CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

AGENDA
REGULAR MEETING
BOARD OF WATER COMMISSIONERS
Tuesday, October 4, 2016 – 9:30 a.m.
MARGARET H. CHANDLER WATER RECLAMATION PLANT
399 CHANDLER PLACE
San Bernardino, California

BOARD OF WATER COMMISSIONERS

TONI CALLICOTT
President

Commissioners
LOUIS A. FERNANDEZ
WAYNE HENDRIX, P.E.
JUDITH VALLES
DAVID E. MLYNARSKI

STACEY R. ALDSTADT
General Manager
ROBIN L. OHAMA
Deputy General Manager
MIGUEL GUERRERO, P.E.
Director of Water Utility
JOHN A. CLAUS
Director of Water Reclamation
TERRI WILLOUGHBY
Director of Finance
JENNIFER L. SHEPARDSON
Director of Environmental & Regulatory Compliance

"Trusted, Quality Service since 1905"

Welcome to a meeting of the Board of Water Commissioners of the City of San Bernardino.

- The City of San Bernardino Municipal Water Department recognizes its obligation to provide equal access to those individuals with disabilities. Please contact the General Manager's Office (909-384-5191) two working days prior to the meeting for any requests for reasonable accommodation, to include interpreters.
- All documents for public review are on file with the Water Department located on the 5th floor of City Hall, 300 North "D" Street, San Bernardino or may be accessed online at http://www.ci.san-bernardino.ca.us/water/newsalerts/agendas_n_minutes.asp
- Please turn off or mute your cell phone while the meeting is in session.
- Any member of the public desiring to speak to the Board of Water Commissioners concerning any matter not on the agenda, but which is within the subject matter jurisdiction of the Board of Water Commissioners, may address the body at the end of the meeting during the period reserved for public comments. Said total period for public comments shall not exceed forty-five (45) minutes, unless such time limit is extended by the Board of Water Commissioners. A three-minute limitation shall apply to each member of the public, unless such time limit is extended by the Board of Water Commissioners. No member of the public shall be permitted to "share" his/her three minutes with any other member of the public.
- The Board of Water Commissioners may refer any item raised by the public to staff for appropriate action or have the item placed on the next agenda of the Board of Water Commissioners. However, no other action shall be taken nor discussion held by the Board of Water Commissioners on any item which does not appear on the agenda unless the action is otherwise authorized in accordance with the provisions of subdivision (b) of Section 54954.2 of the Government Code.
- Public comments will not be received on any item on the agenda when a public hearing has been conducted and closed.

CALL TO ORDER: _____a.m./p.m.

Attendee Name	Present	Absent	Late	Arrived
President Toni Callicott				
Commissioner Louis Fernández				
Commissioner Wayne Hendrix				
Commissioner Judith Valles				
Commissioner David E. Mlynarski				
General Manager Stacey Aldstadt				
Deputy General Manager Robin Ohama				
Director of WRP John Claus				
Director of WU Miguel Guerrero				
Director of Finance Terri Willoughby				
Director of ERC Jennifer Shepardson				

OTHERS:

1. CLOSED SESSION: _____ a.m./p.m.

Pursuant to Government Code Section(s):

A. Conference with legal counsel – existing litigation – pursuant to paragraph (1) of subdivision (d) of Government Code Section 54956.9: *In Re City of San Bernardino, California,* United States Bankruptcy Court, Central District of California (Riverside), Case No. 6: 12-bk-28006-MJ. *City of San Bernardino v. San Bernardino Valley Municipal Water District, et al.*, San Bernardino County Superior Court Case No. CIVDS1605532. *City of San Bernardino v. East Valley Water District*, San Bernardino Superior Court Case No. CIVDS 1608620.

B. Conference with legal counsel – anticipated litigation – significant exposure to litigation pursuant to paragraph (2) or (3) of subdivision (d) of Government Code Section 54956.9 (2 items).

C. Conference with legal counsel – anticipated litigation – initiation of litigation – pursuant to paragraph (4) of subdivision (d) of Government Code Section 54956.9.

D. Public Employment pursuant to Government Code Section 54957.

E. Consultation with legal counsel and security consultant on matters posing a threat to the security of essential public services, including water, drinking water, and wastewater treatment pursuant to Government Code Section 54957.

F. Conference with labor negotiator – pursuant to Government Code Section 54957.6.

END OF CLOSED SESSION
RECONVENE MEETING

CALL TO ORDER: _____a.m./p.m.

Attendee Name	Present	Absent	Late	Arrived
President Toni Callicott				
Commissioner Louis Fernández				
Commissioner Wayne Hendrix				
Commissioner Judith Valles				
Commissioner David E. Mlynarski				
General Manager Stacey Aldstadt				
Deputy General Manager Robin Ohama				
Director of WRP John Claus				
Director of WU Miguel Guerrero				
Director of Finance Terri Willoughby				
Director of ERC Jennifer Shepardson				

OTHERS:

2. ANNOUNCEMENTS BY MEMBERS OF THE BOARD OF WATER COMMISSIONERS:

3. CONSENT CALENDAR

MOTION: That the motions indicated by consent calendar items 3A through 3F be adopted, except for _____.

MOTION:_____ SECONDED:_____

A. WAIVE FULL READING OF RESOLUTIONS

MOTION: That full reading of the resolutions on the regular or supplemental agendas of the Board of Water Commissioners be waived.

B. PAYROLL

MOTION: Approve the payroll for the pay period September 19, 2016 through October 2, 2016.

C. CONTRACTS AND BILLS

MOTION: Approve the payment of contracts and bills to be presented at this meeting.

D. MINUTES

MOTION: Approve the minutes of the meetings of September 20, 2016 of the Board of Water Commissioners.

E. PERSONNEL ACTIONS:

1. APPOINTMENT: Allen Harralson, Water Reclamation Senior Operator, Section 4020, Range 157, effective October 3, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

2. PROMOTION: Nathan Brown, Welder, Range 144, to Water Utility Lead Worker, Section 3043, Range 148, ratify effective September 5, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

3. PROMOTION: Tyler Buechter, Water Utility Worker III, Range 142, to Water Utility Lead Worker, Section 3021, Range 148, ratify effective September 19, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

4. PROMOTION: Andre Garnatz, Water Utility Worker II, Range 138, to Water Utility Worker III, Section 3021, Range 142, ratify effective September 19, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

5. PROMOTION: Antonio Dupre, Water Utility Worker I, Range 132, to Water Utility Worker II, Section 3023, Range 258, ratify effective September 19, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

6. PROMOTION: Richard Flores, Water Utility Worker III, Range 142, to Water Utility Lead Worker, Section 3021, Range 148, ratify effective September 19, 2016. This position is in the budget and based on the needs and staffing for this section, the position is still justifiable under the budget.

MOTION: Approve the Personnel Actions as submitted.

F. ADOPTION OF POLICY 54.030 - DISCLOSURE POLICY AND PROCEDURE: In order to ensure that the Department is compliant with applicable federal and state securities laws, it is important that policies and procedures be developed to outline the necessary components.

MOTION: That Policy 54.030 – Disclosure Policy and Procedure be adopted as submitted.

END OF CONSENT CALENDAR

4. ADDITIONS TO THE AGENDA: (if any) in accordance with Section 54954.2 (b) (2) of the Government Code (Brown Act), a two-thirds vote (or a unanimous vote if less than two-thirds are present) is required to add an item for action provided that there is a need to take immediate action and that the need for action came to the attention of the agency after the agenda was posted.

MOTION: Approve an additional item(s) to be added to the agenda in accordance with Government Code Section 54954.2(b) (2).

MOTION:_____ SECONDED:_____

5. ACCEPTANCE OF WATER UTILITY EASEMENT FOR DOWNTOWN SAN BERNARDINO PASSENGER RAIL PROJECT (EPN 2011-009): The San Bernardino County Transportation Commission (SANBAG) is constructing a new Crew House building near the San Bernardino Transit Center to support the Downtown San Bernardino Passenger Rail Project. The Crew House building is located within the property known as APN 0136-111-24, and is land-locked. During the project planning phase, SANBAG staff approached the Department regarding fire, domestic, and landscape water services for the new Crew House building. In order to provide the requested services, SANBAG proposed a main extension to provide service through the parcels known as APNs 0136-111-14 and 0136-111-24, which are also owned by SANBAG.

SANBAG has provided the Department with easement documents for execution. Engineering staff has reviewed these documents and found them to be acceptable for recordation.

MOTION: Accept the Grant of Easement from the San Bernardino County Transportation Commission (SANBAG) within the properties known as APNs 0136-111-14 & 0136-111-24 as described in the easement documents; and authorize the Secretary to submit the easement documents to the General Manager for signature and recordation.

MOTION:_____ SECONDED:_____

6. CONTINGENCY/EMERGENCY WATER SUPPLY SALES AGREEMENT BETWEEN THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT AND THE CITY OF LOMA LINDA: In December 1997, the Water Department (Department) entered into an agreement to provide contingency and emergency water supply to the City of Loma Linda through two water supply inter-ties. This inaugural agreement expired December 2002 and a new agreement was executed in April 2003. The renewed agreement included several requirements for metering/connection upgrades and good faith effort on Loma Linda's part for securing reliable water supply sources, as the Department cannot guarantee consistent, uninterrupted supply. This agreement expired April 2007 and has not been renewed since.

In July 2016, the Water Department was contacted by the City of Loma Linda to discuss and work out a new agreement. The agreement was drafted by the Department and sent to Loma Linda for review and approval. On August 9, 2016, the Loma Linda City Council unanimously approved the agreement.

MOTION: Approve the Contingency/Emergency Water Supply Sales Agreement between the City of San Bernardino Municipal Water Department and the City of Loma Linda; and authorize the President and Secretary to execute the Agreement.

MOTION:_____ SECONDED:_____

7. REQUEST TO RATIFY THE REMEDIATION OF THREE WELLS FOR THE RIX WELL RETROFIT PROJECT – LAYNE CHRISTENSEN COMPANY: In Consultation with the U. S. Fish and Wildlife Service, the Department is implementing various RIX Facility enhancements, including improving existing test wells and converting them to production wells, in order to provide a supplemental water source to the Santa Ana River for protection of fish and their habitat, as needed, during RIX Facility shutdowns.

In order to obtain the information necessary to complete the well retrofit design and expedite the project's completion, Staff requested urgent proposals from the five prequalified contractors (under Specification No. 1640 – Well Rehabilitation Assessment and Repair) to inspect and remediate the three existing wells. Layne Christensen Company (Layne) was responsive and provided the lowest quotation for the Accelerated Project in the amount of $248,324.00.

The General Manager authorized proceeding with the expedited work pursuant to the Emergency Procedures authority granted in Department Policy 51.030, Item G – Emergency Purchases. Purchase Order No. 031504 issued to Layne in the amount of $248,324.00. This project is included in the Fiscal Year 2016/17 RIX CIP budget (Construction Order 00189; Budget ID No. 16-208). Sufficient funds are available to fund the well remediation effort.

MOTION: Ratify the issuance of a purchase order in the amount of TWO HUNDRED AND FORTY EIGHT THOUSAND THREE HUNDRED AND TWENTY FOUR DOLLARS ($248,324.00) to Layne Christensen Company for the Remediation of Three RIXES Wells.

MOTION:_____ SECONDED:_____

8. REQUEST TO APPROVE CHANDLER WELL REMEDIATION – BEST DRILLING AND PUMP, INC.: Due to prolonged drought conditions and increased groundwater pumping within the Bunker Hill Groundwater Basin, the average groundwater surface elevation at the Chandler Well has dropped. In addition to the decline of groundwater surface elevation, continuous use of the Chandler Well to provide Water Reclamation Plant (WRP) process water has resulted in reduced transmissivity, due to media and well screen fouling. On August 1, 2016, the Chandler Well (and one other at the WRP) ran dry.

The Department contracted Tri County Pump Company to pull the Chandler Well equipment, assess the equipment and well, and provide recommendations for rehabilitation of the well. Staff requested remediation proposals from prequalified contractors to remediate the Chandler Well. Best Drilling and Pump, Inc. (Best) was responsive and provided the lowest quotation in the amount of $66,750.00.

On September 6, 2016, the Board of Water Commissioners approved the addition of the WRP Wells Rehabilitation project to the Fiscal Year 2016/17 Sewer Fund Capital Improvement Budget. There are sufficient funds in Construction Order No. 00192 to fund the Chandler Well remediation effort.

MOTION: Approve the award of the Remediation of the Chandler Well to Best Drilling and Pump, Inc., in the amount of SIXTY SIX THOUSAND SEVEN HUNDRED FIFTY AND 00/100 DOLLARS ($66,750.00).

