the Owners of the Bonds with respect thereto and for the other agreements, conditions, covenants and terms upon which the Bonds are executed and delivered thereunder.

To the extent and in the manner permitted by the terms of the Indenture, the provisions of the Indenture may be amended or supplemented in writing by the parties thereto (in certain instances without the consent of the Owners of Bonds), but no such amendment or supplement shall (i) reduce the rate of interest evidenced hereby or extend the time of payment of such interest or reduce the amount of principal hereof or extend the Maturity Date hereof without the prior written consent of the Owner hereof, or (ii) reduce the percentage of Owners of Bonds whose consent is required for the execution of any amendment of or supplement to the Indenture, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Bonds are authorized to be executed and delivered in the form of fully registered Bonds in denominations of five thousand dollars (\$5,000) or any integral multiple thereof.

This Bond is transferable or exchangeable by the Owner hereof in person or by the Owner's attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender of this Bond for cancellation accompanied by delivery of a duly executed

written instrument of transfer or exchange in a form approved by the Trustee. Upon such transfer or exchange, a new Bond or Bonds of authorized denominations of the same Maturity Date and interest rate and in the same aggregate principal amount hereof will be executed and delivered by the City and authenticated by the Trustee to the Owner thereof in exchange therefor. The Trustee shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee may treat the Owner hereof as the absolute owner hereof for all purposes, whether or not this Bond shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal and redemption premium, if any, evidenced by this Bond shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge liability evidenced by this Bond to the extent of the sum or sums so paid.

The Trustee shall not be obligated to make any such registration of transfer or exchange of Bonds during the fifteen (15) day period prior to the date on which notice of redemption must be mailed pursuant to the Indenture, or with respect to any Bond which has been selected for redemption pursuant to the Indenture (except any unredeemed portion thereof).

The Bonds shall be subject to redemption as set forth in the Indenture.

As provided in the Indenture, notice of redemption hereof shall be mailed, first class postage prepaid, not less than thirty (30) nor more than forty-five (45) days prior to the redemption date, to the Owner of this Bond at such Owner's address as it appears in the registration books maintained by the Trustee, but failure to give any such notice or any defect therein shall not affect the validity of the proceedings for the redemption of this Bond. If this Bond is called for redemption and payment is duly provided therefor as specified in the Indenture, the interest evidenced hereby shall cease to accrue from and after the date fixed for redemption.

The Trustee has no obligation or liability to the Owners of the Bonds for the payment of the interest or principal or redemption premiums, if any, on the Bonds; but rather the Trustee's sole obligations are to administer, for the benefit of the City and the Owners of the Bonds, the various funds established under the Indenture.

This Bond shall not be entitled to any benefit, protection or security under the Indenture or become valid or obligatory for any purpose until certificate of authentication and registration hereon endorsed shall have been manually executed and dated by the Trustee.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the City or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

It is hereby certified that all acts and proceedings required by law necessary to make this Bond, when executed by the City, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal limited obligation of the City have been done and taken, and have been in all respects duly authorized.

IN WITNESS WHEREOF, the City of Firebaugh has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Mayor and attested to by the manual or facsimile signature of its City Clerk, and has caused this Bond to be dated as of the dated date set forth above.

CITY OF FIREBAUGH

[Seal]

By: _____
Mayor

ATTEST:

By: _____
City Clerk

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Indenture which has been authenticated and registered on the date set forth below.

Date:

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Trustee**

By: _____
Authorized Signatory

STATEMENT OF INSURANCE

ASSIGNMENT

For value received, the undersigned does hereby sell, assign and transfer unto _____ the within Bonds and does) hereby irrevocably constitute and appoint _____ attorney to transfer such Bond on the register of the Trustee, with full power of substitution in the premises.

Dated: _____

Signature: _____

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

Signature Guaranteed by: _____

Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

ESCROW INSTRUCTIONS

from the

CITY OF FIREBAUGH

to

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Escrow Agent

Dated for reference purposes as of October 1, 2016

ESCROW INSTRUCTIONS

These Escrow Instructions, dated for reference purposes as of October 1, 2016 (the "Instructions"), are provided by the City of Firebaugh (the "City") to The Bank of New York Mellon Trust Company, N.A., as escrow agent hereunder (the "Escrow Agent") in connection with the prepayment of certain certificates of participation (the "2007 Certificates"), originally executed and delivered in the aggregate original principal amount of \$3,800,000, of which \$_____ remains outstanding. The 2007 Certificates were executed and delivered pursuant to a Trust Agreement, dated as of November 1, 2007 (the "2007 Trust Agreement"), among the City, the Firebaugh Public Financing Authority and the Finance Director of the City of Firebaugh, as trust administrator (the "2007 Trust Administrator"). The City and The Bank of New York Mellon Trust Company, N.A. (the "2016 Trustee") have executed that certain Indenture of Trust, dated as of October 1, 2016 (the "2016 Indenture"), in connection with the issuance by the City of its Wastewater Revenue Refunding Bonds, Series 2016A (the "2016 Bonds").

RECITALS

A. Pursuant to the 2007 Trust Agreement, the 2007 Trust Administrator executed and delivered the 2007 Certificates. Payment of principal of and interest on the 2007 Certificates is secured by Net Revenues (as defined in the 2007 Trust Agreement) and certain other funds made available as provided in the 2007 Trust Agreement.

B. The 2007 Trust Agreement provides that the 2007 Certificates are subject to prepayment prior to their due dates if there shall have been deposited with the Escrow Agent money in an amount which shall be sufficient to pay when due the 2007 Certificates until the maturity or prepayment date of the 2007 Certificates.

C. Pursuant to the 2016 Indenture, \$_____ aggregate principal amount of the 2016 Bonds have been issued by the City. A portion of the proceeds of the sale of the 2016 Bonds is being transferred to the Escrow Agent to be applied for the purpose of providing funds which will be sufficient, together with certain other available funds relating to the 2007 Certificates, to provide for the termination of the pledge of and lien created by the 2007 Trust Agreement.

I. Instructions to the Escrow Agent.

The City hereby directs and instructs the Escrow Agent as follows:

1.1 Escrow Fund. The Escrow Agent shall establish and hold in trust, separate and apart from other funds and accounts, a special account designated the "Escrow Fund." The Escrow Agent shall administer such account as provided in these Instructions. Amounts in the Escrow Fund are irrevocably pledged and shall be applied solely for the purposes set forth in these Instructions. The Escrow Fund shall be maintained by the Escrow Agent until all of the 2007 Certificates have been paid in accordance with their terms and these Instructions.

1.2 Deposits to the Escrow Fund; Transfer of Funds. The Escrow Agent shall deposit into the Escrow Fund proceeds of the 2016 Bonds transferred to it by the 2016 Trustee, at the direction of the City, in the amount of \$_____, and shall transfer to the Escrow Fund the other amounts set forth in Schedule B hereto transferred to it by the 2007 Trust Administrator.

The Escrow Agent shall hold the amounts deposited into the Escrow Fund uninvested.

1.3 Payments with Respect to the 2007 Certificates.

A. The Escrow Agent shall transfer from the Escrow Fund, in immediately available funds, to the 2007 Trust Administrator for deposit in the Installment Payment Fund created by the 2007 Trust Agreement, on _____, 2016, an amount sufficient to pay the prepayment price of all 2007 Certificates maturing on and after August 15, 2017. The City hereby irrevocably designates the 2007 Certificates maturing on and after August 15, 2017 for prior prepayment on _____, 2016 and hereby irrevocably instructs the Escrow Agent to give the notice of defeasance as provided in Section 1.6 hereof.

B. Transfers from the Escrow Fund shall be made only from the amounts on deposit in the Escrow Fund.

1.4 Excess Funds to City. From and after _____, 2016, any remaining moneys on deposit in the Escrow Fund established and held pursuant to these Instructions, except for amounts held by the Escrow Agent to pay the registered owners of 2007 Certificates, after the payment of all amounts owed to the Escrow Agent under Article IV hereof, shall, after payment of all fees and expenses of the Escrow Agent, be remitted by the Escrow Agent to the City without further claim therefor.

1.5 Notice of Defeasance. Upon the delivery of the Defeasance Opinion, the Escrow Agent shall mail a notice of defeasance of the 2007 Certificates to the owners thereof, which notice of defeasance shall be substantially in the form attached hereto as Schedule C.

II. Irrevocability.

These Instructions shall be irrevocable and may not be amended or modified unless for the purpose of (A) curing any ambiguity or omission relating to these Instructions or of curing, correcting or supplementing any defective provision contained herein; (B) adding to or supplementing the rights of the owners of the 2007 Certificates; or (C) severing any portion of these Instructions deemed to be illegal and the Escrow Agent first shall have received (i) an unqualified opinion from nationally recognized bond counsel to the effect that such amendment or modification is in compliance with the requirements of this Section II and would not, in and of itself, (a) cause the 2007 Certificates or the 2016 Bonds to become arbitrage bonds within the meaning of Section 148 of the Code and the regulations thereunder in effect at the time of such proposed amendment or modification or (b) adversely affect the conclusions expressed in the Defeasance Opinion and (ii) a certificate of the verification agent to the effect that such

modification or amendment would not adversely affect the conclusions expressed in the Verification Report.

Except as otherwise provided herein, the owners of the 2007 Certificates shall have an express lien on all funds and amounts on deposit in the Escrow Fund with the Escrow Agent in accordance with these Instructions until used and applied in accordance herewith.

III. Liability.

The liability of the Escrow Agent and the 2007 Trust Administrator for the payment of moneys as hereinabove set forth respecting the payment of the debt service on, and the prepayment of, the 2007 Certificates shall be limited solely to the moneys on deposit with the Escrow Agent in the Escrow Fund pursuant to these Instructions and available for such purposes.

IV. Fees.

The City shall pay to the Escrow Agent its fees for its services hereunder and reimburse the Escrow Agent for its reasonable expenses incurred hereunder. The Escrow Agent shall not have any lien whatsoever upon any of the moneys in the Escrow Fund, or otherwise deposited in accordance with these Instructions, for the payment of fees and expenses for services rendered by it hereunder.

The City covenants and agrees to indemnify and save the Escrow Agent and its officers, directors, agents and employees, harmless against any and all claims, losses, expenses (including reasonable attorney fees and disbursements) and liabilities which it may incur arising out of or in the exercise and performance of its duties hereunder, but excluding any and all claims, losses, expenses and liabilities which are due to the negligence or willful misconduct of the Escrow Agent, its officers, directors, or employees. The obligations of the City under this Article IV shall survive the removal or resignation of the Escrow Agent and payment of the 2007 Certificates and the discharge of the 2007 Trust Agreement as it relates thereto.

V. Defeasance.

Upon deposit of the amounts set forth in Section 1.2 hereof, the City hereby certifies that all obligations of the City under the 2007 Trust Agreement and all security provided by the 2007 Trust Agreement for the 2007 Certificates shall cease and terminate, excepting only the obligations of the City to pay, or cause to be paid, principal of and premium, if any, and interest on the 2007 Certificates from the deposit made by the City pursuant to Section 1.2 hereof. In the event of a deficiency in the funds and amounts in the Escrow Fund for purposes of paying the debt service on the 2007 Certificates, the City shall make up such deficiency immediately upon receipt of written notice from the Escrow Agent.

VI. Termination.

These Instructions shall terminate and be of no further force and effect when all transfers required to be made by the Escrow Agent under the provisions hereof shall have been made, and all payments with respect to the 2007 Certificates shall have been effected.

VII. Invalidity; Applicable Law.

If any one or more of the provisions of these Instructions should be determined by a court of competent jurisdiction to be contrary to law, such provisions shall be deemed and construed to be severable from the remaining provisions herein contained and shall in no way affect the validity of the remaining provisions of these Instructions. These Instructions shall be construed and governed in accordance with the laws of the State of California.

VIII. Binding Effect; Successors.

These Instructions shall be binding upon and shall inure to the benefit of the parties hereto and the owners of the 2007 Certificates and their respective successors and assigns. The owners of the 2007 Certificates shall have no lien whatsoever on moneys representing principal or interest on the investments, if any, held by the Escrow Agent in accordance with these Instructions. Whenever in these Instructions any party is named or referred to, such reference shall be deemed to include such party's successors or assigns, and all instructions contained in these Instructions to, by or on behalf of any party hereto shall bind and inure to the benefit of such party's successors and assigns whether so expressed or not.

IX. Counterparts.

These Instructions may be executed, approved and acknowledged in several counterparts, all or any one of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

X. No Obligation to Expend Own Funds.

No provision of these Instructions shall require the Escrow Agent to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties hereunder, or in the exercise of its rights or powers.