MOTION:_____ SECONDED:_____

9. WATER REVENUE BONDS: Staff is seeking approval from the Board of Water Commissioners to issue the 2016 Water Revenue Bonds in an amount not to exceed $65,000,000 through the California Municipal Finance Authority to refund existing debt of the Water Fund and provide funding for critical capital projects. The Preliminary Official Statement, which must include all facts that would be material to an investor in the 2016 Bonds, has been reviewed and approved for transmittal to the Board of Water Commissioners by Department staff and its financing team.

The refunding of existing debt will create debt service savings, which will free up net revenue of the water system to be used for ongoing operations and other projects. Funding of the capital projects will ensure that critical projects are completed.

MOTION: Adopt a resolution approving the forms of the Preliminary Official Statement, Installment Purchase Agreement, Indenture of Trust, Bond Purchase Agreement, and Continuing Disclosure Agreement.

MOTION:_____ SECONDED:_____

10. PRESENTATION OF RESOLUTION NO. 898: Resolution No. 898 recognizing Donald York for more than 36 years of service upon his retirement from the San Bernardino Municipal Water Department.

11. REPORTS:

A. Report of the President:

B. Report of the Commissioners:

C. Report of the Directors:

D. Report of the General Manager:

12. PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA:

13. ADJOURNMENT: The meeting adjourned at _____ a.m./p.m.

NOTE: The next regular meeting of the Board of Water Commissioners is scheduled for *9:30 a.m., October 18, 2016* in the Margaret H. Chandler Water Reclamation Plant Conference Room, 399 Chandler Place, San Bernardino, California, 92408.

MINUTES
BOARD OF WATER COMMISSIONERS
OF THE CITY OF SAN BERNARDINO

REGULAR MEETING
September 20, 2016
Council Chambers
300 N. "D" Street
San Bernardino, California
10:00 a.m.

The Regular Meeting of the Board of Water Commissioners of the City of San Bernardino was called to order by President Callicott at 10:03 a.m. on September 20, 2016 in the Council Chambers, 300 N. "D" Street, San Bernardino, California.

ROLL CALL: Roll call was taken by the Secretary with the following being present: President Callicott; Commissioners Valles, Hendrix, and Mlynarski; staff Aldstadt, Ohama, Claus, Guerrero, Shepardson, and Willoughby; Steven Graham, City Attorney's Office; Amy Smith, Executive Secretary, Art Griffith, FG Solutions, LLC.

Absent: Commissioner Fernández

1. CLOSED SESSION: None

2. ANNOUNCEMENTS BY MEMBERS OF THE BOARD OF WATER COMMISSIONERS: None

3. CONSENT CALENDAR: Upon motion by Commissioner Valles, duly seconded by Commissioner Hendrix, it was unanimously voted to approve the following Consent Calendar, Agenda Items 3A through 3D:

A. WAIVE FULL READING OF RESOLUTIONS: Waive full reading of the resolutions on the regular or supplemental agendas of the Board of Water Commissioners.

B. PAYROLL

	Water Fund	Sewer Fund	Total
Claims: 273082-273347 Accounts Payable	$699,889.42	$1,199,006.61	$1,898,896.03
Gross Payroll 08/22/16-09/04/16	236,877.10	182,304.33	419,181.43
TOTALS	$936,766.52	$1,381,310.94	$2,318,077.46

Payroll for the pay period September 5, 2016 through September 18, 2016.

C. CONTRACTS AND BILLS: Contracts and bills presented at this meeting.

D. MINUTES: September 6, 2016.

END OF CONSENT CALENDAR

4. ADDITIONS TO THE AGENDA: None.

5. PROPOSED WATER RATE ADJUSTMENT EFFECTIVE OCTOBER 1, 2016: As approved by the Board of Water Commissioners on September 20, 2016, this is the time and place set for a Public Hearing to receive comments concerning proposed changes to Water Department Rule and Regulation No. 21 General Water Service/Water Rates.

Terri Willoughby, Director of Finance, and Miguel Guerrero, Director of Water Utility, gave a presentation to the Board regarding the financial condition of the Department, as well as current and proposed rates. Art Griffith, FG Solutions, LLC, gave a brief summary to the Board regarding the Water Rate Study that was conducted. Steven Graham, Deputy City Attorney, read out the requirements of Article XIII D Section 6 of the California Constitution, commonly known as Proposition 218.

President Callicott opened the Public Hearing at 10:29 a.m. to review an receive comments on proposed changes to Water Department Rule and Regulation No. 21, General Water Service/Water Rates.

Gloria Cruz, Jane Ruble, Gary Walbourne, Michael Craft, Clementina Bernal, William Bleckert, Timothy Prince, Julie Burge, Richard Pensiero, and Mattie Whitely spoke against adoption of resolution amending Rule and Regulation No. 21, General Water Service/Water Rates.

Paul Sanborn and Jim Smith spoke in favor of the proposed increase.

Written testimony was received from 41 property owners by the Secretary. The Public Hearing was closed at 11:33am.

RESOLUTION NO. 899

A RESOLUTION OF THE BOARD OF WATER COMMISSIONERS OF THE CITY OF SAN BERNARDINO AMENDING GENERAL WATER SERVICE/WATER RATES, AS SET FORTH IN RULE AND REGULATION NO. 21 OF THE BOARD OF WATER COMMISSIONERS OF THE CITY OF SAN BERNARDINO.

The President read the title of the resolution.

Upon motion by Commissioner Hendrix, duly seconded by Commissioner Valles, it was unanimously voted that said resolution be adopted.

Resolution No. 899 was adopted by the following vote to wit:

AYES: Commissioners Callicott, Valles, Hendrix, Mylnarski
NAYS: None
ABSENT: Commissioner Fernández

6. REPORTS:

A. Report of the President: None

B. Report of the Commissioners: None

C. Report of the Directors: None

D. Report of the General Manager:

1. General Manager Aldstadt reported that the Department received a Notice of Intent to Sue from the Center for Biological Diversity with respect to the Santa Ana Sucker Fish and the RIX facility.

2. General Manager Aldstadt reported that the Department is hosting a tour of the Water Reclamation Plant and RIX facilities for the US Fish and Wildlife Services Region 9 Director, and Region 9 Enforcement Action Investigator on September 20, 2016.

7. PUBLIC COMMENTS: This is the time specified for public comments concerning specific items not on the agenda or matters of general interest. Richard Pensiero asked the Board who pays for the $7million for the Clean Water Factory, who pays for PR, and who pays for attorney fees.

8. ADJOURN MEETING: The meeting adjourned at 11:41 a.m. to the next Regular Meeting to be held on Tuesday, October 4, 2016, at 9:30 a.m. in the Margaret H. Chandler Water Reclamation Plant Conference Room, 399 Chandler Place, San Bernardino, California, 92408.

BY: _____
TONI CALLICOTT
President

BY: _____
ROBIN L. OHAMA
Deputy City Clerk & Ex-Officio Secretary

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 29 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: John A. Claus, Director of Water Reclamation

SUBJECT: **APPOINTMENT – WATER RECLAMATION SENIOR OPERATOR – ALLEN HARRALSON**

DATE: September 28, 2016

CC: Human Resources, File, Laserfiche

BACKGROUND:

Staff requested Civil Service open appropriate recruitment procedures for the vacancies that exist in the Operations Sections (4020 and 5025). There are three (3) vacancies for the position of Water Reclamation (WR) Senior Operator and two (2) vacancies for WR Lead Operator. These positions are in the budget and based on the needs and staffing for these sections, the positions are still justifiable under the budget. Interviews for the WR Senior Operator were conducted on September 7, 2016, with John Claus, Director of Water Reclamation, Vince Bibbee, WR RIX Supervisor, and Elizabeth Razo, Senior Administrative Coordinator. Interviews for the WR Lead Operator were conducted on September 8, 2016, with John Claus, Director of Water Reclamation, Vince Bibbee, WR RIX Supervisor, and Greg Evans, WR Maintenance Superintendent. Staff recommends the appointment of Allen Harralson to the vacant position of WR Senior Operator.

RECOMMENDATION:

Staff recommends the Board of Water Commissioners make the following motion:

> Approve the appointment of Allen Harralson to the position of Water Reclamation Senior Operator, Range 157, effective October 3, 2016.

Respectfully submitted,

John A. Claus

Agenda Item 3E1

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT

RECEIVED
SEP 21 2016
SBCUSD
HUMAN RESOURCES

TO: Stacey R. Aldstadt

FROM: Miguel J. Guerrero

SUBJECT: **PERSONNEL ACTION – PROMOTION OF NATHAN BROWN TO WATER UTILITY LEAD WORKER (SECTION 3043)**

DATE: September 20, 2016

COPIES: Michael Garland, Sally Duran, Human Resources

BACKGROUND:

Due to the recent promotion of Gus Saavedra effective August 22, 2016, one vacancy exists for a Water Utility Lead Worker position in Water Utility Operations Specialty Construction (Section 3043). Selection interviews were conducted on August 31, 2016 by Tim Connor, Tim Potter, Ralph Ramos, and Mike Garland for the position of Water Utility Lead Worker. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Nathan Brown to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Ratify the promotion of Nathan Brown from Welder/Pipefitter, Range 144, to the position of Water Utility Lead Worker, Range 148, effective September 5, 2016.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:ms

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Agenda Item 3E2

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT

RECEIVED
SEP 19 2016

TO: Stacey R. Aldstadt

FROM: Miguel J. Guerrero

SUBJECT: **PERSONNEL ACTION – PROMOTION OF TYLER BUECHTER TO WATER UTILITY LEAD WORKER (SECTION 3021)**

DATE: September 14, 2016

COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the recent resignation of Rudy Olguin effective June 17, 2016, one vacancy exists for a Water Utility Lead Worker position in Water Utility Distribution Service and Repair (Section 3021). Selection interviews were conducted on August 31, 2016 by Tim Connor, Tim Potter, Ralph Ramos, and Mike Garland for the position of Water Utility Lead Worker. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Tyler Buechter to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Ratify the promotion of Tyler Buechter from Water Utility Worker III, Range 142, to the position of Water Utility Lead Worker, Range 148, effective September 19, 2016.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

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Agenda Item 3E3

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 19 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt

FROM: Miguel J. Guerrero

SUBJECT: **PERSONNEL ACTION – PROMOTION OF ANDRE GARNATZ TO WATER UTILITY WORKER III (SECTION 3021)**

DATE: September 14, 2016

COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the upcoming promotion of Tyler Buechter effective September 19, 2016, one vacancy will exist for a Water Utility Worker III position in Water Utility Distribution Service and Repair (Section 3021). Selection interviews were conducted on June 21, 2016 by Tim Connor, Tim Potter, and Ralph Ramos for the position of Water Utility Worker III. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Andre Garnatz to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Ratify the promotion of Andre Garnatz from Water Utility Worker II, Range 138, to the position of Water Utility Worker III, Range 142, effective September 19, 2016.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

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Agenda Item 3E4

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

RECEIVED
SEP 19 2016
HUMAN RESOURCES

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt

FROM: Miguel J. Guerrero

SUBJECT: **PERSONNEL ACTION – PROMOTION OF ANTONIO DUPRE TO WATER UTILITY WORKER II (SECTION 3023)**

DATE: September 14, 2016

COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the upcoming promotion of Andre Garnatz effective September 19, 2016, one vacancy will exist for a Water Utility Worker II position in Water Utility Distribution Maintenance (Section 3023). Selection interviews were conducted on December 2, 2015 and December 3, 2015 by Tim Potter, Rudy Olguin, Raquel Serrano, and Bob Chilcote for the position of Water Utility Worker II. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Antonio Dupre to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Ratify the promotion of Antonio Dupre from Water Utility Worker I, Range 132, to the position of Water Utility Worker II, Range 138, effective September 19, 2016.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

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Agenda Item 3E5

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS
STAFF REPORT

RECEIVED
SEP 19 2016
SBCWD
HUMAN RESOURCES

TO: Stacey R. Aldstadt

FROM: Miguel J. Guerrero

SUBJECT: **PERSONNEL ACTION – PROMOTION OF RICHARD FLORES TO WATER UTILITY LEAD WORKER (SECTION 3021)**

DATE: September 14, 2016

COPIES: Tim Connor, Sally Duran, Human Resources

BACKGROUND:

Due to the recent retirement of Joe Chavez effective April 15, 2016, one vacancy exists for a Water Utility Lead Worker position in Water Utility Distribution Service and Repair (Section 3021). Selection interviews were conducted on August 31, 2016 by Tim Connor, Tim Potter, Ralph Ramos, and Mike Garland for the position of Water Utility Lead Worker. This position is in the budget. I have reviewed the needs of and staffing for this section and believe, based on those, that the position is still justifiable under the budget. The panel is recommending the promotion of Richard Flores to fill this position.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Ratify the promotion of Richard Flores from Water Utility Worker III, Range 142, to the position of Water Utility Lead Worker, Range 148, effective September 19, 2016.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:jgt

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Agenda Item 3E6

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT
BOARD OF WATER COMMISSIONERS
STAFF REPORT

SEP 27 2016

TO: Stacey R. Aldstadt, General Manager

FROM: Terri A. Willoughby, Director of Finance

SUBJECT: **BOARD ADOPTION OF DISCLOSURE POLICY AND PROCEDURE**

DATE: September 28, 2016

BACKGROUND:

In order to ensure that the Department is compliant with applicable federal and state securities laws, it is important that policies and procedures be developed to outline the necessary components. The attached policy is based on best practices in the financial industry, and has been reviewed by the Department's financing team.

FISCAL IMPACT:

There is no fiscal impact associated with the implementation of this policy.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners adopt Policy 54.030-Disclosure Policy and Procedure.

Respectfully submitted,

Terri A. Willoughby
Director of Finance

Agenda Item: 3F

SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

POLICIES & PROCEDURES MANUAL

POLICY 54.030 - DISCLOSURE POLICY AND PROCEDURE

Date:	October 4, 2016
Revision No.:	
Supersedes:	
First Adopted:	October 4, 2016

POLICY:

This Disclosure Policy and Procedure (the **Disclosure Procedure**) of The City of San Bernardino Municipal Water Department (the **Department**) are intended to ensure that the Department is in compliance with all applicable federal and state securities laws.

RESPONSIBILITY:

The Director of Finance of the Department shall be the **Disclosure Coordinator of the Department** (the **Disclosure Coordinator**).

PROCEDURE:

Article I. Review and Approval of Official Statements

The Disclosure Coordinator of the Department shall review any Official Statement prepared in connection with any debt issuance by the Department in order to ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the Department.

In connection with its review of the Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the Department, and all members of Department staff, to the extent that the Disclosure Coordinator concludes they should be consulted, so that the Official Statement will include all "material" information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all Official Statements to the Board of Water Commissioners for approval.

The approval of an Official Statement by the Board of Water Commissioners shall be docketed as a new business matter and shall not be approved as a consent item. The Board of Water Commissioners shall undertake such review as deemed necessary, following consultation with the Disclosure Coordinator, to fulfill the Board of Water Commissioners' responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the Department's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

Article II. Continuing Disclosure Filings

Under the continuing disclosure undertakings that the Department has entered into in connection with its debt offerings, the Department is required each year to file annual reports with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system in accordance with such undertakings. Such annual reports are required to include certain updated financial and operating information, and the Department's audited financial statements.

The Department is also required under its continuing disclosure undertakings to file notices of certain events with EMMA.

The Disclosure Coordinator is responsible for establishing a system (which may involve the retention of one or more consultants) by which:

(i) the Department will make the annual filings required by its continuing disclosure undertakings on a complete and timely basis, and

(ii) the Department will file notices of enumerated events on a timely basis.

Article III. *Public Statements Regarding Financial Information*

Whenever the Department makes statements or releases information relating to its finances to the public that are reasonably expected to reach investors and the trading markets, the Department is obligated to ensure that such statements and information are complete, true, and accurate in all material

respects.

Article IV. Training

The Disclosure Coordinator shall ensure that all members of the Department staff involved in the initial or continuing disclosure process are properly trained to understand and perform their responsibilities.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the Department's disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the Department's disclosure obligations under applicable federal and state securities laws, and the disclosure responsibilities and potential liabilities of members of the Department's staff. Such training sessions may be conducted using a recorded presentation.

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 13 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: Miguel J. Guerrero

SUBJECT: **ACCEPTANCE OF WATER UTILITY EASEMENT FOR DOWNTOWN SAN BERNARDINO PASSENGER RAIL PROJECT (EPN 2011-009)**

DATE: September 9, 2016

COPIES: Greg Gage (w/o attach), Sydney Morrison (w/original), Sally Duran (w/attach)

BACKGROUND:

The San Bernardino County Transportation Commission (SANBAG) is constructing a new Crew House building near the San Bernardino Transit Center to support the Downtown San Bernardino Passenger Rail Project. The Crew House building is located within the property known as APN 0136-111-24, and is land-locked. During the project planning phase, SANBAG staff approached the Department regarding fire, domestic, and landscape water services for the new Crew House building. In order to provide the requested fire, domestic, and landscape services, SANBAG proposed a main extension to provide service through the parcels known as APNs 0136-111-14 & 0136-111-24, which are also owned by SANBAG. Therefore, an easement shall be required for the main extension to provide fire, domestic, and landscape water services to the new Crew House building.

SANBAG has provided the Department with easement documents for execution. Engineering staff has reviewed these documents and found them to be acceptable for recordation.

RECOMMENDATION:

It is recommended that the Board of Water Commissioners consider the following motion for approval:

> **Accept the Grant of Easement from the San Bernardino County Transportation Commission (SANBAG) within the properties known as APNs 0136-111-14 & 0136-111-24 as described in the easement documents and authorize the Secretary to submit the easement documents to the General Manager for signature and recordation.**

Agenda Item 5

SUBJECT: ACCEPTANCE OF WATER UTILITY EASEMENT FOR THE DOWNTOWN SAN BERNARDINO PASSENGER RAIL PROJECT (EPN 2011-009)

Respectfully submitted,

for

Miguel J. Guerrero, P.E.
Director, Water Utility

MJG:TB:aa
Attach.

PROPOSED SBMWD UTILITY EASEMENT

Document Path: K:\Projects\Maps\ZA_mxd\Exhibits\ProposedSBMWDUtilityeasement.mxd

RECORDING REQUESTED BY
AND
WHEN RECORDED MAIL TO:

Stacey Aldstadt, General Manager
City of San Bernardino
Municipal Water Department
P.O. Box 710
300 North D Street
San Bernardino, CA 92402

APN: 0136-111-14 and 0136-111-24

(Downtown San Bernardino
Passenger Rail Project)

NO FEE PER GOVERNMENT CODE SECTION 6103
SPACE ABOVE FOR RECORDER'S USE

GRANT OF EASEMENT

This Grant of Easement is entered into by and between the SAN BERNARDINO COUNTY TRANSPORTATION COMMISSION called Grantor, and the City of San Bernardino, hereinafter called Grantee.

Grantor in consideration of the mutual promises contained herein, and the public benefit provided, hereby grants unto Grantee, its successors and assigns, an easement to locate, relocate, construct, reconstruct, maintain, alter, enlarge, inspect, repair and replace underground pipelines for the transportation of water, and all pipes, conduits, manholes, structures and equipment necessary or convenient thereto, on, under across that certain real property described on Exhibit "A" and more particularly shown on Exhibit "B", attached hereto and by this reference made a part hereof.

THIS EASEMENT IS GRANTED SUBJECT TO THE CONDITIONS AS SHOWN ON EXHIBIT "C" ATTACHED AND MADE A PART HEREOF.

Date August 30, 2016

SAN BERNARDINO COUNTY
TRANSPORTATION COMMISSION

By _____

Print Name Raymond Wolfe

Print Title Executive Director

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT **CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of San Bernardino)

On August 30, 2016 (Date) before me, Anna Aldana, Notary Public, (Here Insert Name and Title of the Officer)

personally appeared Raymond Walter Wolfe (Name(s) of Signer(s))

who proved to me on the basis of satisfactory evidence to be the person~~(s)~~ whose name~~(s)~~ is/~~are~~ subscribed to the within instrument and acknowledged to me that he~~/she~~/~~they~~ executed the same in his/~~her~~/~~their~~ authorized capacity~~(ies)~~, and that by his~~/her~~/~~their~~ signature~~(s)~~ on the instrument the person~~(s)~~, or the entity upon behalf of which the person~~(s)~~ acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

ANNA ALDANA
Commission # 2013145
Notary Public - California
San Bernardino County
My Comm. Expires Mar 18, 2017

Signature Anna Aldana
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: Grant of Easement Document Date: August 30, 2016

Number of Pages: _____ Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: _____	Signer's Name: _____
☐ Corporate Officer — Title(s): _____	☐ Corporate Officer — Title(s): _____
☐ Partner — ☐ Limited ☐ General	☐ Partner — ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact	☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator	☐ Trustee ☐ Guardian or Conservator
☐ Other: _____	☐ Other: _____
Signer Is Representing: _____	Signer Is Representing: _____

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Project Name: Downtown San Bernardino
Passenger Rail Project
A.P.N #'s 0136-111-14, 24

PROJECT DESIGN CONSULTANTS
701 "B" Street, Suite 800
San Diego, CA 92101

EXHIBIT "A"
LEGAL DESCRIPTION
PERMANENT EASEMENT

RIGHT OF WAY PARCEL SBPR-57-3

A portion of Parcel C of Certificate of Compliance, Lot Line Adjustment #LLA-04-07, recorded July 13, 2005 as Instrument No. 502959, together with a portion of Lot 3, Block 11 of Map of Rancho San Bernardino, recorded in Book 7, page 2 of Maps; all of Official Records, in the Office of the County Recorder of San Bernardino County, in the City of San Bernardino, State of California, described as follows:

Commencing at the Northwest corner of said Parcel C, also being a point on the South right-of-way line of the former A.T. & S.F. Railroad (50 feet wide), now vested with San Bernardino Associated Governments (SANBAG) per Document No. 93-137041, recorded March 29, 1993 in the Office of the County Recorder of said County;

Thence along the West line of said Parcel C South 00°23'38" East 437.25 feet to the Southwest corner of said Parcel C;

Thence leaving said West line and along the South line of said Parcel C North 89°36'31" East 111.83 feet to the **True Point of Beginning**;

Thence leaving said South line North 00°23'20" West 2.68 feet;

Thence South 89°36'40" West 11.00 feet;

Thence North 00°23'20" West 31.13 feet;

Thence North 89°36'40" East 11.00 feet;

Thence North 00°23'20" West 5.87 feet;

Thence North 89°36'40" East 529.08 feet to a point on the West line of "E" Street, 82.5 feet wide, dedicated per said Map of Rancho San Bernardino;

Thence along said West line South 00°24'16" East 10.00 feet;

Thence leaving said West line South 89°36'40" West 485.57 feet;

Project Name: Downtown San Bernardino
Passenger Rail Project
A.P.N #'s 0136-111-14, 24

PROJECT DESIGN CONSULTANTS
701 "B" Street, Suite 800
San Diego, CA 92101

August 6, 2013
J.N. 3833.05
SHEET 2 OF 2

Thence South 00°00'00" West 10.00 feet;

Thence South 89°36'40" West 10.00 feet;

Thence North 00°00'00" East 10.00 feet;

Thence South 89°36'40" West 23.51 feet;

Thence South 00°23'20" East 29.68 feet to a point on the South line of said Parcel C;

Thence along said South line South 89°36'31" West 10.00 feet to the **True Point of Beginning**.

Said parcel contains 6,030 square feet, more or less.

Attached hereto is a plat labeled Exhibit 'B' and by this reference made a part thereof. Distances shown hereon are grid distances in U.S. Survey feet. To obtain ground level distances, multiply distance by 1/0.99993920. All bearings shown hereon are grid based upon the California Coordinate System, Zone 5, CCS83, (Epoch NSRS-2007). Bearings from reference deeds/maps may or may not be in terms of said system.

This legal description was prepared by me or under my direction in conformance with the Land Surveyors' Act.