XI. Duties of the Escrow Agent; Resignation; Protection.

The Escrow Agent shall perform only such duties as are specifically set forth in these Instructions.

Neither the Escrow Agent nor any of its officers, directors, employees or agents shall be liable for any action taken or omitted under these Instructions or in connection herewith except to the extent caused by the Escrow Agent's gross negligence or willful misconduct. Anything in these Instructions to the contrary notwithstanding, in no event shall the Escrow Agent be liable for special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. The Escrow Agent may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

21321288_4 - Firebaugh 2016 Wastewater Escrow Instructions

Whenever in the administration of the provisions of these Instructions, the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of gross negligence or bad faith on the part of the Escrow Agent, be deemed to be conclusively proved and established by a certificate signed by one of the officers of the City, and delivered to the Escrow Agent and such certificate, in the absence of gross negligence or bad faith on the part of the Escrow Agent, shall be full warrant to the Escrow Agent for any action taken, suffered or omitted by it under the provisions of these Instructions upon the faith thereof.

The Escrow Agent may resign hereunder by providing 30 days written notice to the City. Any resignation of the Escrow Agent pursuant to Section XI hereof shall only be effective upon acceptance by a successor escrow agent. If the City does not appoint a successor escrow agent within thirty (30) days' of the Escrow Agent's delivering notice of its resignation, the Escrow Agent may petition a court of competent jurisdiction for the appointment of a successor.

The protections afforded the 2007 Trust Administrator in Section 9.04 of the 2007 Trust Agreement shall apply to the Escrow Agent and such Section is incorporated herein by reference to apply to the Escrow Agent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the City has issued these Instructions, and the Escrow Agent and the 2007 Trust Administrator have acknowledged and accepted these Instructions.

CITY OF FIREBAUGH

By: _____
City Manager

**THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Escrow Agent**

By: _____
Authorized Officer

ACKNOWLEDGED BY:

**FINANCE DIRECTOR OF THE CITY OF FIREBAUGH, as 2007 Trust
Administrator**

By: _____
Finance Director

SCHEDULE A
[RESERVED]

SCHEDULE B
DESCRIPTION OF TRANSFERRED INVESTMENTS

- A. Transfer to Escrow Fund: \$_____;
- (i) From 2016 Bonds: \$_____; and
- (ii) From 2007 Certificates Reserve Fund: \$_____;

SCHEDULE C
NOTICE OF DEFEASANCE

Notice of Owners of Outstanding
City of Firebaugh
Certificates of Participation
(2007 Wastewater System Improvement Project)

NOTICE IS HEREBY GIVEN that the City of Firebaugh (the "City") has on _____, 2016, from proceeds of sale of refunding obligations issued by the City and certain other available funds irrevocably set aside in an Escrow Fund created for such purpose and held by the Finance Director of the City of Firebaugh, as Escrow Agent (the "Escrow Agent"), pursuant to Escrow Instructions, dated as of October 1, 2016 (the "Escrow Instructions"), between the City and the Escrow Agent, moneys which shall be sufficient (as certified by the City under Article V of the Escrow Instructions) (a) to pay at maturity the principal amount due on the above referenced certificates of participation (the "Certificates") maturing on and after August 15, 2017 and (b) to pay interest accrued but unpaid on all such Certificates to such maturity date or scheduled interest payment date. The moneys so deposited in the Escrow Fund are irrevocably pledged to the payment of principal price of and interest on the Certificates.

Dated: _____, 2016

THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A., as Escrow Agent

NEW ISSUE - FULL BOOK ENTRY ONLY

RATINGS: Insured: S&P: “_”

Underlying: S&P: “_”

(See “CONCLUDING INFORMATION - Ratings” herein)

In the opinion of Nossaman LLP, Irvine, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excludable from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Bonds is, under existing law, exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding other federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein with respect to tax consequences of the Bonds.

\$_____*

**CITY OF FIREBAUGH
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2016A**

Dated: Date of Delivery

Due: August 15, as shown herein

The above-captioned Wastewater Revenue Refunding Bonds, Series 2016A (the “Bonds”) are being issued by the City of Firebaugh (the “City”) pursuant to an Indenture of Trust, dated as of October 1, 2016 (the “Indenture”) between the City and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California (the “Trustee”), and will be secured as described herein. The Bonds are being issued to (a) prepay, on a current basis, all of the City’s outstanding Certificates of Participation (2007 Wastewater System Improvement Project) (the “2007 Certificates”), (b) [fund a reserve fund for the Bonds][purchase a municipal bond debt service reserve insurance policy for the Bonds], and (c) pay certain costs of issuing the Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein. Definitions of certain capitalized terms herein are contained in APPENDIX A hereto, and are incorporated herein by reference.

The Bonds will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company (“DTC”), New York, New York. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases of the Bonds will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable with respect to the Bonds will be payable on August 15 and February 15 in each year, beginning February 15, 2017 (the “Interest Payment Dates”), and principal payable with respect to the Bonds will be paid on the dates set forth in the Maturity Schedule on the inside cover. Payments of principal of and interest on the Bonds will be paid by the Trustee, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial Owners of the Bonds.

Payment of principal of and interest on the Bonds (the “Debt Service Payments”) are a special limited obligation of the City, payable from and secured by a pledge of and first lien on

* Preliminary, subject to change.

all Net Revenues (defined herein) of the Wastewater System. Subject to certain conditions set forth in the Indenture, the City may at any time incur revenue bonds, notes or other evidences of indebtedness of the City payable from Net Revenues on parity with or subordinate to the Bonds.

The Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "THE BONDS -- Redemption of the Bonds" herein.

[The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by _____ (the "Insurer" or "_____"). See "BOND INSURANCE" herein and "APPENDIX G – SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.] [The Insurer has also made a commitment to issue a municipal bond debt service reserve insurance policy (the "Reserve Policy"), effective as of the date of delivery of such Bonds, for deposit in the reserve fund established pursuant to the Indenture for the Bonds (the "Reserve Fund").]

[INSERT ____ LOGO]

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS IS A SPECIAL OBLIGATION OF THE CITY, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INDENTURE. NONE OF THE CITY, THE STATE OF CALIFORNIA, NOR ANY OF THEIR POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. Capitalized terms used but not defined on the front cover of this Official Statement shall have the meanings set forth herein.

MATURITY SCHEDULE
(See Inside Front Cover)

The Bonds are offered when, as and if sold and issued, subject to the approval as to their legality by Nossaman LLP, Irvine, California, Bond Counsel. Certain legal matters will be passed upon for the City by its Counsel, Fike & Boranian, Clovis, California, and by Nossaman LLP, Irvine, California, Disclosure Counsel. The Underwriter is being represented by its counsel, Norton Rose Fulbright US LLP, Los Angeles, California. [Certain legal matters will be

passed upon for the Insurer by its counsel.] It is anticipated that the Bonds in book-entry form, will be available for delivery through the facilities of DTC, on or about _____, 2016.

HilltopSecurities

Date: October __, 2016

\$ _____
CITY OF FIREBAUGH
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2016A

MATURITY SCHEDULE

Base CUSIP®: _____

\$ _____ **Serial Bonds**

<u>Maturity Date</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP®</u>
	\$	%	%	%	

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CITY OF FIREBAUGH

CITY COUNCIL

Freddy Valdez, *Mayor*
Brady Jenkins, *Mayor Pro Tem*
Craig Knight, *Councilmember*
Marcia Sabian, *Councilmember*
Felipe Perez, *Councilmember*

CITY EXECUTIVE STAFF

Ben Gallegos, *City Manager and Director of Public Works*
Pio Martin, *Finance Director*
Rita Lozano, *Deputy City Clerk*
Meggin Boranian, *City Attorney*

SPECIAL SERVICES

Bond and Disclosure Counsel

Nossaman LLP
Irvine, California

City Attorney

Fike & Boranian
Clovis, California

Municipal Advisor

A. M. Peché & Associates LLC
Alameda, California

Trustee and Escrow Agent

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

Verification Agent

Barthe & Wahrman, PA
Bloomington, Minnesota

[MAP]

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

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the issuance and sale of such municipal securities. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein includes information obtained from sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. See "INTRODUCTION – Forward-Looking Statements" herein. This Official Statement is submitted with respect to 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 City. All summaries of the Indenture and other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors and under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) web site. The City also maintains a web site which may describe the Wastewater System. However, the information presented therein is not part of this Official Statement and must not be relied upon in making an investment decision with respect to the Bonds.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

[The Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the 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 the Insurer supplied by the Insurer and presented under the headings "SECURITY FOR THE BONDS - Bond Insurance" and "BOND INSURANCE" herein and "APPENDIX G - SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.]

This Preliminary Official Statement, as of its date, is in a form "deemed final" by the City for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) but is subject to revision, amendment, and completion in a Final Official Statement that will be available within seven business days of the date of the sale of the Bonds.

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OFFICIAL STATEMENT

\$ _____^{*}
CITY OF FIREBAUGH
WASTEWATER REVENUE REFUNDING BONDS
SERIES 2016A

INTRODUCTION

General

The purpose of this Official Statement (which includes the cover page and the Appendices attached hereto) is to provide information concerning the issuance of the above-captioned Wastewater Revenue Refunding Bonds, Series 2016A (the "Bonds"), which are being issued by the City of Firebaugh (the "City") pursuant to the provisions of an Indenture of Trust, dated as of October 1, 2016 (the "Indenture") between the City and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California (the "Trustee"). The Bonds will be issued pursuant to the provisions of Articles 10 and 11, Division 2, Title 5 (commencing with Section 53570) of the California Government Code, as amended (the "Bond Law"), and a resolution of the City Council adopted September __, 2016 (the "Resolution").

The City and the Wastewater System

The City covers approximately 3.5 square miles in Fresno County, California (the "County") and is located approximately 43 miles northwest of the City of Fresno, 150 miles southeast of San Francisco and 260 miles northeast of Los Angeles. The City was incorporated on December 17, 1914 and is a general law city.

The City operates a sanitary sewer collection system (the "Wastewater System") providing service to approximately 1,630 residential customers, 156 commercial and industrial customers and 28 municipal/governmental and miscellaneous (including fire service, temporary construction, etc.) customers (for a total of 4,054 customers) through 1,815 sewer connections. Wastewater generated by the customers is treated at the City's wastewater treatment plant (the "Treatment Plant"). In calendar year 2015, the Wastewater System treated approximately 20,978 acre-feet of wastewater. For all purposes herein, the "Wastewater System" shall consist of the entire Wastewater System of the City serving the City and its inhabitants, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the City, for all purposes herein.

For other information concerning the City and the Wastewater System, see "THE WASTEWATER SYSTEM" and "WASTEWATER SYSTEM FINANCIAL INFORMATION" herein. For other selected demographic and economic information, see "APPENDIX B - GENERAL INFORMATION REGARDING THE CITY OF FIREBAUGH AND FRESNO COUNTY" hereto. A copy of the audited financial statements of the City for the year ended June 30, 2015 is attached hereto as APPENDIX C.

^{*} Preliminary, subject to change.

The Bonds

The Bonds will be executed and delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases of the Bonds will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable with respect to the Bonds will be payable on August 15 and February 15 in each year, beginning February 15, 2017 (the "Interest Payment Dates"), and principal payable with respect to the Bonds will be paid on the dates set forth in the Maturity Schedule on the inside cover. Payments of principal of and interest on the Bonds will be paid by the Trustee, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial Owners of the Bonds.

The Bonds are subject to optional and mandatory sinking fund redemption prior to their scheduled payment dates as described herein. See "THE BONDS - Redemption of the Bonds" herein.

Purpose

The Bonds are being issued by the City to (a) to prepay, on a current basis, all of the City's outstanding Certificates of Participation (2007 Wastewater System Improvement Project) (the "2007 Certificates"), (b) [fund a reserve fund for the Bonds][purchase a municipal bond debt service reserve insurance policy for the Bonds], and (c) pay certain costs of issuing the Bonds. See "THE FINANCING PLAN" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security for the Bonds

The Bonds, when issued, will be special, limited obligations of the City, secured by (i) a first pledge, charge and lien upon Net Revenues (defined herein), which consist, generally, of all income, rates, fees, charges and other moneys derived from the ownership or operation of the Wastewater System less the reasonable and necessary costs and expenses paid to maintain and operate the Wastewater System, subject to application as provided in the Indenture, and (ii) certain pledged funds and accounts held under the Indenture and the interest and other income derived from therefrom. See "SECURITY FOR THE BONDS" herein.

Subject to certain conditions set forth in the Indenture, the City may at any time incur revenue bonds, notes or other evidences of indebtedness of the City payable from Net Revenues on parity with or subordinate to the Bonds. See "SECURITY FOR THE BONDS - Parity Obligations" herein.

Pursuant to the Indenture, the City has covenanted to fix, prescribe and collect certain rates and charges for service provided by the Wastewater System. See "SECURITY FOR THE BONDS - Rate Covenant" herein.

[The scheduled payment of the principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy for the Bonds (the "Insurance Policy") to be issued concurrently with the delivery of the Bonds by _____ (the "Insurer" or "_____"). See "SECURITY FOR THE BONDS - Bond Insurance" and "BOND INSURANCE" herein and "APPENDIX G - SPECIMEN MUNICIPAL BOND INSURANCE POLICY" hereto.]

Debt Service Reserve Fund

[The Insurer has also made a commitment to issue a municipal bond debt service reserve insurance policy (the "Reserve Policy"), effective as of the date of delivery of such Bonds, for deposit in the reserve fund established pursuant to the Indenture for the Bonds (the "Reserve Fund"). The Reserve Fund will be held by the Trustee on behalf of the City. See "SECURITY FOR THE BONDS - Reserve Fund" herein.]

Risk Factors

Payment of debt service on the Bonds depends primarily upon the generation and collection of Net Revenues. There can be no assurance that the demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement, or that the expenses for operating and maintaining the Wastewater System will be consistent with the levels described in this Official Statement. Changes in technology, decreased demand, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net Revenues, and could require the City to implement substantial increases in Wastewater System rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment by Wastewater System customers, and could also cause further decreases in customer demand.

See "RISK FACTORS" herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies and changes in law.

Limited Obligations

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS IS A SPECIAL OBLIGATION OF THE CITY, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INDENTURE. NONE OF THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.

Tax Matters

In the opinion of Nossaman LLP, Irvine, California, Bond Counsel, based on existing statutes, regulations, rulings and court decisions and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded pursuant to Section 103(a) of the Internal Revenue Code of 1986 (the "Tax Code") from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative

minimum tax. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State personal income tax. See "TAX MATTERS" herein.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about _____, 2016 (the "Dated Date").

Continuing Disclosure

The City will covenant for the benefit of the Owners and Beneficial Owners of the Bonds to make available certain financial information and operating data relating to the Wastewater System and to provide notices of the occurrence of certain enumerated events, in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). See "CONTINUING DISCLOSURE" herein for additional information regarding the City's continuing disclosure obligations and prior compliance therewith. The specific nature of the information to be made available and the notices of listed events required to be provided are described in "APPENDIX E -- FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement (including the appendices hereto), including, but not limited to (i) statements containing projections of Net Revenues and other financial items, (ii) statements of future economic performance of the Wastewater System, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend," or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the Wastewater System herein.

ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

Professionals Involved in the Offering

Nossaman LLP, Irvine, California, is acting as Bond Counsel with respect to the Bonds. Certain legal matters will be passed upon for the City by its Counsel, Fike & Boranian, Clovis, California, and by Nossaman LLP, Irvine, California, Disclosure Counsel. The Underwriter is being represented by its counsel, Norton Rose Fulbright US LLP, Los Angeles, California. Such law firms will receive compensation contingent upon the sale and delivery of the Bonds.

Other Information

This Official Statement is not to be construed as a contract or agreement between the City and/or the purchasers or Owners of any of the Bonds. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Quotations from and summaries and explanations of the California Government Code, other applicable legislation, the Indenture, the Wastewater System, proceedings of the City with respect to the operations thereof and with respect to the Bonds, agreements and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions. Prospective purchasers of the Bonds are advised to refer to such documents, provisions, and reports for full and complete statements of their contents. References herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the proceedings of the City referred to above, the Indenture and other documents described in this Official Statement are available for inspection at the offices of the City at: 1122 "P" Street, Firebaugh, California 93622, Attention: Finance Director. The City may impose a charge for copying, mailing and handling.

Certain of 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, and is not to be construed as a representation by the City. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Wastewater System or the City since the date hereof.

THE FINANCING PLAN

A portion of the net proceeds of the Bonds will be used [together with certain amounts now on deposit and pledged to the 2007 Certificates] to prepay, on a current basis, all of the outstanding 2007 Certificates. The remaining net proceeds of the Bonds will be used to [fund a reserve fund for the Bonds][purchase the Reserve Policy for the Bonds] and to pay certain costs of issuing the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" below.

The City will accomplish the prepayment of all of the outstanding 2007 Certificates by causing a portion of the net proceeds of the Bonds [together with certain amounts now on deposit and pledged to the 2007 Certificates], to be deposited into an escrow fund (the "Escrow Fund"), to be held by The Bank of New York Mellon Trust Company, N.A., acting as escrow agent (the "Escrow Agent") under Escrow Instructions, dated as of October 1, 2016 (the "Escrow Instructions") between the City and Escrow Agent. Amounts on deposit in the Escrow Fund will be held in cash that will be sufficient to enable the Escrow Agent to (a) pay all principal and interest payments with respect to the then-outstanding 2007 Certificates as such payments are due through and until _____, 2016 (the "Prepayment Date") and (b) prepay all of the then-outstanding 2007 Certificates on the Prepayment Date, at a price equal to 100% of the aggregate principal amount of such prepaid 2007 Certificates plus all accrued interest on such prepaid 2007 Certificates through the Prepayment Date (collectively, the "Escrow Requirement"). The deposit of moneys into the Escrow Fund will constitute an irrevocable deposit for the benefit of the owners of the 2007 Certificates.

The sufficiency of the amounts on deposit in the Escrow Fund to pay the Escrow Requirement will be verified by Barthe & Wahrman, PA, Bloomington, Minnesota, as Verification Agent (the "Verification Agent"). As a result of the deposit and application of funds so provided in the Escrow Instructions, and assuming the accuracy of the Underwriter's and Verification Agent's computations, the 2007 Certificates will be defeased and the owners of the 2007 Certificates will be entitled to payment thereof solely from the amounts on deposit in the Escrow Fund and held by the Escrow Agent. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources of Funds:

Principal Amount of Bonds	\$
Original Issue [Premium/Discount] [2007 Reserve Fund/Other]	
	<hr/>
TOTAL SOURCES	\$

Uses of Funds:

Deposit to Escrow Fund ⁽¹⁾	\$
Costs of Issuance ⁽²⁾	
	<hr/>
TOTAL USES	\$

(1) See "THE FINANCING PLAN" herein.

(2) Reflects all costs of issuance, including the Underwriter's discount and the printing costs, fees of Bond Counsel, Disclosure Counsel, and City Attorney, the costs and fees of the Verification Agent, Municipal Advisor, Trustee and Escrow Agent, [premiums for the Insurance Policy and Reserve Policy,] and other costs of issuing the Bonds.

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THE BONDS

Description of the Bonds

The Bonds are authorized pursuant to the Bond Law, the Indenture and the Resolution.

The Bonds shall be delivered in the form of fully registered Bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall be dated the date of delivery to the initial purchaser thereof. The Bonds, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Bonds, all payments with respect to the Bonds will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners (defined below) will be the responsibility of the DTC Participants, as more fully described hereinafter. See “- Book-Entry System” below.

Interest on Bonds shall be payable on August 15 and February 15 in each year, beginning February 15, 2017 (each, an “Interest Payment Date”), and continuing to and including the date of maturity or prior redemption, whichever is earlier. Principal of the Bonds shall be payable on August 15 in each of the years and in the amounts set forth on the inside cover page of this Official Statement. Principal and premium, if any, of the Bonds shall be payable to the Owner upon presentation and surrender of such Bond at the corporate trust office of the Trustee in Los Angeles, California. Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and shall be payable by wire or check mailed by first class mail on each Interest Payment Date to the Owners as of the close of business on the fifteenth day of the month (whether or not such day is a Business Day) preceding an Interest Payment Date (the “Record Date”) at their addresses shown on the registration books maintained by the Trustee; provided however, that upon the written request from any Owner of any Bond in a denomination of, or Bonds aggregating, at least \$1,000,000 in principal amount, received on or prior to the 15th day of the month preceding an applicable Interest Payment Date, payment may be made by wire transfer on the Interest Payment Date with regard to which such payment is made.

The Bonds may be transferred or exchanged at the principal office of the Trustee, to the extent and upon the conditions set forth in the Indenture. The Trustee may require the payment of a reasonable service charge by the owner of any Bond requesting exchange, and the Trustee will require payment of a sum sufficient to cover any tax or other governmental charge required to be paid with respect thereto. The Trustee may refuse to transfer or exchange any Bonds during the period established for the selection of Bonds for redemption or the portion of any Bond selected for redemption.

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 may require payment of the expenses of the City and the Trustee incurred in connection therewith.

Redemption of the Bonds

Optional Redemption.* The Bonds maturing on or before August 15, 20__, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after August 15, 20__, are subject to redemption prior to their respective stated maturities, at the option of the City, from any source of available funds, as a whole or in part (by such maturities as may be specified by the City and by lot within a maturity) on any date on or after August 15, 20__, at a redemption price equal to the principal amount of Bonds called for redemption, plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption.* The Bonds maturing August 15, 20__ shall be subject to mandatory sinking fund redemption in part, by lot, commencing on August 15, 20__, from mandatory sinking fund payments set aside in the Redemption Account of the Payment Fund established pursuant to the Indenture (the "Payment Fund"), at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, in the aggregate respective principal amounts and on the dates set forth below:

Bonds maturing August 15, 20__

Redemption Date (August 15)	Redemption Amount
	\$

[†] Final Maturity

If some but not all of such Bonds have been redeemed pursuant to optional redemption above the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of such Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis as determined by the City (written notice of which determination shall be given by the City to the Trustee).

Selection of Bonds for Redemption. In the event that part, but not all, of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by the Trustee among maturities as designated in writing by the City and by lot within a maturity; provided, however, that, as shall be set forth in a Certificate of the City, the Bonds may be redeemed by any maturity or maturities selected by the City, and by lot within a maturity. For the purpose of the selection described in this Section, all Bonds registered in the name of the same Owner shall be aggregated and treated as a single Bond held by such Owner. Notwithstanding any of the foregoing, in any such partial redemption the Trustee shall call the Bonds in integral multiples of \$5,000.

Notice of Redemption; Rescission. The Trustee will (i) mail a notice of redemption to the respective Owners of all Bonds selected for redemption in whole or in part (the "Redemption Notice", and (ii) remit a notice of redemption to DTC and the Municipal Securities Rulemaking

*Preliminary, subject to change.

Board's Electronic Municipal Market Access system ("EMMA"), or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify, in all such cases at the expense of the City. Such Redemption Notice shall specify: (a) the Bonds or designated portions thereof (in the case of redemption of the Bonds in part but not in whole) which are to be redeemed, (b) the date of redemption, (c) the place or places where the redemption will be made, including the name and address of any paying agent, (d) the redemption price, (e) the CUSIP numbers (if any) assigned to the Bonds to be redeemed, (f) if less than all the Bonds of a maturity are to be redeemed, the certificate numbers of the Bonds to be redeemed and, in the case of any Bond to be redeemed in part only, the amount of such Bond to be redeemed, and (g) the original issue date, interest rate and stated maturity date of each Bond to be redeemed in whole or in part. Redemption notices may state that no representation is made as to the accuracy of the CUSIP numbers printed thereon or on the Bonds. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Bond or portion thereof being redeemed the redemption price, together with interest accrued to the redemption date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

Subject to the provisions stated above, the Trustee shall take the following actions with respect to such Redemption Notice: (a) (i) At least thirty (30) but not more than forty-five (45) days prior to the redemption date or (ii) immediately upon receipt of Net Proceeds from insurance or condemnation awards which are to be used to redeem Bonds, the Trustee shall cause Redemption Notices to be given to the respective Owners of Bonds designated for redemption by first class mail, postage prepaid, at their addresses appearing on the Bond Register maintained by the Trustee and (b) At least thirty (30) days prior to the redemption date, such Redemption Notice shall be given to each of DTC and EMMA or, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may specify. Neither failure to receive any Redemption Notice nor any defect in such Redemption Notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds.

The City shall have the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The City and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Effect of Notice of Redemption. Notice of redemption having been duly given and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so to be redeemed being held by the Trustee, on the redemption date designated in such notice (i) the Bonds so to be redeemed shall become due and payable at the Redemption Price specified in such notice, (ii) interest on such Bonds shall cease to accrue, (iii) such Bonds shall cease to be entitled to any benefit or security under the Indenture, and (iv) the Owners of such Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price.