08-06-2013

GARY L. HUS — DATE
LS 7019

LICENSED LAND SURVEYOR
GARY L. HUS
NO. 7019
Exp. date 6-30-14
STATE OF CALIFORNIA

PROJECT NAME: DOWNTOWN SAN BERNARDINO PASSENGER RAIL PROJECT

EXHIBIT "B"

PLAT TO ACCOMPANY LEGAL DESCRIPTION FOR PERMANENT EASEMENT PARCEL SBPR-57-3

LEGEND

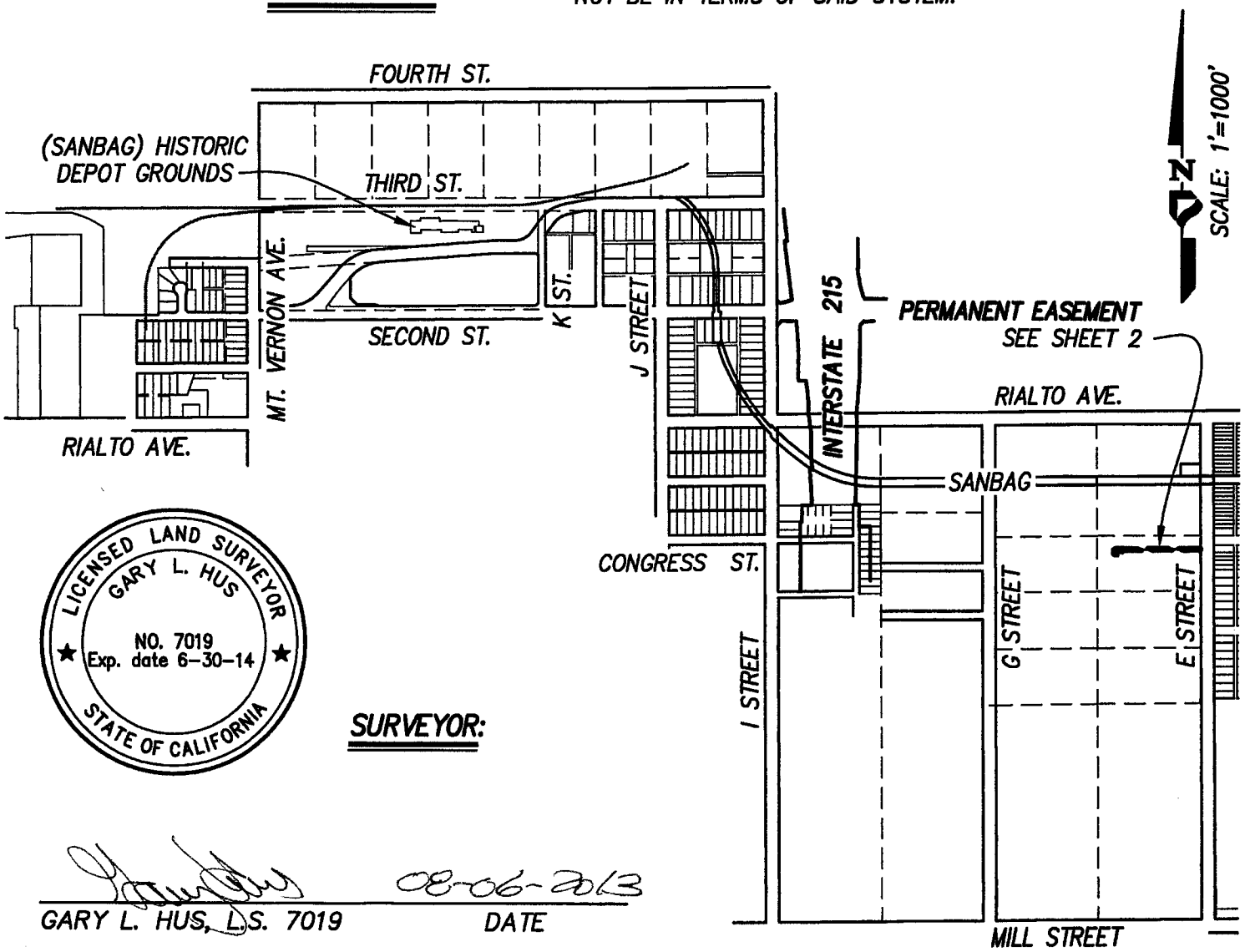
P.O.B. INDICATES POINT OF BEGINNING

INDICATES EASEMENT PARCEL SBPR 57-3.
AREA = 6,030 SQ. FT.

BASIS OF BEARINGS

THE BASIS OF BEARINGS FOR THIS SURVEY IS THE CALIFORNIA COORDINATE SYSTEM, ZONE 5, CCS83, (EPOCH NSRS-2007) AS DETERMINED LOCALLY BY A LINE BETWEEN CONTINUOS OPERATING REFERENCE STATIONS (CORS) "BMRY" AND "P612" BEING NORTH 51°15'41" WEST (GRID) AS DERIVED FROM GEODECTIC VALUES PUBLISHED BY THE CALIFORNIA SPATIAL REFERENCE CENTER (CSRC) AND/OR NATIONAL GEODETIC SURVEY (NGS), RESPECTIVELY. DISTANCES SHOWN ON THIS SURVEY ARE GRID DISTANCES IN U.S. SURVEY FEET. TO OBTAIN GROUND LEVEL DISTANCES, MULTIPLY DISTANCES BY 1/0.99993920. BEARINGS FROM REFERENCE DEEDS/MAPS MAY OR MAY NOT BE IN TERMS OF SAID SYSTEM.

VICINITY MAP



LICENSED LAND SURVEYOR
GARY L. HUS
NO. 7019
Exp. date 6-30-14
STATE OF CALIFORNIA

SURVEYOR:

08-06-2013

GARY L. HUS, L.S. 7019 DATE

PROJECT DESIGN CONSULTANTS
Planning | Landscape Architecture | Engineering | Survey
701 B Street, Suite 800
San Diego, CA 92101
619.235.6471 Tel
619.234.0349 Fax

P:\3833\SURVEY_BNDRY\SURVEY_DWG\PLATS\RAILROAD RW - TAKES\SBPR-57\3833-SBPR-57-3-SHT1_REVAUG2013.DWG

PROJECT NAME: DOWNTOWN SAN BERNARDINO PASSENGER RAIL PROJECT

EXHIBIT "B"

PLAT TO ACCOMPANY LEGAL DESCRIPTION FOR PERMANENT EASEMENT PARCEL SBPR-57-3

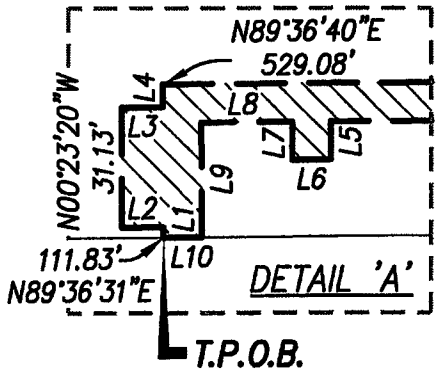
LINE TABLE		
LINE	BEARING	LENGTH
L1	N00°23'20"W	2.68'
L2	S89°36'40"W	11.00'
L3	N89°36'40"E	11.00'
L4	N00°23'20"W	5.87'
L5	S00°00'00"W	10.00'
L6	S89°36'40"W	10.00'
L7	N00°00'00"E	10.00'
L8	S89°36'40"W	23.51'
L9	S00°23'20"E	29.68'
L10	S89°36'31"W	10.00'

LEGEND

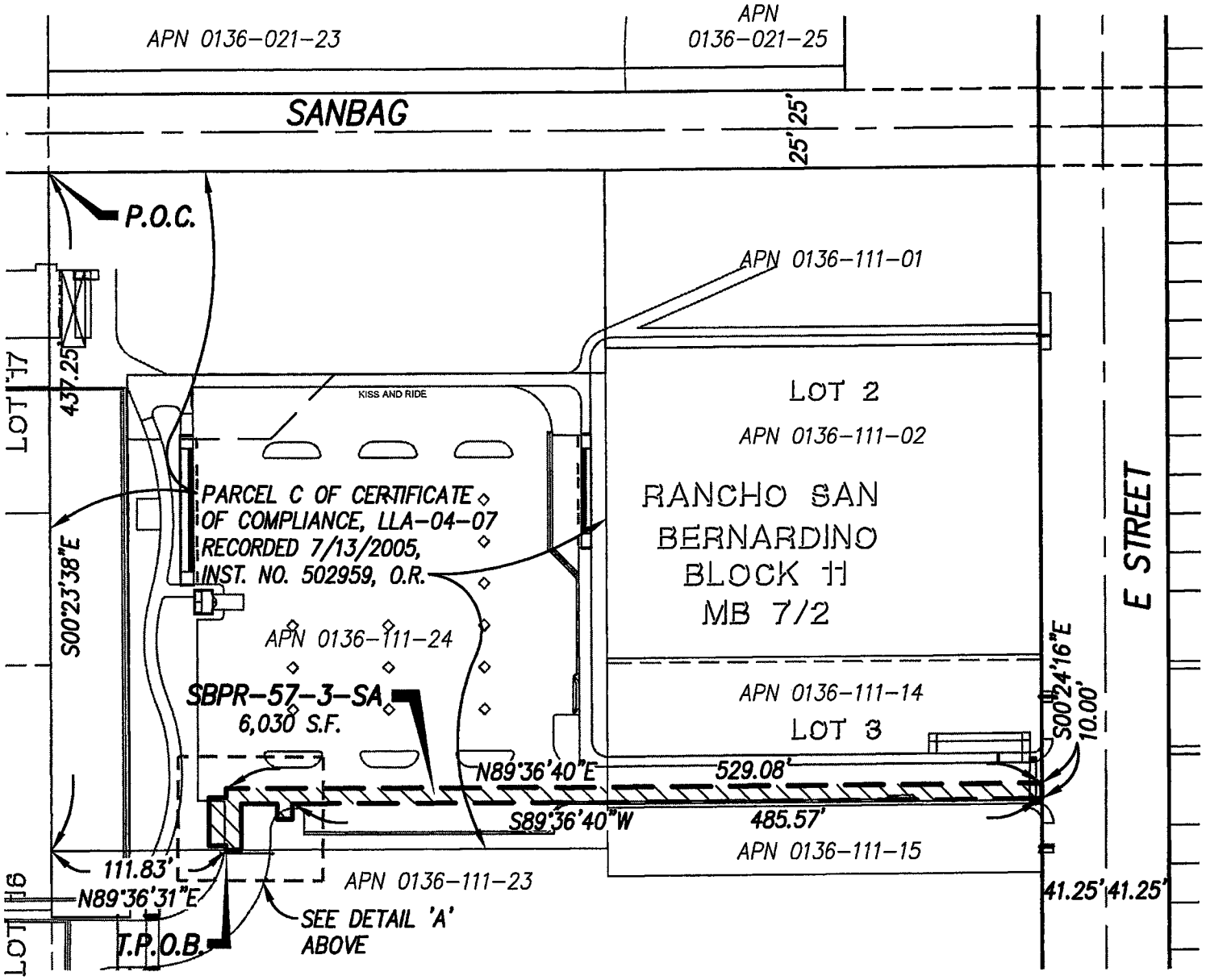
P.O.C. INDICATES POINT OF COMMENCEMENT

T.P.O.B. INDICATES TRUE POINT OF BEGINNING

INDICATES PERMANENT EASEMENT



SCALE: 1'=100'



PROJECT DESIGN CONSULTANTS
Planning | Landscape Architecture | Engineering | Survey

701 B Street, Suite 800
San Diego, CA 92101
619.235.6471 Tel
619.234.0349 Fax

P:\3833\SURVEY_BNDRY\SURVEY_DWG\PLATS\RAILROAD RW - TAKES\SBPR-57\3833-SBPR-57-3-SHT2_REVAUG2013.DWG

EXHIBIT "C"
CONDITIONS

1. Grantee hereby agrees to save and hold harmless Grantor and its officers or employees from all sums which Grantor or any of its officers or employees may be obligated to pay by reason of any liability imposed on them for damages arising out of the performance of the services rendered by Grantee and caused by any error, omission or act of Grantee or any person employed by him or her or any others for whose acts Grantee is legally liable. Said sums shall include, in the event of legal action, court costs, expenses of litigation and reasonable attorney's fees.

2. Grantor hereby agrees to save and hold harmless Grantee and its departments, agencies, officers or employees from all sums which Grantee or any of its departments, agencies, officers, or employees may be obligated to pay by reason of any liability imposed on them for damages arising out of the performance of the services rendered by Grantor and caused by any error, omission or act of Grantor or any person employed by him or her or any others for whose acts Grantor is legally liable. Said sums shall include, in the event of legal action, court costs, expenses of litigation and reasonable attorney's fees.

3. Grantor reserves the right to use said real property in any manner, provided such use does not unreasonably interfere with Grantee's rights hereunder. No structures will be erected within the limits of this easement to include but not limited to buildings, walls, swimming pools, ponds, fences and similar type structures. Any structures placed within easement limits without the approval of the Grantee will be removed at the Grantor's expense.

4. No substantial landscape items will be installed within the limits of this easement to include but not limited to trees, shrubs, landscape walls and similar type landscape material. Limited groundcover landscaping will be subject to written approval by Grantee and any landscape groundcover material previously approved by Grantee, and placed within easement limits and subsequently removed due to Grantee's activity shall be replaced by Grantee at Grantee's expense. Any landscape material placed within easement limits without the approval of the Grantee will be removed at Grantor's expense.

5. Grantor reserves the right to require Grantee, at Grantor's expense, to remove and relocate all improvements placed by Grantee upon said real property, upon determination by Grantor that the same will interfere with future development of Grantor's property. Within 180 days after Grantor's written notice and demand for removal and relocation of the improvements, Grantee shall remove and relocate the improvements to a feasible location on the property of Grantor, as designated by Grantor provided that Grantor shall grant Grantee with an easement in such new location, on the same terms and conditions as herein stated, all without cost to Grantee, and Grantee thereupon shall reconvey to Grantor the easement herein granted.

6. Grantee agrees to use due care in any use of the easement herein granted and in the construction, installation, repair, replacement and maintenance of Grantee's improvements on the easement area as provided for herein so as not to unreasonably disturb Grantor's use of its property.

PROJECT NAME: Downtown San Bernardino Passenger Rail Project
APN: 0136-111-14 and 0136-111-24

Certificate of Acceptance

This is to certify that the interest in real property conveyed by the within instrument to Grantee, the San Bernardino Municipal Water Department, a municipal corporation, is hereby accepted by order of the City Council, and Grantee consents to the recordation thereof by its duly authorized officer.