Purchase in Lieu of Redemption. In lieu, or partially in lieu, of such redemption, moneys of the City may be used to purchase Outstanding Bonds prior to the selection of Bonds for redemption by the Trustee, at public or private sale as and when and at such prices as the City may in its discretion determine but only at prices (including brokerage or other expenses) of not more than par plus applicable accrued interest and redemption premiums, and any accrued interest payable upon the purchase of Bonds may be paid from the amount in the Payment Fund for payment of interest on the following Interest Payment Date. [If any Bond so purchased is not canceled upon purchase, the purchase of such Bond shall be subject to the prior written consent of the Insurer.]

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered certificates registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX F - THE BOOK-ENTRY SYSTEM" herein.

The City and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The City and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto.

Acceleration

If an Event of Default (as such is defined in the Indenture) shall occur, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding may, upon on the satisfaction of certain conditions set forth in the Indenture, declare the principal of all of the Bonds then-Outstanding, and the interest accrued thereon, to be due and payable immediately. Any suit requesting such accelerated payment of debt service and/or money damages would be subject to limitations on legal remedies against municipalities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See "APPENDIX A - SUMMARY OF THE INDENTURE" hereto under the caption "Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities" for further information with respect to the acceleration of the Bonds and other remedies.

Schedule of Debt Service Payments

The following table sets forth the payment of principal and interest on the Bonds for each twelve-month period ending on August 15 (assuming no optional redemptions):

SCHEDULE OF DEBT SERVICE PAYMENTS

[illegible]

Source: The Underwriter.

SECURITY FOR THE BONDS

General

THE OBLIGATION OF THE CITY TO MAKE PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE BONDS IS A SPECIAL OBLIGATION OF THE CITY, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE INDENTURE. NONE OF THE CITY, THE STATE OF CALIFORNIA, NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE CITY. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE BONDS IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE.

Pledge of Net Revenues

The Bonds are secured by a first pledge of the Net Revenues received by the City as a result of the operation of the Wastewater System, as those terms are defined below and upon all money and securities on deposit in certain accounts under the Indenture. The obligation of the City to make debt service payments on the Bonds from Net Revenues is absolute and unconditional, and until such time as all debt service payments on the Bonds shall have been fully paid and the Bonds are no longer Outstanding (or provision for the payment thereof shall have been made), the City will not, under any circumstances, discontinue, abate or suspend any payment due under the Indenture when due, whether or not the Wastewater System is operating or operable or has been completed, or whether or not the Wastewater System is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained in the Indenture for any cause whatsoever.

All Net Revenues are pledged by the City to the payment of debt service on the Bonds and debt service on Parity Obligations as provided in the Indenture, and the Net Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding; provided, however, that out of the Net Revenues, there may be apportioned such sums for such purposes as are expressly permitted by the Indenture, including payment of debt service on any Parity Obligations. This pledge shall constitute a first lien on the Net Revenues for the payment of the debt service on the Bonds and debt service on any Parity Obligations in accordance with the Indenture. **The Bonds are not secured by a direct lien on the Wastewater System or any other property of the City.**

In the Indenture, the City covenants that, so long as any Bonds are Outstanding, the City will not issue or incur any obligations payable from Gross Revenues or Net Revenues superior to the payment of the of debt service on the Bonds or Parity Obligations. The City is authorized to issue additional Parity Obligations secured by Net Revenues with a lien on a parity basis with the lien of the Bonds, provided it complies with certain provisions in the Indenture. See “– Issuance of Parity Obligations” below. The City is also authorized to issue subordinate debt secured by Net Revenues.

“Net Revenues” are, for any Fiscal Year, an amount equal to all of the Gross Revenues received with respect to such Fiscal Year, minus the amount required to pay all Operation and Maintenance Expenses becoming payable with respect to such Fiscal Year.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the City from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to connection charges and investment earnings on such charges, income and receipts. Gross Revenues shall not include (i) refundable deposits made to establish credit, (ii) the proceeds of any *ad valorem* property taxes, (iii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the City for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Wastewater System, and (iv) non-cash amounts recorded for accounting purposes representing imputed revenues from the sale of local wastewater run-off. Gross Revenues shall include interest with respect to any Parity Obligations reimbursed to or on behalf of the City by the United States of America. Gross Revenues shall also be increased by the amounts, if any, transferred during such Fiscal Year or

other period from the Rate Stabilization Fund to the Utility Fund and shall be decreased by the amounts, if any, transferred during such Fiscal Year or other period from the Utility Fund to the Rate Stabilization Fund.

“Operation and Maintenance Expenses” means the reasonable and necessary costs and expenses paid by the City to maintain and operate the Wastewater System, including but not limited to (a) costs of transportation and treatment of wastewater to be discharged into the Wastewater System, (b) costs of electricity and other forms of energy supplied to the Wastewater System, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and (d) the reasonable administrative costs of the City attributable to the operation and maintenance of the Wastewater System. Operation and Maintenance Costs shall not include (i) Debt Service Payments or other similar payments payable on obligations incurred by the City with respect to the Wastewater System, including but not limited to payments on any Parity Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, (iii) amortization of intangibles or other bookkeeping entries of a similar nature, and (iv) bookkeeping entries to reflect imputed expenses for local wastewater run-off.

“Utility Fund” means the City’s Wastewater Fund, being the account maintained that accounts for the financial activity of the Wastewater System. See “WASTEWATER SYSTEM FINANCIAL INFORMATION” below for a full description of the Wastewater Fund.

Application of Gross Revenues

Payments from Utility Fund. The City has covenanted that all of the Gross Revenues shall be deposited by the City, on behalf of the City, immediately upon receipt in the Utility Fund, for the benefit of Bondholders and the holders of Parity Obligations, and shall be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City.

All Gross Revenues in the Utility Fund shall be set aside and applied in the following order of priority:

(1) Operation and Maintenance Expenses. The City shall first pay from the moneys in the Utility Fund the budgeted Operation and Maintenance Expenses as such Operation and Maintenance Expenses become due and payable.

(2) Debt Service Payments. As described below, Debt Service Payments payable pursuant to the Indenture and all other payments relating to principal and interest on or with respect to Parity Obligations, shall be paid in accordance with the terms of the Indenture and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. Payments required to restore the Reserve Fund to the Reserve Requirement and the debt service reserve funds established for Parity Obligations to their reserve requirement levels (which shall include payments to reimburse the Insurer for draws against the Reserve Policy and payments to reimburse the providers of any surety bond, letter of credit or guaranty policy issued to fund the debt service reserve funds established for Parity Obligations for draws thereagainst, respectively) shall be made in accordance with the terms of

the Indenture and such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures/Rate Stabilization Fund. All Gross Revenues not required to be withdrawn pursuant to the provisions of (1) through (3) above shall be used for expenditure for any lawful purpose of the City, including payment of Operation and Maintenance Expenses or payment of any rebate requirement or of any obligation subordinate to the payment of all amounts due hereunder or under Parity Obligations. The City may maintain and hold a separate fund to be known as the "Rate Stabilization Fund." From time to time the City may deposit in the Rate Stabilization Fund, from remaining Net Revenues described in this subsection (4) or other available funds of the City, such amounts as the City shall determine. The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Utility Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the City. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues. Amounts transferred from the Rate Stabilization Fund to the Utility Fund during or within 270 days after a Fiscal Year, may be taken into account as Revenues for purposes of the calculations of the sufficiency of rates and charges collected in such Fiscal Year.

"Reserve Requirement" means, as of any date of calculation, the lesser of (i) 10% of the initial offering price of the Bonds to the public, (ii) an amount equal to maximum annual Debt Service payable by the City between the date of such calculation and the final maturity of the Bonds, or (iii) 125% of average annual Debt Service payable under the Indenture. "Maximum Annual Debt Service" means, as of the date of any calculation, the maximum sum obtained for the current or any future Bond Year so long as any of the Bonds remain Outstanding by totaling the following amounts for such Bond Year: (a) the principal amount of the Bonds and Parity Obligations coming due and payable by their terms in such Bond Year, including the principal amount of any term Bonds and term Parity Obligations which are subject to mandatory sinking fund redemption in such Bond Year; and (b) the amount of interest which would be due during such Bond Year on the aggregate principal amount of the Bonds and Parity Obligations which would be Outstanding in such Bond Year if such Bonds and Parity Obligations are retired as scheduled.

Payment of Debt Service Payments. The Trustee shall transfer from the Bond Fund and deposit into the Debt Service Account of the Payment Fund to be established and held by the City 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 Net 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:

First: on or before the fifteenth day of each May and November, the aggregate amount of interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding;

Second: On or before the fifteenth day of each May, the aggregate amount of principal becoming due and payable on the Outstanding Bonds on the next succeeding Interest Payment Date, if any; and

Third: to the Reserve Fund, the aggregate amount of each prior withdrawal from the Reserve Fund for the purpose of making up a deficiency in the Interest Account or Principal

Account; provided that no deposit need be made into the Reserve Fund so long as the balance in said account shall be at least equal to the Reserve Requirement.

Rate Covenant

The City has covenanted in the Indenture that it shall have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater System and providing for the billing thereof and for a due date and a delinquency date for each bill. In addition, to the fullest extent permitted by law, the City will fix and prescribe rates and charges for the Wastewater System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of Debt Service on the Bonds and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classifications thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements set forth here. For purposes of calculating the interest on any Outstanding Parity Obligations, if interest on any Parity Obligations is reasonably anticipated to be reimbursed to or on behalf of the City by the United States of America, then interest on such Parity Obligations shall be excluded to the extent such interest is reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations.

Reserve Fund

[Under the Indenture, a Reserve Fund is established for the Bonds and will be held in trust by the Trustee. On the Closing Date, the Reserve Policy, with a Policy Limit of \$_____, will be deposited into the Reserve Fund, which shall satisfy the Reserve Requirement. The premium on the Reserve Policy will be fully paid at or prior to the issuance of the Bonds. The Reserve Policy will provide that the Insurer will make payment in an amount sufficient to pay principal and interest on the Bonds then-due to the Trustee (or its successor) on the later of (i) the Business Day on which such principal and interest becomes due for payment and (ii) the first Business Day following the Business Day on which the Insurer shall have received a completed notice of nonpayment in a form reasonably satisfactory to it, provided, however, that aggregate payments made under the Reserve Policy shall not exceed the Policy Limit and provided, further, that the Policy Limit shall at all times equal the Reserve Requirement.]

See "APPENDIX A - SUMMARY OF THE INDENTURE" hereto under the captions "Reserve Fund" and "Certain Bond Reserve Policy Provisions" for further information with respect to the Reserve Policy.

Rate Stabilization Fund

The City may maintain and hold a Rate Stabilization Fund. From time to time the City may deposit in the Rate Stabilization Fund, from remaining Net Revenues or other available funds of the City, such amounts as the City shall determine. The City may withdraw amounts from the Rate Stabilization Fund (i) for transfer to the Utility Fund for inclusion in Gross Revenues for any Fiscal Year, or (ii) for any other lawful use of the City. All interest or other earnings upon deposits in the Rate Stabilization Fund shall be withdrawn therefrom and accounted for as Gross Revenues. Currently, no Rate Stabilization Fund has been established by the City with respect to the Wastewater System.

Issuance of Parity Obligations

“Parity Obligations” means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Net Revenues equally and ratably with the Debt Service Payments of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to the Indenture. The City has covenanted in the Indenture that, except for bonds issued to fully or partially refund the Bonds or Parity Obligations, the City will not issue or incur any Parity Obligations unless:

(i) No Event of Default shall have occurred and be continuing under the Indenture unless such default shall be cured simultaneously with the issuance of such Parity Obligations;

(ii) The City obtains or provides a certificate prepared by an Independent Certified Public Accountant or Independent Financial Consultant showing that the Net Revenues as shown by the books of the City for any 12 consecutive calendar months during the 18 calendar month period ending prior to the incurring of such Bonds or Parity Obligations shall have amounted to at least 125% of the Maximum Annual Debt Service for all Bonds or Parity Obligations to be outstanding immediately after incurring such additional Bonds or Parity Obligations.

For purposes of preparing the certificate described in subsection (ii), as set forth above, the Independent Certified Public Accountant or Independent Financial Consultant may rely upon financial statements prepared by the City, which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available. For purposes of demonstrating compliance with the foregoing, Net Revenues may be adjusted (at the option of the City) to include Additional Revenues. “Additional Revenues” means, with respect to the issuance of any Bonds or Parity Obligations, an allowance for Net Revenues (i) arising from any increase in the charges made for service from the Wastewater System adopted prior to the incurring of such Bonds or Parity Obligations and effective within eighteen (18) months following the date of incurring such Bonds or Parity Obligations, 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 the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, and (ii) arising from any increase in service connections to the Wastewater System prior to the incurring of such Bonds or Parity Obligations, in an amount equal to the total amount by which the Net Revenues would have been increased if such connections had been in existence during the whole of the most recent completed Fiscal Year or during any more recent twelve (12) month period selected by the City, all as shown by the certificate or opinion of an Independent Financial Consultant.

The provisions of subsection (ii) above shall not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make a reserve fund deposit) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Bonds or on any outstanding Parity Obligations, if (i) at the time of the incurring of such Parity Obligations, the City certifies in writing that Maximum Annual Debt Service on such Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Bonds or Parity Obligations to be refunded, and (ii) the final maturity of such Parity Obligations is not later than the final maturity of the refunded Bonds or Parity Obligations.

If interest on any Parity Obligation is reasonably anticipated to be reimbursed to or on behalf of the City by the United States of America, then interest payments with respect to such Parity Obligations shall be excluded by the amount of such interest reasonably anticipated to be paid or reimbursed by the United States of America, and such reimbursements will not be included as Gross Revenues for purposes of the coverage calculations required in subsection (ii) above.

BOND INSURANCE

[TO COME]

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THE WASTEWATER SYSTEM

General

The Wastewater System is located in the City of Firebaugh, in Fresno County, approximately 43 miles northwest of the City of Fresno, 150 miles southeast of San Francisco and 260 miles northeast of Los Angeles. The City encompasses approximately 3.5 square miles. The current population of the City is approximately 8,330. Land use within the City is principally composed of single and multifamily residences, business and commercial districts, and some industrial areas. Additional growth may result from new housing development.

Wastewater System Management

The management of the Wastewater System is the responsibility of the City's Director of Public Works. The Director is supported by four (4) Wastewater System full-time budgeted employees. The City Finance Department is responsible for billing and collecting all wastewater bills.

The City has adopted a Council-Manager form of government. The City Manager reports to the City Council, which sets policy for the City Manager to carry out. The City Manager is further responsible for the day-to-day operations of the City, general administration of City departments and budgets, and supervision over City personnel and policies.

The Wastewater System

The City's sanitary sewer collection system serves an area of approximately 2,240 acres and provides service to approximately 1,630 residential customers, 156 commercial and industrial customers and 28 municipal/governmental and miscellaneous (including fire service, temporary construction, etc.) customers (for a total of 4,054 customers) through 1,815 sewer connections. Wastewater generated by the City's non-industrial customers is treated at the City's wastewater treatment plant (the "Domestic Treatment Plant"). In addition to the Domestic Treatment Plant, the Wastewater System consists of the following infrastructure and features:

- 15 miles of gravity sewer pipe ranging in size from 6-inches to 14-inches;
- 7.5 miles of force main pipe ranging from 4-inches to 12-inches;
- One pump station;
- Approx. 405 manholes;
- Nine lift stations;
- Nine percolation ponds; and
- 158 acres of reclamation fields that are used to grow crops with the treated tomato industrial effluent as described below.

The Domestic Treatment Plant consists of a headworks area where raw wastewater is screened by an auger to remove debris to protect downstream equipment, and then proceeds in parallel to two 2.24 million gallon aerated and mixed oxidation ponds. From the oxidation ponds wastewater flows through a 5.42 million gallon partially aerated polishing pond. The effluent from the polishing pond is directed to one of nine percolation ponds.

The City also treats certain wastewater consisting of tomato discharge produced by its industrial customer Toma-Tek, Inc. ("Toma-Tek"), a subsidiary of the privately-held Neil Jones Food Company ("Neil Jones") of Vancouver, Washington, at a City-owned and operated industrial wastewater treatment facility, which operates seasonally for approximately 90 days beginning in July through the first week of October. The average dry weather flow to this industrial wastewater treatment facility is 1.8 – 2.2 million gallons per day. Toma-Tek-generated wastewater is injected with caustic soda to raise its pH from a 4 to a range of 6 – 9.5 before it flows into a 5 million gallon oxidation pond. This pond consists of two parts, Pond 10A, which is used as a setting pond, emptying into Pond 10B, which is partially aerated by diffused air. Treated water from Pond 10B is pumped by a diesel pump to the 158-acre reclamation fields, where a local farmer grows a hybrid sudan grass. The City makes repairs as required to the Toma-Tek-owned processing facilities and the City is reimbursed for the expenses associated with this service pursuant to an agreement with Toma-Tek. Toma-Tek produces tomato pastes, sauces and diced tomatoes in 300-gallon bag-in-bin and 55 gallon bag-in-barrel for industrial and institutional clients such as restaurant and food manufacturers, processing approximately 3% to 4% of California's 9½ million tons of tomatoes processed annually.

In 2015, the Wastewater System had average wastewater treatment inflows ranging from approximately .6 million gallons per day ("mgd") (average dry weather flow) to .6 mgd (average wet weather flow), with some peaking near .7 mgd. The maximum capacity of the Treatment Plant is approximately 1.5 mgd. The following table shows the average treatment data (dry weather flow) for the service area of the Treatment Plant for the past five calendar years, together with an estimated average treatment amount for 2016.

TABLE 1
CITY OF FIREBAUGH
AVERAGE WASTEWATER TREATMENT INFLOWS
(DRY WEATHER FLOW)
(Fiscal Years 2006-07 through 2015-16)

Year <u>(June 30)</u>	<u>MGD</u>
2011	590
2012	600
2013	600
2014	620
2015	610
2016 ⁽¹⁾	600

Source: City of Firebaugh.

(1) Estimated.

Pipe surcharging has been noted upstream of several of the City's lift stations. The extent of such surcharging can be reduced as pumping output at such lift stations is increased. However, conditions may remain surcharged due to a combination of undersized pipes and improper slopes. Line replacement projects, the installation of new manholes, and projects to increase lift station pumping output have been undertaken in recent years in order to enable the Wastewater System to handle higher wastewater flows in certain areas of the City. The City has also purchased a new sewer jetter vacuum combo truck, which helps to clean collection systems adequately, further mitigating surcharged conditions. See "- Future Wastewater System Improvements" below.

Environmental Compliance and Regulatory Requirements

The Wastewater System is subject to federal, state and local regulatory requirements pertaining to drinking water quality and distribution, wastewater treatment and reuse, biosolids management, air quality, hazardous materials handling and waste management. Federal regulations are based upon provisions within the Safe Drinking Water Act, Clean Water Act (the "CWA"), Clean Air Act, and Resource Conservation and Recovery Act. State and local regulations are prescribed by the California Air Resources Board, California Department of Toxic Substances Control, the State Water Resources Control Board (the "State Water Board") and the Regional Water Board. To the best knowledge of the City, Wastewater System facilities and programs are managed to comply with all applicable laws and regulations. The Domestic Treatment Plant operates pursuant to a non-15 discharge permit, #98-230 (the "Wastewater System Permit"), issued by the Regional Water Board in 1998. The Wastewater System does not discharge to receiving waters.

From time to time, the Wastewater System has fallen out of compliance with the biochemical oxygen demand and total suspended solids requirements set forth in the Wastewater System Permit. Exceedances are sporadic and mostly occur during hot months. The City expects to receive grant monies to fund needed upgrades to the Domestic Wastewater Treatment Plant, which will prevent such exceedances in the future. If the City does not receive sufficient grants to fund these upgrades, the City plans to enter a program with Pacific Gas and Electric, which will enable the City to finance the upgrades. The City does not expect to issue any debt obligations in order to finance the costs of such upgrades. The Regional Water Board is aware of the exceedances described here and no cease and desist order or notice of violation of the Wastewater System Permit has been issued in connection therewith.

The City is not aware of any conditions that could result in regulatory action that could materially impact its ability to pay debt service on the Bonds.

Future Wastewater System Improvements

General. The City performs a rigorous risk-based analysis of the Wastewater System facilities annually. Piping is ranked and assigned a priority for replacement/refurbishment based on its age, pipe material, actual condition and service record. Not all pipelines exceeding their expected service life need to be replaced; appropriate projects are determined by physical inspection and/or video inspection, proximity to vital/fragile areas (streams, wetlands, etc.) and need for maintenance. The selected pipelines then become a part of an annual replacement program. The improvement projects typically consist of replacing the pipeline with a new pipeline of like size. It is City policy to use a minimum of 4 to 12" diameter for all new pipelines. The City expects to use funding from rates and charges of the Wastewater System to pay for such general maintenance projects.

Capital Improvement Program Projects. The City produces a detailed Capital Improvement Program (the "CIP") every five years, which projects improvement projects out four years in advance. The City's current CIP, dated August, 2015, is for Fiscal Years 2015-16 thru 2019-20. Over this period of time, the City projects that it would expend approximately \$8,464,000 if it elected to pursue all of the sewer replacement or improvement projects described in the CIP. These improvements include Treatment Plant upgrades, a manhole replacement program, and four significant pipeline replacement projects. In addition to rates

and charges of the Wastewater System, the City anticipates obtaining funding from federal and State sources and using development impact fees for certain of these projects.

Master Plan Update Projects. In order to assess certain capital improvement needs of the Wastewater System through 2030, the City commissioned outside consultants to update the City's Sanitary Sewer System Master Plan. The most current update, the November 2013 Sanitary Sewer Collection System Master Plan Update (the "2013 Master Plan Update"), considers population projection increases, full build-out of the City according to its 2030 General Plan, and expected storm level intensities. The 2013 Master Plan Update recommends the upsizing of pipes in three areas of the City (Levee Road, the Poso Canal Crossing, and Cline Street), in order to mitigate pipe surcharging in the short-term. Of such three projects, as of the date hereof, the Cline Street upsizing project has been included as a CIP project and is planned for construction. Additional upsizing of pipes running beneath Cline Street would be necessary in the mid-term, in order to accommodate increased inflows resulting from the development of areas of the City located north of the Wastewater System's Main Lift Station and east of California State Route 33. Pipes located at the Wastewater System's Del Rio Pump Station #3, Del Rio Pump Station #1 and Del Rio Pump Station #2 will need to be upsized to accommodate further development of parcels in the Del Rio and El Sondero neighborhoods, and pipe upsizing will be required on the "M" Street and "J" Street lines to accommodate further industrial development west of State Route 33 and along Nees Avenue, also in the mid-term. In the long-term, additional pipe upsizing will be required in many parts of the City and pumping capacity at the Wastewater System's Main Pump Station will need to be increased, by incorporating two pumps operating at 850 gallons per minute each. The full completion of projects described in the 2013 Master Plan Update is estimated to cost \$3,470,000 and be completed over a 20- to 30-year period. The City intends that projects identified in the 2013 Master Plan Update will be built by outside developers as a condition of their development or will be paid for from grant funds secured by the City. The City does not anticipate issuing Parity Obligations to fund the improvements recommended in the 2013 Master Plan Update.

Active Sewer Accounts

Service connections in the Wastewater System range in diameter from 4-inches to 12-inches. Wastewater service charges for the City currently consist of flat monthly rates established by customer type and certain additional unit charges. The City currently projects that wastewater service connections will increase by no more than two to three connections a year for next five years. A summary of active sewer service connections for the past five calendar years is shown in the following table.

TABLE 2
CITY OF FIREBAUGH
ACTIVE SEWER SERVICE CONNECTIONS
(As of June 30)

<u>Year</u> <u>(June 30)</u>	<u>Total</u> <u>Connections</u>
2012	1,641
2013	1,658
2014	1,661
2015	1,682
2016	1,676

Source: City of Firebaugh.

The majority of Wastewater System accounts are residential. Residential customers comprise approximately 84.75% of Wastewater System connections (predominantly with a 4-inch connection size) and approximately 67.95% of total Wastewater System revenues. A summary of accounts and Wastewater System revenues as of June 30, 2015 by customer class is shown in the following table.

TABLE 3
CITY OF FIREBAUGH
SEWER SERVICE ACCOUNTS AND REVENUES
(as of June 30, 2016)

<u>Category</u>	<u>Accounts</u>	<u>Percent</u>	<u>Revenues</u>	<u>Percent</u>
Single Family Residential	1,505	84.22%	\$ 968,666	67.58%
Multi-Family Residential	61	3.41	262,237	18.29
Commercial	121	6.77	112,889	7.88
Industrial	3	.17	9,239	.64
Schools	12	.67	9,355	.65
Other	<u>85</u>	<u>4.76</u>	<u>71,039</u>	<u>4.96</u>
Total	1,787	100.00%	\$ 1,433,425	100.00%

Source: City of Firebaugh.