SAN BERNARDINO MUNICIPAL
WATER DEPARTMENT

By: _____
Stacey R. Aldstadt, General Manager

Date: _____

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 27 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: Miguel J. Guerrero, P.E., Director of Water Utility

SUBJECT: **CONTINGENCY/EMERGENCY WATER SUPPLY SALES AGREEMENT BETWEEN THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT AND THE CITY OF LOMA LINDA**

DATE: September 22, 2016

COPIES: Robin Ohama (w/attach), Terri Willoughby (w/attach), Mike Garland (w/attach)

BACKGROUND:

In December 1997, the Water Department entered into an agreement to provide contingency and emergency water supply to the City of Loma Linda through two water supply inter-ties. This inaugural agreement expired December 2002 and a new agreement was executed in April 2003. The renewed agreement included several requirements for metering/connection upgrades and good faith effort on Loma Linda's part for securing reliable water supply sources, as the Department cannot guarantee consistent, uninterrupted supply. This agreement expired April 2007 and has not been renewed since.

In July 2016, the Water Department was contacted by the City of Loma Linda to discuss and work out a new agreement. The agreement was drafted by the Department and sent to Loma Linda for review and approval. The agreement was unanimously approved by the Loma Linda City Council on August 9, 2016, and two signed copies of the agreement were provided for the Water Department's final approval and execution.

It is important to note that requirements stipulated in the previous agreement, including connection and water supply reliability issues, were address by the Water Department and Loma Linda. It is also important to note that this new agreement does not in any way create an obligation for delivery without substantial need and that no water rights are transferred through this agreement.

Providing inter-ties, such as these with the City of Loma Linda, is a prudent measure and supports the Water Department's efforts to assist neighboring communities in times of emergency; of course, provided this type of assistance does not adversely impact the Water Department's ability to serve its own customers.

Agenda Item 6

SUBJECT: CONTINGENCY/EMERGENCY WATER SUPPLY SALES AGREEMENT BETWEEN THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT AND THE CITY OF LOMA LINDA

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

> **Approve the Contingency/Emergency Water Supply Sales Agreement between the City of San Bernardino Municipal Water Department and the City of Loma Linda and authorize the President and Secretary to execute the Agreement.**

Respectfully submitted,

Miguel J. Guerrero, P.E.
Director of Water Utility

MJG:swd
Attach.

CONTINGENCY/EMERGENCY WATER SUPPLY SALES AGREEMENT BETWEEN THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT AND THE CITY OF LOMA LINDA

This CONTINGENCY/EMERGENCY WATER SUPPLY SALES AGREEMENT (Agreement), by and between the CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT (Department) and the CITY OF LOMA LINDA (Loma Linda), is entered into and effective from the _____ day of _____, 2016.

RECITALS

A. Loma Linda is willing to purchase water from the Department on an interim basis, as needed to augment its supply.

B. The Department has sufficient supply to deliver and sell water to Loma Linda, on an interim basis and for emergency, short- term purposes. However, the Department's ability to deliver and sell water to Loma Linda is entirely contingent on its ability to do so without adversely impacting delivery to its own customers.

C. Loma Linda acknowledges that nothing in this Agreement creates any claim, vested right, property right or water right, and that the delivery and sale of water to Loma Linda by the Department creates no claim, vested right, property right or water right.

NOW THEREFORE, the Department and Loma Linda agree that the Department will sell and deliver water to Loma Linda, and Loma Linda will purchase and accept delivery of water on the following terms and conditions:

1. DELIVERY OF WATER AND RATE OF FLOW: Loma Linda can receive Agreement water from the Department at two (2) metered locations: one 12" service located near the intersection of Richardson Avenue and

Cooley Avenue, and one 8" service located near the intersection of Redlands Boulevard and Anderson Avenue.

2. LIMITATIONS ON DELIVERY:

A. Before delivery, Loma Linda shall notify the Department of its need for delivery and shall provide an estimate of duration of delivery. Notification must be provided at least 48 hours prior to requested delivery start time, and shall be by verbal communication to Department staff in the following order:

Water Utility Operations Superintendent	(909) 384-5087
Water Treatment Supervisor	(909) 384-5099
Water Treatment Operator Lead #1	(909) 454-5329
Water Treatment Operator Lead #2	(909) 454-5406
Water Utility Director	(909) 384-5107

B. The Department will only deliver water if delivery will not adversely affect service to the Department's customers.

C. The Department will not deliver in excess of 2,500 gallons per minute.

D. During the period June 1 through October 1, the Department will not deliver in excess of 1,000 gallons per minute.

E. The Department can waive the provisions of Sections 2C and 2D if, in its sole discretion, it determines that delivery in excess of these amounts will not jeopardize service to its customers.

3. CONNECTION COSTS: All water meter(s) and pipeline connections were previously completed with approved metering and backflow prevention devices. In addition to metering and protection devices, SCADA telemetry was installed for added monitoring and data logging.

4. TERM OF AGREEMENT: Unless terminated as specified at Section 5, this Agreement will continue in force for a period of four (4) years, beginning on _____, 2016 and ending on_____, 2020 (Primary Term). This Agreement may be extended for up to two (2) years after the Primary Term end date. Loma Linda shall provide the Department with notice at least six months before the end of the Primary Term that it would like to exercise the extension (Extension Term). The Department may, in its sole discretion, deny a request for an Extension Term. The Agreement does not automatically extend.

5. TERMINATION: The Department may, in its sole discretion, terminate this Agreement before the end of the Primary Term or during the Extension Term with thirty (30) days written notice to Loma Linda, except for non-payment. In the event of non-payment by Loma Linda, the Department shall terminate the Agreement immediately and in compliance with State law. Loma Linda may terminate this Agreement with thirty (30) days written notice to the Department. Notice of termination, once given, may not be withdrawn without the consent of the other party.

6. MONTHLY BILLING: The billing period shall be monthly. The water meter(s) at the point(s) of delivery will be read by the Department each month. All water meter(s) shall be accessible to either party at all times. The unit volume of water for billing purposes will be hundreds of cubic feet (hcf).

7. MONTHLY CHARGE: Loma Linda shall pay for Agreement water on a monthly basis at the Department's domestic rate in effect at the time and date of billing based upon size of service and water delivered.

8. NO INTEREST CREATED: Loma Linda shall not acquire or claim any right, title or interest in water supplied under this Agreement, other than the contingent right to purchase, as provided in this Agreement, and acknowledges that such interest is terminable as provided in this Agreement.

9. INDEMNIFICATION: The Department, the City of San Bernardino, their elected officials, commissioners, employees, officers, and agents shall not be liable for the control, carriage, handling, use, disposal or distribution of Agreement water delivered pursuant to this Agreement, after such water has passed through the water meter(s) installed for measuring and delivery by the Department to Loma Linda. Nor shall the Department, the City of San Bernardino, their elected officials, commissioners, employees, officers, and agents be liable for any claim of damage of any nature whatsoever, including claims under the Comprehensive Environmental Response, Compensation and Liability Act and the Resource Conservation and Recovery Act, including, but not limited to, claims by third parties, claims for property damage, personal injury or death arising out of or connected with such control, carriage, handling, use, disposal or distribution of Agreement water pursuant to this Agreement after such water has passed the metering point. Loma Linda shall defend, indemnify and hold harmless the Department, the City of San Bernardino, and their elected officials, commissioners, employees, officers, and agents from and for any such damages or claims.

10. NO GUARANTEE: The Department does not guarantee against interruption or disruption of water supply, nor does the Department guarantee a specific water pressure.

11. MODIFICATION OR AMENDMENT: This Agreement may only be modified or amendment by mutual written agreement.

12. WATER QUALITY: Water delivered by the Department at the water meter(s) shall be of a quality, at the delivery point, complying with all applicable State Water Resources Control Board standards for domestic use.

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

By: _____
Toni Callicott, President
Board of Water Commissioners

By: _____
Robin L. Ohama, Secretary
Board of Water Commissioners

APPROVED AS TO FORM:
Gary D. Saenz, City Attorney

By: _____

CITY OF LOMA LINDA

By: R L Rigsby
Rhodes Rigsby, Mayor

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 27 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: John A. Claus, Director of Water Reclamation

SUBJECT: **REQUEST TO RATIFY THE REMEDIATION OF THREE WELLS FOR THE RIX WELL RETROFIT PROJECT – LAYNE CHRISTENSEN COMPANY**

DATE: September 27, 2016

Copies: Terri Willoughby, Kevin Stewart, Michelle Honis, Sydney Morrison, Aaron Winchester, Laserfiche

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BACKGROUND:

In Consultation with the U. S. Fish and Wildlife Service, the Department is implementing various RIX Facility enhancements, including improving existing test wells and converting them to production wells, in order to provide a supplemental water source to the Santa Ana River for protection of fish and their habitat, as needed, during RIX Facility shutdowns.

Staff has completed a Conceptual Design Report for the RIX Well Retrofit project, and has retained Wildermuth Environmental, Inc. (WEI) to perform hydrologic analysis of the three existing test wells and a proposed fourth well, along with associated discharge pipelines that would be constructed within the RIX Expansion parcel in conjunction with the equipping of the existing test wells. Information on the three existing wells follows:

Well	Diameter (inches)	Depth[1A] (ft)	Screened Area[1A]	Pump Depth[1A]	Static Water Level[1B] (at install)	(current)
TW-1[2]	18	110.5	45-105	None	13	18.13
PW-2[3]	18	82	41-71	None	22	24.42
PW-3[4]	18	82	42-72	None	18	20.50
Notes:						
1A: Depth below top of casing *1B: Depth below ground surface (BGS)*						
2: TW-1 estimated yield at 2009 testing: 1,500 gpm						
3: PW-2 estimated yield at construction: 1,400 gpm						
4: PW-3 estimated yield at construction: 1,050 gpm						

Agenda Item 7

SUBJECT: **REQUEST TO RATIFY THE REMEDIATION OF THREE WELLS FOR THE RIX WELL RETROFIT PROJECT – LAYNE CHRISTENSEN COMPANY**

Based on the completed hydrologic analysis for the RIX Well Retrofit project (Santa Ana Sucker Habitat Maintenance/Restoration Project), WEI recommended redeveloping the existing test wells using swabbing, brushing, surging, and pumping techniques in order to achieve the highest possible well efficiency. Secondly, WEI recommended performing step draw-down testing of the existing wells to determine the range of optimal pumping rates and well settings for each well.

In furtherance of the preliminary design process and to expedite the final design of the new pumps and equipment (generator, electrical connection, piping, etc.), Staff requested urgent proposals from the five prequalified contractors (In December 2014, staff issued a Request for Qualifications [RFQ] under Specification No. 1640 – Well Rehabilitation Assessment and Repair. As a result, in February 2015, five [5] well rehabilitation contractors were prequalified based on work experience, minimum insurance requirements, proper contractor's license, bonding capacity, experience level, and adequate staffing.) to inspect and remediate the three existing wells pursuant to Specification No. 1640. The contractors were asked to provide quotations expediting the remediation work to completion within a thirty (30) calendar day period. Costs were also requested from the same contractors for the same scope of work without a project duration. As a result of the acceleration requirement, two Contractors were unable to provide quotations for the 30-day period due to inadequate staffing and equipment availability. A summary of the quoted costs follows:

Contractor	"Accelerated" duration cost	"Standard" duration cost
Layne Christensen Company	$248,324.00	$259,945.00
Best Drilling and Pump	$299,331.00	$253,737.00
Weber Water Services	$423,951.00	$378,911.00
South West Pump & Drilling	Declined to Bid	$531,241.00
Tri County Pump Company	Declined to Bid	Declined to Bid

Layne Christensen Company (Layne) was responsive and provided the lowest quotation for the Accelerated Project in the amount of $248,324.00 (a copy of Layne's proposal, along with the Scope of Work is attached for reference).

The quotations indicating the lowest obtainable price on the open market were available on September 9, 2016. Awaiting advance approval by the Board of Water Commissioners until September 20, 2016, would have added nearly two weeks of delay at a phase in the greater Project when time was of the essence. As such, Staff recommended proceeding with the expedited work pursuant to the Emergency Procedures authority granted in Department Policy 51.030, Item G – Emergency Purchases.

On September 9, 2016, the General Manager authorized the proceeding with the expedited work. On September 12, 2016, Department's Purchasing Agent issued Purchase Order No. 031504 to Layne in the amount of $248,324.00.