Largest Wastewater System Customers

The following table shows the top ten Wastewater System customers in the City based on revenue generated during Fiscal Year 2015-16. The top ten Wastewater System customers accounted for 23.43% of total Wastewater System revenues in Fiscal Year 2015-16.

TABLE 4
CITY OF FIREBAUGH
TEN LARGEST WASTEWATER SYSTEM CUSTOMERS
(Fiscal Year 2015-16)

<u>Account Name</u>	<u>Revenue</u>	<u>Percent</u>
Fresno Housing Authority	\$ 103,231	7.23%
Hacienda Villa Apartments	71,928	5.02
Maldonado Plaza	34,765	2.43
San Joaquin Vista Apartments	28,771	2.01
Firebaugh Las Deltas School District	27,369	1.85
Firebaugh Garden Apartments	24,575	1.71
Fernandes Family Trust	23,302	1.63
Motel 33, LLC	8,772	.61
Toma-Tek, Inc.	8,040	.56
Shogy Market / Laundry	5,987	.42
Total Top 10	335,826	23.43
All Other Accounts	<u>1,097,600</u>	<u>76.57</u>
Total All Accounts	\$ 1,433,426	100.00%

Source: City of Firebaugh.

Wastewater System Rates

General. In accordance with California law, the City may, from time to time, fix, alter or change fixed monthly system access fees, commodity charges and other fees related to the Wastewater System. The City has the authority to establish charges for wastewater service without the approval of any other governmental agency. It can terminate service to delinquent customers, require full payment of delinquent accounts, and impose reconnection fees to resume service.

The City staff periodically determines the accuracy of the Wastewater System rate structure after full consideration of expected operations, maintenance and capital costs. In accordance with City policy, operating surpluses may be added to Wastewater System unrestricted reserves, or returned to ratepayers through mitigation of future rate increases.

See "RISKS FACTORS- Proposition 218" herein for a discussion of the treatment of the City's rates and charges in light of Proposition 218.

Historical and Current Wastewater System Rate Increases. The City has not increased rates for the Wastewater System since 2013, at which time it raised rates by ____% across all customer classes. Prior to this, the City had not increased rates for the Wastewater System since 2006. In all historical cases, rates for the Wastewater System have only been increased following a corresponding rate study.

The City is considering commissioning a new Wastewater System rate study in the next two years. If rates are adjusted pursuant to such a study, the City will follow the

procedural requirements of Proposition 218 and the City will act in accordance with the Rate Covenant described above.

Wastewater service charges for the City currently consist of flat monthly rates established by customer type and certain additional unit charges. The City anticipates reviewing its rates periodically, and raising rates as future needs of the Wastewater System demand. The City's current sewer rate structure is set forth below.

**TABLE 5
CITY OF FIREBAUGH
WASTEWATER SYSTEM RATES
(As of June 30, 2016)**

Sewer Class Code	Description	Rates Effective July 1, 2013 (Current)	Additional Unit Charges Effective July 1, 2013 (Current)
C1	Restaurants 0-25	\$49.95	
C2	Restaurants 26-50	121.87	
C3	Restaurants 51-75	157.80	
C4	Restaurants 76-100	200.91	
C5	Restaurants 101-9999	-	
CA	Barbershops / Dry Cleaning / Retail	40.02	
CC	Laundries Up to 25 Machines	252.25	10.10 per additional machine over 25 3.50 per each additional 1,000 sq. ft. over 4,000
CD	Grocery Up to 4000 Sq. Ft	49.87	
CE	Self Service Stations	49.95	
CF	Full Service Stations	98.75	
CG	Theaters	-	
CH	Hotels / Motels	21.50 per Room	
CI	Business Offices	43.00	22.10 per each additional unit over 2
CJ	Churches	49.95	
CK	Beauty Shops	53.36	
CL	Coin Operated Car Wash	81.34 per bay	
CM	Bars / Taverns	49.95	
O1	Outside Single Family & Mobile	49.95	Eastside Acres
R1	Single Family & Mobile Home	49.95	
R2	Multi-Family <= 650 Sq. Ft	40.12	
R3	Multi-Family > 650 Sq. Ft	49.95	
R4	Cabins / Cottages <= 400 Sq. Ft	33.48	
R5	Guest Homes	31.67	
R6	Travel Trailers < 26 Ft	33.48	
R7	Barracks / Dorms	-	
R8	Senior Single Family	44.95	
S1	Elementary K Thru 5	86.68	
S2	Middle 6 Thru 8		3.00 per each average daily attendee over 390
S3	Parochial Schools	50.01	1.10 per each average daily attendee over 160
	Fresno Housing Authority	49.95	49.95
S5	Sewer Flat Rate	49.95	1.10 per each average daily attendee
	F/B Las Deltas School		1.10 per each average daily attendee
X1	Market	498.94	
X2	Industrial #1	670.00	
X3	Storage / Office	49.95	

Wastewater System Connection Fees

The City sets its combined connection charge of \$1,000 per connection for combined connection the Wastewater System and to City's water system, pursuant to Resolution No. 90-44, effective January 1, 1991. Aggregate connection charge revenues have generally ranged from \$2,000 to \$3,000 in each of the past ten years, reflecting the addition of no more than two to three connections annually.

Comparable Rate and Charges

The following table sets forth a comparison of average monthly bill for a single family residential unit in the City to those of surrounding communities.

TABLE 6
CITY OF FIREBAUGH
WASTEWATER SYSTEM MONTHLY RATE COMPARISON⁽¹⁾
(Fiscal Year 2015-16)

<u>Community</u>	<u>Monthly Residential Rate</u>
City of Firebaugh	\$ 49.95
City of Sanger	39.86
City of Fowler	28.28
City of Kingsburg	28.28
City of Mendota	37.00
City of Orange Cove	24.20
City of Parlier	27.50

Source: City of Firebaugh.

(1) Single family residential, flat charges per month.

Billing and Collection Procedures

Billing Procedure. All Wastewater System fees and charges are billed on a monthly basis, in arrears, in a combined bill with charges for the City's water system. Payment is due upon receipt by the customer, within twenty-five (25) days after the billing date, and is considered delinquent if not paid by that date. The existing meters are read during the last week of the month and bills are mailed to customers by the 5th of the following month. After the delinquency date, notices are mailed out to those accounts that are late in payment, and customers have two additional weeks to make payment. After this time, a delinquency list is generated and given to the Public Works Department for shut off. A 10% penalty of the outstanding balance is also applied to the bill due to non-payment. If services are shut-off, the fee to reestablish service is a \$37.40 reconnect fee. The City has not had any material charges sent to collections or considered uncollectible in the past several years. For the last five Fiscal Years, the City's delinquencies have not exceed 5% of its billings at any time.]

All delinquent Wastewater System charges may constitute a lien upon the real property served (except publicly owned property and rental properties) when recorded as provided in the California Government Code, and such liens continue until the charges and all penalties thereon are fully paid, or the property is sold in satisfaction of the lien.].

Impact of Ongoing Drought

California is in its fifth year of drought, one of the worst on record for State. Due to the City's small size, it has not been subject to the California State Water Resources Control Board (the "Water Board") conservation mandates affecting many communities in California as a result of such ongoing drought conditions. Nonetheless, the City has implemented a three-day watering schedule and closed the City's splash park. Water consumption within the City through recent drought has been, in aggregate, stable, with a noted reduction in residential consumption being balanced against an increase in commercial and industrial water use. As a result, wastewater treatment inflows within the City have also remained, generally, stable. Because the City has not experienced reduced wastewater treatment inflows, it has also not experienced significantly reduced Wastewater System revenues through the drought years. The City does not currently plan to implement any further restrictions on water use or to lift any of the restrictions that it has self-imposed.

See also "RISK FACTORS - Drought" herein.

WASTEWATER SYSTEM FINANCIAL INFORMATION

Financial Statements

Attached as APPENDIX C are the audited financial statements of the City (the "Financial Statements") for Fiscal Year 2014-15, which include financial statements for the Wastewater System, prepared by the City Department of Finance and audited by Donald R. Reynolds, Certified Public Accountant, Redding, California (the "Auditor").

The Auditor's letter concludes that all the Financial Statements 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 as of June 30, 2015, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Financial Statements should be read in their entirety. The City has not requested nor did the City obtain permission from the Auditor to include the 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.

Wastewater System Accounting

The Wastewater System is accounted for as a single enterprise fund, being the Utility Fund or the "Wastewater Fund," with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The City's enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City uses the accrual basis of accounting for its “proprietary funds,” including the Wastewater Fund. Revenues are recognized when earned and expenses are recognized when the related liabilities are incurred. The “measurement focus” used to identify which transactions and events should be recorded in the respective funds is the flow of all economic resources measurement focus. All assets and liabilities associated with the operations of each respective fund are included in the balance sheet. Fund equity (net total assets) consists of contributed capital and retained earnings. In accordance with Governmental Accounting Standard Board (GASB) Statement No. 20, entitled “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,” the City applies all GASB Opinions and Accounting Research Bulletins issued on or before November 30, 1989.

See “APPENDIX C” for a more complete summary of the City’s accounting policies.

Wastewater Fund Budgets and Budgetary Accounting

The City Council has the responsibility for adoption of the City’s budget. Budgets are adopted for the General Fund, Water Fund, Wastewater Fund, and Airport Fund. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations to the various City departments. The City Council may amend the budget by motion during each Fiscal Year. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The level at which expenditures may not legally exceed appropriations is therefore established at the department level.

On or before the first day in May of each year, all departments of the City submit requests for appropriations to the City Manager and Finance Director so that a budget may be prepared on or by May 15, the proposed budget is presented to the City’s Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30. The City’s budget for Fiscal Year 2016-17 was approved at a regular meeting of the City Council held on June 6, 2016.

Revenues, Expenses and Changes in Fund Net Position

A five-year summary of revenues, expenditures and changes in fund net position for the City’s Wastewater Fund is presented in the table below.

TABLE 7
CITY OF FIREBAUGH
WASTEWATER FUND
Summary of Revenues, Expenses and Changes in Fund Net Position
(Fiscal Years 2010-11 through 2014-15)

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
OPERATING REVENUES					
Charges for Services	\$ 1,397,562	\$ 1,396,142	\$ 1,510,025	\$ 1,482,603	\$ 1,623,134
Combined Discharge Fees, Toma-Tek Fees, and Miscellaneous Fees ⁽¹⁾	70,000	2,417	28,310	59,941	--
<i>Total Operating Revenues</i>	<u>1,467,562</u>	<u>1,398,559</u>	<u>1,538,335</u>	<u>1,542,544</u>	<u>1,623,134</u>
OPERATING EXPENSES					
Personnel Costs	350,062	324,549	376,774	428,466	415,920
Supplies, Maintenance and Operations	168,140	194,186	182,933	538,122	391,585
Bad Debt Expenses	--	--	--	99,175	--
Contractual Services and Utilities	326,920	308,983	396,885	378,901	190,471
Depreciation and Amortization	233,276	232,590	232,065	244,540	223,673
Other Expenses	--	--	--	--	66,912
<i>Total Operating Expenses</i>	<u>1,078,398</u>	<u>1,060,308</u>	<u>1,191,407</u>	<u>1,707,188</u>	<u>1,288,561</u>
<i>Net Revenue</i>	<u>\$389,164</u>	<u>\$338,251</u>	<u>\$346,928</u>	<u>(\$ 164,644)</u>	<u>\$ 334,573</u>
NON-OPERATING REVENUES/EXPENSES					
Interest Income	722	1,268	2,581	2,018	1,995
Intergovernmental Revenue	9,194	93,013	598,468	76,324	--
Developmental Impact Fees	170,500	--	--	44,948	--
Other Revenues	--	--	--	--	1,415
Interest Expense	(159,028)	(156,104)	(153,086)	(149,803)	(147,719)
<i>Net nonoperating revenues (expenses)</i>	<u>21,388</u>	<u>(61,823)</u>	<u>447,963</u>	<u>(26,513)</u>	<u>(144,309)</u>
<i>Income (loss) before transfers</i>	<u>\$ 410,552</u>	<u>\$ 276,428</u>	<u>\$ 794,891</u>	<u>(\$ 191,157)</u>	<u>\$ 190,264</u>
TRANSFERS					
Bond Issuance Costs	--	--	--	--	--
Transfers in	--	--	--	--	--
Transfers out	--	(82,391)	--	(59,021)	--
<i>Change in net position</i>	<u>410,552</u>	<u>194,037</u>	<u>794,891</u>	<u>(250,178)</u>	<u>190,264</u>
NET POSITION - BEGINNING	\$ 4,136,393	\$ 4,546,945	\$ 4,740,982	\$ 5,535,873	\$ 5,285,696
NET POSITION - BEGINNING, AS RESTATED	--	--	--	--	\$ 4,789,293
NET POSITION - ENDING	<u>\$ 4,546,945</u>	<u>\$ 4,740,982</u>	<u>\$ 5,535,873</u>	<u>\$ 5,285,695</u>	<u>\$ 4,979,557</u>
PARITY OBLIGATION DEBT SERVICE					
1976 Bonds	\$ 28,925	\$ 28,850	\$ 29,725	\$ 29,500	\$ 29,225
2007 Certificates	192,625	195,872	194,016	197,056	194,994
<i>Total Parity Obligation Debt Service</i>	<u>\$ 221,550</u>	<u>\$ 224,722</u>	<u>\$ 223,741</u>	<u>\$ 226,556</u>	<u>\$ 224,219</u>
PARITY OBLIGATION DEBT SERVICE RATE COVENANT COVERAGE⁽²⁾	<u>3.62x</u>	<u>2.59x</u>	<u>5.27x</u>	<u>0.64x</u>	<u>2.50x</u>

Source: City of Firebaugh.

(1) Includes revenue from septage revived at the Domestic Treatment Plant, charges relating to and reimbursement of expenses arising from the service and repair of Toma-Tek-owned processing facilities, and other miscellaneous revenues.

(2) Coverage calculation excludes "Depreciation and Amortization" and "Interest Expense" line items.

Projected Revenues and Expenses

The table below presents a six-year summary of projected revenues and expenses of the Sewer Wastewater System, together with corresponding coverage ratios. The projections are based on City estimates. No assurance can be made that these projections will be met. See "RISKS FACTORS"

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TABLE 8
CITY OF FIREBAUGH
WASTEWATER FUND
Summary of Projected Revenues, Expenses and Changes in Fund Net Position
(Fiscal Years 2015-16 through 2020-21)

	Unaudited					
	FY 2015-16	FY 2016-17 ⁽¹⁾	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
OPERATING REVENUES						
Charges for Services ⁽²⁾	\$ 1,433,868	\$ 1,450,000	\$ 1,451,200	\$ 1,452,401	\$ 1,453,603	\$ 1,454,806
Waste Discharge Fees ⁽³⁾	2,401	--	2,000	2,000	2,000	2,000
Toma Tek Service and Reimbursement Revenues ⁽⁴⁾	108,716	75,000	50,000	51,750	53,561	55,436
Miscellaneous Revenues	45	7,000	5,000	5,000	5,000	5,000
Total Operating Revenues	1,545,030	1,532,000	1,508,200	1,511,151	1,514,164	1,517,242
OPERATING EXPENSES⁽⁵⁾						
Personnel Costs	471,895	511,195	531,643	552,909	575,025	598,026
Supplies, Maintenance and Operations	273,157	361,000	296,025	304,906	314,054	323,476
Contractual Services and Utilities	216,496	212,000	219,810	227,912	236,317	245,037
Insurance	15,476	23,939	24,657	25,397	26,159	26,944
Total Operating Expenses	977,024	1,108,134	1,072,135	1,111,124	1,151,555	1,193,483
Net Revenue	\$ 568,006	\$ 423,866	\$ 436,065	\$ 400,027	\$ 362,609	\$ 323,759
NON-OPERATING REVENUES/EXPENSES						
Capacity Charge Revenue ⁽⁶⁾	--	2,000	2,000	2,000	2,000	2,000
Interest Income ⁽⁷⁾	3,363	2,000	6,800	6,900	7,000	7,000
Net nonoperating revenues (expenses)	3,363	4,000	8,800	8,900	9,000	9,000
TOTAL NET REVENUE AVAILABLE FOR DEBT SERVICE	\$ 571,369	\$ 427,866	\$ 444,865	\$ 408,927	\$ 371,609	\$ 332,759
PARITY OBLIGATION DEBT SERVICE						
1976 Sewer Revenue Bonds ⁽⁸⁾	29,400	--	--	--	--	--
2007 Certificates	192,931	125,950	--	--	--	--
The Bonds	--	49,559	183,038	181,538	180,038	183,288
Total Parity Obligation Debt Service	\$ 222,331	\$ 175,509	\$ 183,038	\$ 181,538	\$ 180,038	\$ 183,288
PARITY OBLIGATION DEBT SERVICE RATE COVENANT COVERAGE⁽⁹⁾	2.57x	2.44x	2.43x	2.25x	2.06x	1.82x

Source: City of Firebaugh.

(1) Fiscal Year 2016-17 amounts are based on City budget amounts for that year.

(2) Projected wastewater treatment revenues are based on the current rate structure and rates and include two new single-family residential connections annually. The last approved rate increase was July 1, 2013 and the projections are made without regard to the intention of the City to conduct a rate study. No assumed increase in rates or capacity charges are included in the projections beyond Fiscal Year 2016-17.

See " - Wastewater System Rates" above and "RISK FACTORS" below.

(3) Revenue from septage revived at the Domestic Treatment Plant.

(4) Charges relating to and reimbursement of expenses arising from the service and repair of Toma-Tek-owned processing facilities.

(5) Operation and maintenance expenses are inflated at the following annual rates: Personnel 4.0%; Utilities – 4.0%; all other – 3.0 %.

(6) Capacity Charge revenue is based on 2 new connections annually at the current capacity charge of \$1,000 per connection.

(7) Interest income is based on an interest rate of 0.25% on the average annual cash fund balance.

(8) The City's 1976 Sewer Revenue Bonds, which were secured by Net Revenues, have been paid in full as of February 2016.

(9) Coverage calculation excludes depreciation and amortization and interest expense line items.

Historical Audited Balance Sheets Statement of Net Assets

The following table sets forth the statement of net assets for the Wastewater Fund for the last three audited Fiscal Years and unaudited for Fiscal Year 2015-16.

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TABLE 9
CITY OF FIREBAUGH
WASTEWATER FUND
Historical Audited Balance Sheets Statement of Net Assets
(Fiscal Years 2012-13 through 2015-16)

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16 (Unaudited)
ASSETS				
CURRENT ASSETS:				
Cash and Investments:	\$1,711,484	\$2,481,636	\$2,460,675	\$2,477,661
Receivables:				
Accounts	79,202	25,946	38,221	27,978
Due from Other Funds:	735,007	735,007	735,007	735,007
Due from other Governments:	624,019	53,846	--	--
TOTAL CURRENT ASSETS	3,149,712	3,296,435	3,233,903	3,240,646
NONCURRENT ASSETS:				
Capital assets, depreciated, net	6,275,402	6,045,862	5,822,189	5,601,352
TOTAL NONCURRENT ASSETS	6,275,402	6,045,862	5,822,189	5,601,352
TOTAL ASSETS	\$9,425,114	\$9,342,297	\$9,056,092	\$8,841,998
DEFERRED OUTFLOWS OF RESOURCES				
Contributions to Pension Plan in Current Fiscal Year ⁽¹⁾	--	--	102,654	102,654
TOTAL DEFERRED OUTFLOW OF RESOURCES	--	--	102,654	102,654
LIABILITIES				
CURRENT LIABILITIES:				
Accounts Payable and Accrued Liabilities	141,482	387,112	36,876	15,753
Accrued interest payable	57,033	55,780	55,780	55,780
Compensated Absences	20,726	19,210	18,525	15,726
Current Portion of Long Term Debt	75,500	76,500	86,500	96,500
TOTAL CURRENT LIABILITIES	294,741	538,602	197,681	183,759
NON-CURRENT LIABILITIES:				
Net Pension Liability	--	--	431,269	431,269
Non-Current Portion of Long Term Debt	3,594,500	3,518,000	3,431,500	3,371,500
TOTAL NONCURRENT LIABILITIES	3,594,500	3,518,000	3,862,769	3,802,769
TOTAL LIABILITIES	\$3,889,241	\$4,056,602	\$4,060,450	\$3,986,528
DEFERRED INFLOWS OF RESOURCES				
Difference between actual and projected earnings on pension plan investments	--	--	118,739	118,739
NET POSITION				
Net investment in capital assets	2,605,402	2,451,362	2,304,189	2,133,352
Restricted for Debt service	29,400	29,400	194,345	194,345
Restricted for Capital Improvements	--	644,198	--	--
Unrestricted	2,901,071	2,160,735	2,481,023	2,511,688
TOTAL NET POSITION	\$5,535,873	\$5,285,695	\$4,979,557	\$4,839,385

(1) Accounting changes with respect to the pension liability costs attributable to Wastewater System employees were implanted beginning in Fiscal Year 2014-15, in order to comply with Statement No. 63 of the Governmental Accounting Standards Board "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."

Source: City of Firebaugh.

Wastewater Fund Financial Reserves

The City has not adopted a reserve policy for the Wastewater Fund. The City maintains financial operating reserves, which may be used for Wastewater Fund expenditures to make up for unanticipated shortfalls in revenue as the result of reduced sewer sales. The City strives to maintain a minimum of 180 days of Operation and Maintenance Expenses as a Wastewater Fund general operating reserve balance, which balance is kept in the Wastewater Fund.

The City also currently maintains a net [\$527,328.98] Wastewater System capital improvement reserve fund, which is funded by annual transfers from the Wastewater Fund. Together, the Water Fund general operating reserve balance and the Wastewater System capital improvement reserve fund total ____ years of average Wastewater System revenues.

Outstanding Wastewater System Indebtedness

Immediately after the issuance of the Bonds and the defeasance of the 2007 Certificates, the only indebtedness secured by Net Revenues will be the Bonds (See "INTRODUCTION - Security for the Bonds" herein).

Outstanding Indebtedness Owed to the Wastewater System

The Wastewater Fund made a one-time loan of \$735,000 to the City's General Fund in Fiscal Year 2012-13. The City expects to begin to make semiannual, level payments from the General Fund to the Wastewater Fund over a ten year term, possibly beginning in 2017, however such repayment terms have not yet been approved by the City Council.

Insurance

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (the "CSJVRMA"). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each worker's compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$10,000 and workers' compensation losses under \$10,000. The CSJVRMA purchases excess reinsurance from \$1,000,000 to \$15,000,000. The CSJVRMA participates in an excess pool which provides Workers' Compensation coverage from \$500,000 to \$1,500,000 and purchases excess reinsurance above \$1,500,000 to the statutory limit.

Retirement Systems

Pension Benefits. *The following information regarding CalPERS and the CalPERS Plans (as both are defined herein), other than the information provided by the City regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not be construed as a representation by either the City or the Underwriter.*

Full-time City employees, including the employees accounted for to the Wastewater System, are members of the California Public Employees' Retirement System ("CalPERS"). CalPERS acts as the common investment and administrative agent for participating public entities within the State of California, providing retirement benefits, annual cost-of-living adjustments, and death benefits to employee plan members and their beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. CalPERS operates a number of retirement plans, including the CalPERS 2.5% at 55 Risk Pool Retirement Plan (the "Miscellaneous Classic Plan") and the CalPERS 2% at 62 Risk Pool Retirement Plan (the "Miscellaneous PEPRA Plan"), which are two of the four multiple-employer defined benefit retirement plans in which the City participates and which are the plans applicable to employees accounted for to the Wastewater System. Employees participating in both the Miscellaneous Classic Plan and the Miscellaneous PEPRA Plan (together, the "CalPERS Plans") generally become fully vested in their retirement benefits earned to date after five years of credited service.

Contributions by employer members to the CalPERS Plans are based upon actuarial rates determined annually, and contributions by members may vary based upon their date of hire. The City is currently required to contribute to CalPERS with respect to the Miscellaneous Classic Plan at an actuarially determined rate, which is 10.069% of eligible salary expenditures for fiscal year 2016-17. The employee participants' portion of contributions with respect to the Miscellaneous Classic Plan is 8% of eligible salary expenditures. Prior to January 1, 2017, the City pays 4% of this 8% contribution on behalf of each eligible Miscellaneous Classic Plan employee. On January 1, 2017 through December 31, 2017, the City will pay 2% of the 8% contribution on behalf of each eligible Miscellaneous Classic Plan employee. On and after January 1, 2017, each Miscellaneous Classic Plan employee will contribute the full 8% employee contribution. For employees accounted for to the Wastewater System and enrolled in the Miscellaneous PEPRA Plan, the City contributes 6.555% to CalPERS of eligible salary expenditures for fiscal year 2016-17, while employees contribute 6.250% of their respective salaries as the employee participants' portion.