SUBJECT: **REQUEST TO RATIFY THE REMEDIATION OF THREE WELLS FOR THE RIX WELL RETROFIT PROJECT – LAYNE CHRISTENSEN COMPANY**

FUNDING SOURCE:

This project is included in the Fiscal Year 2016/17 RIX CIP budget (Construction Order 00189). Sufficient funds are available to fund the well remediation effort.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- Ratify the issuance of a purchase order in the amount of TWO HUNDRED AND FORTY EIGHT THOUSAND THREE HUNDRED AND TWENTY FOUR DOLLARS ($248,324.00) to Layne Christensen Company for the Remediation of Three RIXES Wells.

Respectfully submitted,

John A. Claus
Director of Water Reclamation

JAC:KTS

Attachments:

- RIXES Wells Remediation – Quote – Layne – 09-08-16
- RIXES Wells Remediation – Scope of Work – 09-08-16

9/8/2016

Quote: 72510

Mr. Kevin Stewart
City of San Bernardino
399 Chandler Place, San Bernardino
San Bernardino, CA 92408

Re: TW-1, PW-2, PW-3 - Perform well development per specifications

Dear Kevin ,

We are pleased to present our project estimate for the referenced work to be performed at the well sites adjacent to Miguel Bustamante Pkwy

Mobilize all crew and equipment to the site and perform redevelopment efforts per the attached specifications provided by the City of San Bernardino. It is Layne's intent to complete the pump test portion of the project in 30 days. Discharge, storage tanks, site security, water truck rental, etc. estimate assume one month rental cycle (30 days) . In the event additional redevelopment (airlifting and or test pumping, brushing, bailing etc.) is required because of unknown pre-existing well conditions that may extend the project past the estimated finish date, additional cost will be invoiced for those rental items needed to complete the project. Layne will not exceed the contract hours listed in the attached bid specification without prior written authorization from the City of San Bernardino.

Sincerely,
Layne Christensen Company

Ricky Trujillo
Account Manager
(909) 957-7782

WATER RESOURCES

1717 Park Ave, Redlands, CA 92373 | Office: 909-390-2833 | Fax: 909-390-6097 | layne.com

9/8/2016 Quote: 72510
TW-1, PW-2, PW-3

Our estimate is valid for 30 days and is subject to the attached Terms and Conditions. Our terms and conditions are hereby incorporated by reference and constitute a part of this estimate. Please contact your Layne representative if you have any questions.

WATER RESOURCES

1717 Park Ave, Redlands, CA 92373 | Office: 909-390-2833 | Fax: 909-390-6097 | layne.com

9/8/2016
TW-1, PW-2, PW-3

Quote: 72510

CONFIRMING ORDER

The undersigned Client instructs Layne Christensen Company to proceed with the work described with the understanding that Layne's Standard Terms and Conditions and attached documents are hereby incorporated as part of this Confirming Order.

Work to be performed per attached quote .
Water well rehabilitation or well repair may require the use of strong chemical agents and / or mechanical techniques that impart higher than normal stresses on the well. This is necessary to effectively repair the well casing or disperse and distribute the chemicals to breakdown any mineral build up, bio fouling or encrustation. Layne will use standard industry practices available to repair or rehabilitate the well; however it is possible due to poor construction practices, poor construction materials, pre-existing conditions, etc. that damage may occur. Impairment is very unlikely and rarely occurs, but should such events such as gas production, increased sand production, reduced capacity casing damage, surface subsidence, water quality changes or complete well failure occur, Layne Christensen will not be held liable for any damage due to these repair rehabilitation process

CLIENT	CONTRACTOR
City of San Bernardino	Layne Christensen Company
By:	By:
Title:	Title: Account Manager
Date:	Date: 9/8/16

WATER RESOURCES

1717 Park Ave, Redlands, CA 92373 | Office: 909-390-2833 | Fax: 909-390-6097 | layne.com

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

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Director of Water Utility
JOHN A. CLAUS
Director of Water Reclamation
JENNIFER SHEPARDSON
Director of Environmental & Regulatory Compliance
TERRI WILLOUGHBY
Director of Finance

"Trusted, Quality Service since 1905"

September 1, 2016

Ricky Trujillo
Account Manager
Layne
1717 West Park Avenue
Redlands, CA 92373

Reference: Informal Request for Quotation
Remediation of Three RIXES Wells (TW-1, PW-2, and PW-3)

Dear Mr. Trujillo:

The City of San Bernardino Municipal Water Department ("Department") has committed to various enhancements to its existing Regional Tertiary Treatment Rapid Infiltration and Extraction (RIX) Facility. One of the enhancements is to re-develop/remediate and equip three (3) existing groundwater extraction wells (TW-1, PW-2, and PW-3, collectively known as the Three RIXES Wells) for use as production wells.

In August 2016, a water resources consulting firm transmitted a report to the Department characterizing certain hydrogeologic capabilities of the Three RIXES Wells based upon previous data produced during initial development (2003 to 2008). Given the elapsed time since initial development, as well as the change in regional groundwater levels, the consulting firm recommended re-development/remediation of the three wells in order to achieve the highest possible well efficiency values and determination of the range of optimal pumping rates and well settings for each well.

In December 2014, the Department issued a Request for Qualifications (RFQ) under Specification No. 1640 – Well Rehabilitation Assessment and Repair. As a result, your firm was selected as one of five (5) well rehabilitation contractors that were prequalified to perform well rehabilitation, assessment, and repair. A scope of work is itemized below that defines this type of work for the Three RIXES Wells. If your firm is interested in providing the services listed below, please transmit

300 North "D" Street, San Bernardino, California 92418 P.O. Box 710, 92402 Phone: (909) 384-5141
FACSIMILE NUMBERS: Administration: (909) 384-5215 Engineering: (909) 384-5532 Customer Service: (909) 384-7211
Corporate Yards: (909) 384-5260 Water Reclamation Plant: (909) 384-5258

an itemized quotation to provide all labor, materials, and equipment necessary to complete the Scope of Work listed below. The quotation may be submitted on the Contractor's own form but shall include a completed "Itemized Proposal Breakdown" form without modification in Excel format.

Evaluation, Purchase Order, and Payment Process

All quotations received will be evaluated for responsiveness to all stipulated requirements. The Contractor's evaluated cost will be the sum of all extended line items on the Itemized Proposal Breakdown under the "Accelerated" column with the assumed hour quantities shown. Any proposed deviations shall be proposed as a notation on the Contractor's own form and discussed in a scoping meeting prior to the award recommendation that follows. A memorandum shall be made to the Board of Water Commissioners recommending award of a Purchase Order to the lowest responsive, responsible respondent. Payment applications shall be submitted no more frequently than once per calendar month and shall be on a unit price basis based upon the hours completed multiplied by the hourly unit prices identified in the Itemized Proposal Breakdown or the lump sum ("each") items completed. Payment will be made on a Net 30 basis in accordance with Public Contract Code requirements.

Administrative Requirements:

1. Schedule and confirm an appropriate period of time to complete the work listed below with the Department's Construction Project Manager.
2. Complete all safety requirements (lock-out, tag-out, block-out, etc.) in accordance with OSHA standards.
3. Refer to Attachment A for Well Completion Reports and pertinent data relating to each of the Three RIXES Wells.
4. Schedule and complete a mandatory site walk with the Department's Construction Project Manager listed at the bottom of this Scope of Work. The intent of the site walk is for the Contractor to acquaint themselves with the existing site conditions, including, but not limited to, site access and temporary facility / security constraints.
5. The Contractor alone shall be responsible for the security, safety, efficiency, and adequacy of their equipment, appliances, and methods, and for any damage, which may result from their security efforts, improper construction, maintenance, or operation.
6. All persons involved in the aforementioned work shall adhere to the Department's Standard Security Procedures (Section 013553).
7. All work performed shall be subject to prevailing wage rules.
8. Time is of the essence for this Work. As such, an accelerated schedule is required for this Project. All possible effort shall be expended to complete the full Scope of Work in the shortest possible duration. A maximum of thirty (30) calendar days from issuance of a Notice to Proceed shall be permitted for completion of this Project.
    a. The thirty (30) calendar day limitation shall begin within three (3) business days of receipt of the Notice to Proceed.
    b. Substantial Completion, for the purposes of this Project shall consist of receipt of the Well Reports for all three wells (TW-1, PW-2, and PW-3). Teardown, demobilization, and similar efforts are not considered a part of the 30 day limitation.
    c. In support of the Department's justification of the additional costs associated with an accelerated project schedule, Contractor shall complete the column

entitled "Normal Duration" on the Itemized Proposal Breakdown worksheet. This is the hourly cost that the Department would have seen, had the 30 calendar day constraint not been included.

Technical Requirements:

The work that follows is applicable to each of the Three RIXES Wells (TW-1, PW-2, and PW-3) but is listed as a single item for brevity.

9. Perform video inspection of the well to document the existing pre-remediation condition. Provide digital video file and selected, applicable images from the inspection that accurately represent the condition of the well.
10. Wire brush and bail the well from the top of casing to the bottom. Wells using wire wrap shall be cleaned with a poly brush or similar cleaning apparatus that will not damage the well screen. All Respondents shall use an assumed sixteen (16) hours of brushing / bailing for each well.
11. Perform video inspection of the well to check the structure of the well following the wire brushing. Provide digital video file and selected, applicable images from the inspection that accurately represent the condition of the well.
12. Verify or correct all blank and screened casing boundary depths shown on the Well Completion Report, including the true casing bottom.
13. Meet with Department's Construction Project Manager to verify that remediation work will be performed for the well. Department may elect not to proceed with further remediation at this point.
14. Perform Sonar-Jet® remediation of the gravel pack surrounding the casing through the full screened depth to loosen hardened mineral or bacterial deposits and "deep clean" the aquifer immediately surrounding the casing. Discuss and coordinate the detonation "strength" level with the Department in advance of the work, taking into consideration the condition of the existing screen.
15. Perform Dual-Swabbing while airlifting to agitate and redevelop the well by removing dissolved minerals and dislodged formation materials / sediment. All Respondents shall use an assumed sixteen (16) hours of dual-swabbing for each well.
16. Provide suitable temporary storage for containment of swabbing and bailing fluids developed from the Well.
    a. Decanted fluids not exceeding ten (10) Nephelometric Turbidity Units (NTU) may be discharged into the temporary discharge line.
    b. Legally dispose of all sediment and sediment-filled fluids off-site and provide Department with documentation of legal disposal.
17. Furnish, install, and remove a 3,500 gallon-per-minute (GPM) test pump capable of being turned down to at least 1,000 GPM. Provide all hoses, pumps, temporary piping, and other appurtenances / equipment. Refer to Attachment B for the Well Development Discharge Piping Alignment. Contractor shall note that there are numerous scope of work requirements listed on the Discharge Piping Alignment document in addition to those noted herein.
18. Temporary discharge piping shall be routed along the alignment shown and shall include penetration through the secured RIX Facility perimeter fence. No excavation shall be permitted adjacent to the interior of the RIX Facility perimeter fence at any time for any reason. Discharge piping into the turnout structure between RIX Basins 1A and 1B shall

be self-supported and flow shall not be permitted to leave the discharge structure (splashing out).

19. All discharged groundwater shall meet the following requirements:
    a. Temporary pumps, piping, and appurtenances shall impart on the extracted groundwater no additional chemicals, constituents, contaminants, or other foreign matter that will place the Department in violation of permitted effluent limits. Contractor shall submit proposed discharge piping system for acceptance by the Department. No additional testing shall be required of the Contractor to verify compliance, only confirmation that the equipment utilized by the Contractor will not impart chemicals, constituents, contaminants, or other foreign matter that is not already in the groundwater being extracted.
    b. Discharged groundwater shall be accurately metered and reported on a daily basis, without exception. Values shall be reported to the Department-designated staff member with acknowledgement by the conclusion of each operating day. The volumetric flow rate and metered discharge must be included in the Department's mandatory regulatory reporting.
20. Re-develop the well with the test pump. All Respondents shall use an assumed twenty-four (24) hours of well re-development time. Hourly rates shall be shown on the itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected Respondent. In no event shall this task exceed forty-eight (48) hours.
21. Perform a step drawdown test with the test pump. All Respondents shall use an assumed twenty-four (24) hours of test pumping time (including either step drawdown testing or constant rate testing). It is assumed that each "step" of testing will not last more than approximately four (4) hours. Hourly rates shall be shown on the itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected Respondent. In no event shall this task exceed forty-eight (48) hours.
22. Provide a sampling location with minimal discharge pressure. Coordinate with the Department's Construction Project Manager in advance to determine if Department staff will take water quality samples while test pumping is ongoing. Assist Department with all necessary steps to complete proper sampling methods (assist with the determination of well flushing rate, etc.). Hourly unit rates shall be shown on the itemized cost list for assistance with sampling. All Respondents shall use an assumed two (2) hours of assistance at each well.
23. Provide a written report (digitally transmitted) that documents the results of all tests performed. Provide the following pieces of information:
    a. Well Yield
    b. Specific Capacity
    c. Results of step drawdown testing at each flow rate tested