Accounting changes with respect to the pension liability costs attributable to Wastewater System employees were implanted by the City beginning in Fiscal Year 2014-15, in order to comply with Statement No. 63 of the Governmental Accounting Standards Board "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." In Fiscal Year 2014-15, the portion of the City's aggregate annual contribution to CalPERS accountable to the Wastewater System was \$102,654 and for Fiscal Year 2015-16 the portion of the City's aggregate annual contribution to CalPERS accountable to the Wastewater System is expected to be \$102,654, and in each such year such contributions were equal to 100% of the required contributions. The City carried forward a net pension obligation accountable to the Wastewater System, as of June 30, 2015, of \$431,269 and the City expects to carry forward a net pension obligation accountable to the Wastewater System, as of June 30, 2016, of \$431,269.

For further information about the City's contributions to CalPERS, see "APPENDIX C -- AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2014-15 -- Notes to Basic Financial Statements, Note 4, Employee' Retirement Plan" herein.

CalPERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial report may be obtained from CalPERS from its executive office at P.O. Box 942703, Sacramento, California 94229-2703. Moreover, CalPERS maintains a website, at www.calpers.ca.gov. However, the

information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

CalPERS has a substantial statewide unfunded liability. The amount of this unfunded liability and its effects upon a given risk pool will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. In recent years, the Legislature of the State and the CalPERS Board of Administration (the "CalPERS Board") have each taken steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of CalPERS plans, including the 2.5% at 55 Risk Pool.

On March 14, 2012, the PERS Board of Administration (the "PERS Board") voted to lower the CalPERS' rate of expected price inflation and its investment rate of return (net of administrative expenses) (the "CalPERS Discount Rate") from 7.75% to 7.5%. As one consequence of such decrease, the annual contribution amounts paid by CalPERS member public agencies, including the City, increased by 1 to 2% for miscellaneous plans and by 2 to 3% for safety plans beginning in fiscal year 2013-14. On February 18, 2014, the CalPERS Board voted to keep the CalPERS Discount Rate unchanged at 7.5%.

On September 12, 2012, the Governor of the State signed into law the California Public Employee's Pension Reform Act of 2013 ("PEPRA"), which makes changes to CalPERS, most significantly affecting new employees hired after January 1, 2013 (the "Implementation Date"). For non-safety CalPERS participants hired after the Implementation Date, including all Wastewater System employees hired thereafter, PEPRA changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among other changes, PEPRA also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires CalPERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

On April 17, 2013, the CalPERS Board approved new actuarial policies aimed at returning CalPERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The CalPERS Board delayed the implementation of the new actuarial policies until fiscal year 2015-16 for the State and all other public agencies and such policies have since been implemented as planned.

On February 20, 2014, the CalPERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the CalPERS system and (ii) trends of higher rates of retirement for certain public

agency employee classes, including police officers and firefighters. The new actuarial assumptions are reflected in the 2.5% at 55 Risk Pool actuarial valuation prepared as of June 30, 2015. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State and all other public agencies.

Most recently, on November 18, 2015, the CalPERS Board adopted a funding risk mitigation policy aimed to incrementally lower the CalPERS Discount Rate in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. Under the funding risk mitigation policy, a mechanism will be established to reduce the CalPERS Discount Rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing CalPERS Discount Rate (then 7.5 percent) by at least four percentage points. The four percentage point threshold would work to offset increases to employer contribution rates that would otherwise increase when the discount rate is lowered, and help pay down CalPERS' unfunded liability. As of the date of the policy's adoption, CalPERS staff anticipated that the policy would result in a lowering of the expected portfolio volatility to 8 percent in about 21 years, improve funding levels gradually over time, and cut risk in the CalPERS system by lowering the volatility of investment returns. While rates are expected to increase for CalPERS employers in the future, the policy is designed to minimize any increases above projected rates.

The City can provide no assurances that its required contributions to CalPERS will not increase in the future as a result of the initiatives described above, or due to additional State of CalPERS Board action.

OPEB Benefits. The City provides post-employment healthcare benefits (the "OPEB") to qualifying retirees and their spouses. In Fiscal Year 2014-15, the portion of the City's annual OPEB cost accountable to the Wastewater System was \$_____ and for Fiscal Year 2015-16 the portion of the City's annual OPEB cost accountable to the Wastewater System is expected to be \$_____, and in each such year such costs were funded on a pay-as-you-go basis. The City carried forward a net long-term OPEB liability accountable to the Wastewater System, as of June 30, 2015, of \$_____ and the City expects to carry forward a net long-term OPEB liability accountable to the Wastewater System, as of June 30, 2016, of \$_____. The City has adopted Governmental Accounting Standards Board Statement No. 45 with respect to its OPEB and reports annual OPEB costs based on actuarially determined, annually audited amounts that, if paid on an ongoing basis, will provide sufficient resources to pay these benefits as they come due.

For further information about the OPEB, see "APPENDIX C -- AUDITED FINANCIAL STATEMENTS OF THE CITY FOR FISCAL YEAR 2014-15 -- Notes to Basic Financial Statements, Note 5, Post-Employment Health Care Benefits."

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the Bonds.

Wastewater System Demand and Growth

There can be no assurance that the local demand for the services provided by the Wastewater System will be maintained at levels described in this Official Statement. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the City's rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease Wastewater System customer demand. There can be no assurance that any other entity with regulatory authority over the Wastewater System will not adopt further restrictions on the operation thereof.

Wastewater System Expenses

There can be no assurance that Operation and Maintenance Expenses of the Wastewater System will be consistent with the levels described in this Official Statement. The Wastewater System is subject to federal, state and local regulatory requirements pertaining to drinking water quality and distribution, wastewater treatment and reuse, biosolids management, air quality, hazardous materials handling and waste management. Federal regulations are based upon provisions within the Safe Drinking Water Act, Clean Water Act, Clean Air Act, and Resource Conservation and Recovery Act. State and local regulations are prescribed by the California Air Resources Board, California Department of Toxic Substances Control, the State Water Board and the Regional Water Board. In the event that any of such regulatory entities should impose stricter quality standards upon the Wastewater System, its expenses would increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction which State and federal regulation will take with respect to wastewater treatment. Changes in treatment, transportation and other types of technology, increases in the cost of energy, increased or decreased development within the City, or other expenses could also reduce Net Revenues, and could require substantial increases in rates or charges in order for the City to comply with the rate covenant in the Indenture. Rate increases could increase the likelihood of nonpayment by the Wastewater System customers, and could also decrease wastewater service demands within the City.

Concentration of Customers

The generation of Net Revenues is concentrated with certain major Wastewater System customers in the City. The ten largest customers accounted for approximately 23.43% of Gross Revenues in Fiscal Year 2015-16, with the top single customer, the Fresno Housing Authority, accounting for approximately 7.23% of total Gross Revenues. The top ten customers of the Wastewater System largely consist of multi-family housing complexes, together with the Firebaugh Las Deltas School District, with the largest customer, the Fresno Housing Authority, being a public housing agency that supports tens of thousands of families and individuals County-wide. Accordingly, City believes that the generation of Net Revenues from these customers should remain relatively stable. However, the generation of Net Revenues, which secure payment of the Bonds, could be adversely affected by any decline in use by these major customers. The City cannot predict if any of its major customers will reduce wastewater

generated for treatment in the future. Economic factors causing residents to move away from the City or a decrease in the number of students enrolled in the City's schools could adversely affect the wastewater produced for treatment.

Parity Obligations

Although the City has covenanted not to issue additional obligations payable from Net Revenues senior to the Debt Service Payments, the Indenture permits the issuance of certain indebtedness which may have a lien which is on a parity basis to the lien on Net Revenues contained in the Indenture, if certain coverage tests are met. These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued or incurred, the debt service coverage for the Debt Service Payments securing the Bonds will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Debt Service Payments and such additional indebtedness. See "SECURITY FOR THE BONDS - Issuance of Parity Obligations" herein and "WASTEWATER SYSTEM FINANCIAL INFORMATION - Projected Revenues and Expenses" for a description of anticipated debt service coverage on the Parity Obligations currently expected to be incurred with respect to the Wastewater System.

Proposition 218

Proposition 218, a state ballot initiative known as the "Right to Vote on Taxes Act" was approved by California voters on November 5, 1996 and, except for certain provisions that became effective on July 1, 1997, became effective on November 6, 1996. Proposition 218 added Article XIII C, entitled "Voter Approval of Local Tax Levies" ("Article XIII C"), and Article XIII D, entitled "Assessment and Property Related Fee Reform" ("Article XIII D"), to the California Constitution. Article XIII C and Article XIII D limit the imposition by a local government of "general taxes," "special taxes," "assessments" and "fees" or "charges." The City is a local government within the meaning of Article XIII C and Article XIII D.

Article XIII C, provides, among other things, that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fee or charge. This extension of the initiative power is not limited by the terms of Article XIII C to fees and charges imposed after November 6, 1996 and, absent other authority, could result in retroactive reduction in existing fees and charges. Although the terms "fees" and "charges" are not defined in Article XIII C, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Kari Verjil; E.W. Kelley* (July 2006), has stated that there is no basis for excluding from Article XIII C's authorization any of the fees subject to Article XIII D. If fees or charges charged or collected by the City for its Wastewater System are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, respectively, the ability of the Wastewater System to generate Net Revenues sufficient to comply with the City's covenants under the Indenture may be adversely affected. Furthermore, if voters were to approve an initiative lowering the City's wastewater rates or other charges, the City would need voter approval before it could change the rate or charge that had been set by initiative. The City could, however, increase a charge that was not affected by initiative or to impose an entirely new charge without voter approval.

The California Supreme Court further stated in *Bighorn* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. 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, shall 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 Wastewater System fees and charges if such reductions would interfere with the City's payment of debt service on the Bonds. 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 XIID prohibits the assessment upon any parcel of property or upon any person "as an incident of property ownership" (defined to exclude fees for the provision of electrical or gas service) by a local government of any tax, assessment, fee or charge except voter-approved *ad valorem* property taxes and special taxes, fees or charges as a condition of property development, and assessments and "fees or charges for property related services" levied or imposed in accordance with the provisions of Article XIID.

Under Article XIID, revenues derived from a "fee" or "charge" (defined as "any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service") may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "fee" or "charge" may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners."

In addition, in order for a "fee" or "charge" to be imposed or increased, Article XIID provides that, among other things, the parcel upon which a fee or charge is proposed for imposition must be identified, the amount of the fee or charge proposed to be imposed on each such parcel must be calculated, written notice by mail of the proposed fee or charge must be provided to the "record owner" of each identified parcel, and a public hearing must be conducted upon the proposed fee or charge. If written protests against the proposed "fee" or "charge" are presented by a majority of owners of the identified parcels, the fee or charge may not be imposed. The California Supreme Court in *Bighorn* indicated that once a property owner or resident has paid the connection charges and has become a customer of a public water agency, all charges for water delivery incurred thereafter are charges for a property-related service, whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee. Accordingly, the imposition or increase of any fee or charge by the City for wastewater service will be the subject of such a majority protest. If such a majority protest occurs, the ability of the Wastewater System to generate Net Revenues sufficient to comply with the City's covenants under the Indenture may be adversely affected.

Article XIID states that, beginning July 1, 1997, all “fees” or “charges” must comply with its provisions. It is unclear how the provisions of Article XIID will be applied to fees or charges established prior to such date. It is also unclear how the provisions of Article XIID will be applied to fees or charges established after such date but prior to the *Bighorn* decision.

As a result of the *Bighorn* decision, there can be no assurance that Proposition 218 will not limit the ability of the City to impose, levy, charge and collect increased fees and charges for wastewater service.

The City believes that its current Wastewater System rates comply with the requirements of Proposition 218 and expects that any future Wastewater System rates will comply with Proposition 218’s procedural and substantive requirements to the extent applicable thereto. The City further believes that Proposition 218 will not have any immediate adverse effect on the City’s ability to comply with its covenants under the Indenture or the City’s ability to operate the Wastewater System. The City cannot predict the impact of Proposition 218 on any future Wastewater System rate increases.

Numerous recent appellate court opinions interpret and apply Proposition 218 in the context of evaluating the validity of wastewater-related fees and charges. The City is unable to predict at this time how Proposition 218 will ultimately be interpreted by the courts and what, if any, further implementing legislation will be enacted, and there can be no assurance that Proposition 218 will not limit the future ability of the City to impose, levy, charge and collect increased fees and charges for wastewater service.

Proposition 26

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIII C. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIII C and XIID of the California Constitution pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope 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 cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The City believes that the City’s current rates and charges for the Wastewater System are not taxes under Proposition 26.

Constitutional Limit on Appropriations

Under Article XIIB 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 consists 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. In general terms, the “appropriations limit” is to be based on certain Fiscal Year 1978-79