    Include in the report any other pertinent findings or recommendations of the Contractor. All well testing logs and data shall be provided to the Department digitally in PDF format. This deliverable is of utmost importance and urgency to the Department.
24. Prepare and submit a digitally-prepared Daily Report by a member of the field staff identifying:

a. All project biographical information and applicable date
b. Weather and general site / security comments
c. Applicable well number / location
d. Work activities completed
e. Labor and equipment used (by name, including individual hours)
f. Minimum of 2 photographs

25. Department intends to utilize the findings of the remediation and test pumping report in the final design of the well equipping. A final design shall then be issued as part of a greater project, referred to as the "Retrofit of RIX Expansion Project Test Wells into Production Wells Project."
26. Contractor shall minimize the work area footprint to the minimum possible space.
27. Temporary Facilities:
    a. The Contractor shall provide all temporary facilities and utilities required for prosecution of the work, protection of employees and the public, protection of the work from damage by fire, weather or vandalism and such other facilities as may be specified or required by any legally applicable law, ordinance, rule or regulation. No additional temporary facilities or utilities shall be provided for the Department unless listed below.
    b. **Electricity**. The Contractor shall provide at his own cost all electric power required for construction, testing, general and security lighting, and all other purposes until the substantial completion of the Project.
    c. **Lighting**. The Contractor shall provide at his own cost all lighting in all work areas sufficient to maintain a lighting level during working hours not less than the lighting level required by California OSHA standards until the substantial completion of the Project
    d. **Construction Water**. The Contractor shall provide at his own cost all water sources necessary for dust control, construction, testing, general, and all other purposes until the substantial completion of the Project.
        i. During the course of normal Department working days (7:00 AM to 4:00 PM on weekdays), the Contractor may utilize a source of Plant Water within the RIX Facility to fill a mobile water truck (or similar).
        ii. A small diameter (investigation into size is ongoing) Plant Water source is available near the side access gate that could be extended at the Contractor's expense via temporary hose to a valve to be provided by the Contractor and located outside the RIX Facility. The Contractor would be responsible for protecting this valve and source. Additionally, it is noted that the water pressure and flow rate for this source is very low and would not likely be a preferred source of construction water.
        iii. No access to the RIX Facility will be granted after hours or on the weekend for dust control or construction water.
    e. **Dust Control**. Perform dust control operations to prevent construction operations from producing dust in amounts harmful to persons; causing a nuisance to persons present nearby; or that leaves the work area designated. Refer to requirements of the South Coast Air Quality Management District for dust control regulations. Use only water to control dust.

f. **Fire Danger**. Minimize fire danger in the vicinity of an adjacent to the Work area. Provide equipment necessary to protect the surrounding area from fire damage resulting from construction operations.
g. **Access Roads**. The Contractor and his employees will only be permitted to utilize and park their vehicles on existing access roads. No vehicle travel across undeveloped land shall be permitted at any time. Contractor shall take careful note of the existing access conditions.
h. **Sanitary Facilities**. Contractor shall furnish temporary sanitary facilities at the Site for the needs of all construction workers and others performing work or furnishing services on the Project. Secondary containment shall be provided at all facilities.
i. **Disposal**. All rubbish produced in course of work or by employees relating to the work shall be collected and legally disposed off-site by the Contractor at his own expense.

The following is a summary of the reasons for this well rehabilitation effort:

Reason: The 3 wells have gone unused since their initial development in 2003 (TW-1) and 2008 (PW-2 and PW-3). The Department requires maximum well efficiency values from each well.

Attachments:
A. Well Completion Reports and Pertinent Well Data
B. Well Development Discharge Piping Alignment
C. Site Security
D. Itemized Proposal Breakdown

Please transmit your quotation to me at the email address noted below by the date noted:

Due Date: Thursday, September 8, 2016 by 5:00 PM PDT

Kevin Stewart, Construction Project Manager
kevin.stewart@sbmwd.org
(909) 454-5651

Itemized Proposal Breakdown

Layne Christensen Company

Project: [CO 00189] Remediation of the Three RIXES Wells

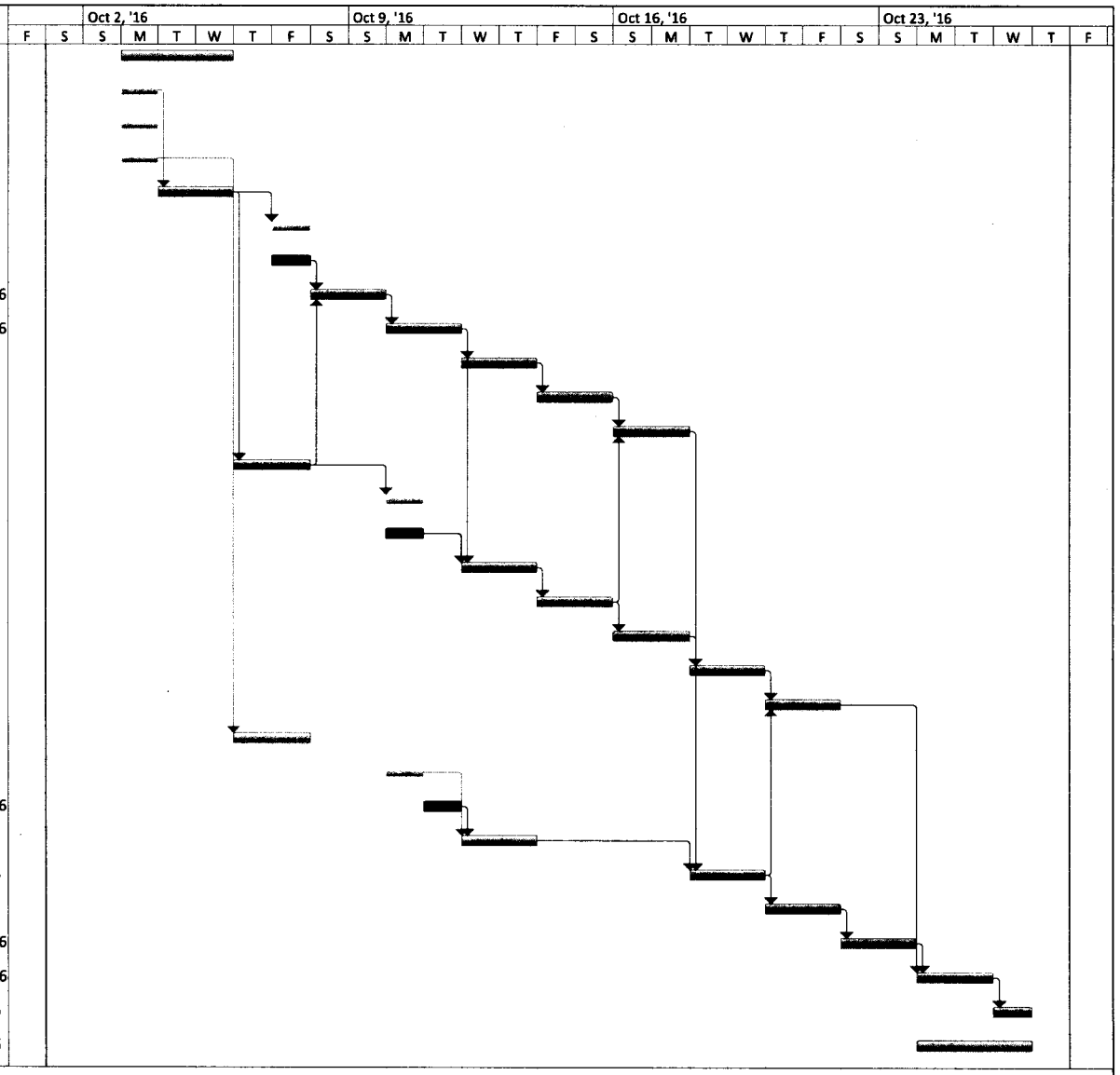
Line Item	Description	UOM	Qty	Accelerated (30 CD Duration) Unit Price	Accelerated (30 CD Duration) Line Total	Normal Duration Unit Price	Normal Duration Line Total
1	Video inspection, pre-remediation	EA	3	$ 715.00	$ 2,145.00	$ 715.00	$ 2,145.00
2	Wire brush and bail Well TW-1	HR	16	$ 352.50	$ 5,640.00	$ 293.00	$ 4,208.00
3	Poly brush and bail Well PW-2	HR	16	$ 352.50	$ 5,640.00	$ 293.00	$ 4,208.00
4	Wire brush and bail Well PW-3	HR	16	$ 352.50	$ 5,640.00	$ 293.00	$ 4,208.00
5	Video inspection, post brushing	EA	3	$ 715.00	$ 2,145.00	$ 715.00	$ 2,145.00
6	Sonar-Jet remediation Well TW-1	EA	1	$ 6,470.00	$ 6,470.00	$ 6,470.00	$ 6,470.00
7	Sonar-Jet remediation Well PW-2	EA	1	$ 5,770.00	$ 5,770.00	$ 5,770.00	$ 5,770.00
8	Sonar-Jet remediation Well PW-3	EA	1	$ 5,770.00	$ 5,770.00	$ 5,770.00	$ 5,770.00
9	Dual-Swabbing while Airlifting Well TW-1	HR	16	$ 426.00	$ 6,816.00	$ 383.00	$ 6,128.00
10	Dual-Swabbing while Airlifting Well PW-2	HR	16	$ 426.00	$ 6,816.00	$ 383.00	$ 6,128.00
11	Dual-Swabbing while Airlifting Well PW-3	HR	16	$ 426.00	$ 6,816.00	$ 383.00	$ 6,128.00
12	Temporary storage as specified (all wells combined; Security costs included)	EA	1	$ 79,638.00	$ 79,638.00	$ 86,523.00	$ 86,523.00
13	Furnish, install test pump(s) and discharge piping (all wells combined; Security costs included)	EA	1	$ 58,450.00	$ 58,450.00	$ 71,754.00	$ 71,754.00
14	Well redevelopment, Well TW-1	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
15	Well redevelopment, Well PW-2	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
16	Well redevelopment, Well PW-3	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
17	Step drawdown testing, Well TW-1	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
18	Step drawdown testing, Well PW-2	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
19	Step drawdown testing, Well PW-3	HR	24	$ 347.00	$ 8,328.00	$ 7,960.00	$ 7,960.00
20	Sampling Assistance, Well TW-1	HR	2	$ 100.00	$ 200.00	$ 100.00	$ 200.00
21	Sampling Assistance, Well PW-2	HR	2	$ 100.00	$ 200.00	$ 100.00	$ 200.00
22	Sampling Assistance, Well PW-3	HR	2	$ 100.00	$ 200.00	$ 100.00	$ 200.00
23	Written Report Well TW-1	EA	1	No Cost	No cost	No cost	No cost
24	Written Report Well PW-2	EA	1	No Cost	No Cost	No cost	No cost
25	Written Report Well PW-3	EA	1	No Cost	No Cost	No Cost	No Cost
	Total Quoted Price						

Note 1: Overhead and general conditions, as well as all labor, materials, and equipment necessary to complete the work noted within the Description shall be distributed amongst the applicable line items.

Note 2: N/A

Note 3: The lowest bid shall be determined as the sum of all extended line items for the "Accelerated" project schedule of 30 calendar days.

ID	Task Name	Duration	Start	Finish
1	Piping Installation	3 days	Mon 10/3/16	Thu 10/6/16
2	Video Log TW1	1 day	Mon 10/3/16	Tue 10/4/16
3	Video Log PW2	1 day	Mon 10/3/16	Tue 10/4/16
4	Video Log PW-3	1 day	Mon 10/3/16	Tue 10/4/16
5	[redacted]	2 days	Tue 10/4/16	Thu 10/6/16
6	**Post Video TW-1**	1 day	Fri 10/7/16	Sat 10/8/16
7	Sonar Jet Tw-1	1 day	Fri 10/7/16	Sat 10/8/16
8	[redacted]	2 days	Sat 10/8/16	Mon 10/10/16
9	[redacted]	2 days	Mon 10/10/16	Wed 10/12/16
10	Develop TW1	2 days	Wed 10/12/16	Fri 10/14/16
11	Step / Constant TW1	2 days	Fri 10/14/16	Sun 10/16/16
12	[redacted]	2 days	Sun 10/16/16	Tue 10/18/16
13	[redacted]	2 days	Thu 10/6/16	Sat 10/8/16
14	**Post Video PW2**	1 day	Mon 10/10/16	Tue 10/11/16
15	Sonar Jet PW2	1 day	Mon 10/10/16	Tue 10/11/16
16	[redacted]	2 days	Wed 10/12/16	Fri 10/14/16
17	[redacted]	2 days	Fri 10/14/16	Sun 10/16/16
18	Develop PW2	2 days	Sun 10/16/16	Tue 10/18/16
19	Step / Constant PW2	2 days	Tue 10/18/16	Thu 10/20/16
20	[redacted]	2 days	Thu 10/20/16	Sat 10/22/16
21	[redacted]	2 days	Thu 10/6/16	Sat 10/8/16
22	**Post Video PW3**	1 day	Mon 10/10/16	Tue 10/11/16
23	Sonar Jet PW3	1 day	Tue 10/11/16	Wed 10/12/16
24	[redacted]	2 days	Wed 10/12/16	Fri 10/14/16
25	[redacted]	2 days	Tue 10/18/16	Thu 10/20/16
26	Develop PW3	2 days	Thu 10/20/16	Sat 10/22/16
27	Step / Constant PW3	2 days	Sat 10/22/16	Mon 10/24/16
28	[redacted]	2 days	Mon 10/24/16	Wed 10/26/16
29	Site Clean Up	1 day	Wed 10/26/16	Thu 10/27/16
30	Remove Piping	3 days	Mon 10/24/16	Thu 10/27/16



Project: SAN BERNARDINO
Title: SAMPLE SCHEDULE
Date: Wed 9/7/16 Percent Complete: 0%

Task Split Milestone Summary Progress Stand-By

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

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JENNIFER SHEPARDSON
Director of Environmental &
Regulatory Compliance
TERRI WILLOUGHBY
Director of Finance

"Trusted, Quality Service since 1905"

September 1, 2016

Ricky Trujillo
Account Manager
Layne
1717 West Park Avenue
Redlands, CA 92373

Reference: Informal Request for Quotation
Remediation of Three RIXES Wells (TW-1, PW-2, and PW-3)

Dear Mr. Trujillo:

The City of San Bernardino Municipal Water Department ("Department") has committed to various enhancements to its existing Regional Tertiary Treatment Rapid Infiltration and Extraction (RIX) Facility. One of the enhancements is to re-develop/remediate and equip three (3) existing groundwater extraction wells (TW-1, PW-2, and PW-3, collectively known as the Three RIXES Wells) for use as production wells.

In August 2016, a water resources consulting firm transmitted a report to the Department characterizing certain hydrogeologic capabilities of the Three RIXES Wells based upon previous data produced during initial development (2003 to 2008). Given the elapsed time since initial development, as well as the change in regional groundwater levels, the consulting firm recommended re-development/remediation of the three wells in order to achieve the highest possible well efficiency values and determination of the range of optimal pumping rates and well settings for each well.

In December 2014, the Department issued a Request for Qualifications (RFQ) under Specification No. 1640 – Well Rehabilitation Assessment and Repair. As a result, your firm was selected as one of five (5) well rehabilitation contractors that were prequalified to perform well rehabilitation, assessment, and repair. A scope of work is itemized below that defines this type of work for the Three RIXES Wells. If your firm is interested in providing the services listed below, please transmit

300 North "D" Street, San Bernardino, California 92418 P.O. Box 710, 92402 Phone: (909) 384-5141
FACSIMILE NUMBERS: Administration: (909) 384-5215 Engineering: (909) 384-5532 Customer Service: (909) 384-7211
Corporate Yards: (909) 384-5260 Water Reclamation Plant: (909) 384-5258

an itemized quotation to provide all labor, materials, and equipment necessary to complete the Scope of Work listed below. The quotation may be submitted on the Contractor's own form but shall include a completed "Itemized Proposal Breakdown" form without modification in Excel format.

Evaluation, Purchase Order, and Payment Process

All quotations received will be evaluated for responsiveness to all stipulated requirements. The Contractor's evaluated cost will be the sum of all extended line items on the Itemized Proposal Breakdown under the "Accelerated" column with the assumed hour quantities shown. Any proposed deviations shall be proposed as a notation on the Contractor's own form and discussed in a scoping meeting prior to the award recommendation that follows. A memorandum shall be made to the Board of Water Commissioners recommending award of a Purchase Order to the lowest responsive, responsible respondent. Payment applications shall be submitted no more frequently than once per calendar month and shall be on a unit price basis based upon the hours completed multiplied by the hourly unit prices identified in the Itemized Proposal Breakdown or the lump sum ("each") items completed. Payment will be made on a Net 30 basis in accordance with Public Contract Code requirements.

Administrative Requirements:

1. Schedule and confirm an appropriate period of time to complete the work listed below with the Department's Construction Project Manager.
2. Complete all safety requirements (lock-out, tag-out, block-out, etc.) in accordance with OSHA standards.
3. Refer to Attachment A for Well Completion Reports and pertinent data relating to each of the Three RIXES Wells.
4. Schedule and complete a mandatory site walk with the Department's Construction Project Manager listed at the bottom of this Scope of Work. The intent of the site walk is for the Contractor to acquaint themselves with the existing site conditions, including, but not limited to, site access and temporary facility / security constraints.
5. The Contractor alone shall be responsible for the security, safety, efficiency, and adequacy of their equipment, appliances, and methods, and for any damage, which may result from their security efforts, improper construction, maintenance, or operation.
6. All persons involved in the aforementioned work shall adhere to the Department's Standard Security Procedures (Section 013553).
7. All work performed shall be subject to prevailing wage rules.
8. Time is of the essence for this Work. As such, an accelerated schedule is required for this Project. All possible effort shall be expended to complete the full Scope of Work in the shortest possible duration. A maximum of thirty (30) calendar days from issuance of a Notice to Proceed shall be permitted for completion of this Project.
    a. The thirty (30) calendar day limitation shall begin within three (3) business days of receipt of the Notice to Proceed.
    b. Substantial Completion, for the purposes of this Project shall consist of receipt of the Well Reports for all three wells (TW-1, PW-2, and PW-3). Teardown, demobilization, and similar efforts are not considered a part of the 30 day limitation.
    c. In support of the Department's justification of the additional costs associated with an accelerated project schedule, Contractor shall complete the column

entitled "Normal Duration" on the Itemized Proposal Breakdown worksheet. This is the hourly cost that the Department would have seen, had the 30 calendar day constraint not been included.

Technical Requirements:

The work that follows is applicable to each of the Three RIXES Wells (TW-1, PW-2, and PW-3) but is listed as a single item for brevity.

9. Perform video inspection of the well to document the existing pre-remediation condition. Provide digital video file and selected, applicable images from the inspection that accurately represent the condition of the well.
10. Wire brush and bail the well from the top of casing to the bottom. Wells using wire wrap shall be cleaned with a poly brush or similar cleaning apparatus that will not damage the well screen. All Respondents shall use an assumed sixteen (16) hours of brushing / bailing for each well.
11. Perform video inspection of the well to check the structure of the well following the wire brushing. Provide digital video file and selected, applicable images from the inspection that accurately represent the condition of the well.
12. Verify or correct all blank and screened casing boundary depths shown on the Well Completion Report, including the true casing bottom.
13. Meet with Department's Construction Project Manager to verify that remediation work will be performed for the well. Department may elect not to proceed with further remediation at this point.
14. Perform Sonar-Jet® remediation of the gravel pack surrounding the casing through the full screened depth to loosen hardened mineral or bacterial deposits and "deep clean" the aquifer immediately surrounding the casing. Discuss and coordinate the detonation "strength" level with the Department in advance of the work, taking into consideration the condition of the existing screen.
15. Perform Dual-Swabbing while airlifting to agitate and redevelop the well by removing dissolved minerals and dislodged formation materials / sediment. All Respondents shall use an assumed sixteen (16) hours of dual-swabbing for each well.
16. Provide suitable temporary storage for containment of swabbing and bailing fluids developed from the Well.
    a. Decanted fluids not exceeding ten (10) Nephelometric Turbidity Units (NTU) may be discharged into the temporary discharge line.
    b. Legally dispose of all sediment and sediment-filled fluids off-site and provide Department with documentation of legal disposal.
17. Furnish, install, and remove a 3,500 gallon-per-minute (GPM) test pump capable of being turned down to at least 1,000 GPM. Provide all hoses, pumps, temporary piping, and other appurtenances / equipment. Refer to Attachment B for the Well Development Discharge Piping Alignment. Contractor shall note that there are numerous scope of work requirements listed on the Discharge Piping Alignment document in addition to those noted herein.
18. Temporary discharge piping shall be routed along the alignment shown and shall include penetration through the secured RIX Facility perimeter fence. No excavation shall be permitted adjacent to the interior of the RIX Facility perimeter fence at any time for any reason. Discharge piping into the turnout structure between RIX Basins 1A and 1B shall

be self-supported and flow shall not be permitted to leave the discharge structure (splashing out).

19. All discharged groundwater shall meet the following requirements:
    a. Temporary pumps, piping, and appurtenances shall impart on the extracted groundwater no additional chemicals, constituents, contaminants, or other foreign matter that will place the Department in violation of permitted effluent limits. Contractor shall submit proposed discharge piping system for acceptance by the Department. No additional testing shall be required of the Contractor to verify compliance, only confirmation that the equipment utilized by the Contractor will not impart chemicals, constituents, contaminants, or other foreign matter that is not already in the groundwater being extracted.
    b. Discharged groundwater shall be accurately metered and reported on a daily basis, without exception. Values shall be reported to the Department-designated staff member with acknowledgement by the conclusion of each operating day. The volumetric flow rate and metered discharge must be included in the Department's mandatory regulatory reporting.
20. Re-develop the well with the test pump. All Respondents shall use an assumed twenty-four (24) hours of well re-development time. Hourly rates shall be shown on the itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected Respondent. In no event shall this task exceed forty-eight (48) hours.
21. Perform a step drawdown test with the test pump. All Respondents shall use an assumed twenty-four (24) hours of test pumping time (including either step drawdown testing or constant rate testing). It is assumed that each "step" of testing will not last more than approximately four (4) hours. Hourly rates shall be shown on the itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected Respondent. In no event shall this task exceed forty-eight (48) hours.
22. Provide a sampling location with minimal discharge pressure. Coordinate with the Department's Construction Project Manager in advance to determine if Department staff will take water quality samples while test pumping is ongoing. Assist Department with all necessary steps to complete proper sampling methods (assist with the determination of well flushing rate, etc.). Hourly unit rates shall be shown on the itemized cost list for assistance with sampling. All Respondents shall use an assumed two (2) hours of assistance at each well.
23. Provide a written report (digitally transmitted) that documents the results of all tests performed. Provide the following pieces of information:
    a. Well Yield
    b. Specific Capacity
    c. Results of step drawdown testing at each flow rate tested

    Include in the report any other pertinent findings or recommendations of the Contractor. All well testing logs and data shall be provided to the Department digitally in PDF format. This deliverable is of utmost importance and urgency to the Department.
24. Prepare and submit a digitally-prepared Daily Report by a member of the field staff identifying:

a. All project biographical information and applicable date
b. Weather and general site / security comments
c. Applicable well number / location
d. Work activities completed
e. Labor and equipment used (by name, including individual hours)
f. Minimum of 2 photographs

25. Department intends to utilize the findings of the remediation and test pumping report in the final design of the well equipping. A final design shall then be issued as part of a greater project, referred to as the "Retrofit of RIX Expansion Project Test Wells into Production Wells Project."
26. Contractor shall minimize the work area footprint to the minimum possible space.
27. Temporary Facilities:
    a. The Contractor shall provide all temporary facilities and utilities required for prosecution of the work, protection of employees and the public, protection of the work from damage by fire, weather or vandalism and such other facilities as may be specified or required by any legally applicable law, ordinance, rule or regulation. No additional temporary facilities or utilities shall be provided for the Department unless listed below.
    b. **Electricity**. The Contractor shall provide at his own cost all electric power required for construction, testing, general and security lighting, and all other purposes until the substantial completion of the Project.
    c. **Lighting**. The Contractor shall provide at his own cost all lighting in all work areas sufficient to maintain a lighting level during working hours not less than the lighting level required by California OSHA standards until the substantial completion of the Project
    d. **Construction Water**. The Contractor shall provide at his own cost all water sources necessary for dust control, construction, testing, general, and all other purposes until the substantial completion of the Project.
        i. During the course of normal Department working days (7:00 AM to 4:00 PM on weekdays), the Contractor may utilize a source of Plant Water within the RIX Facility to fill a mobile water truck (or similar).
        ii. A small diameter (investigation into size is ongoing) Plant Water source is available near the side access gate that could be extended at the Contractor's expense via temporary hose to a valve to be provided by the Contractor and located outside the RIX Facility. The Contractor would be responsible for protecting this valve and source. Additionally, it is noted that the water pressure and flow rate for this source is very low and would not likely be a preferred source of construction water.
        iii. No access to the RIX Facility will be granted after hours or on the weekend for dust control or construction water.
    e. **Dust Control**. Perform dust control operations to prevent construction operations from producing dust in amounts harmful to persons; causing a nuisance to persons present nearby; or that leaves the work area designated. Refer to requirements of the South Coast Air Quality Management District for dust control regulations. Use only water to control dust.

f. **Fire Danger**. Minimize fire danger in the vicinity of an adjacent to the Work area. Provide equipment necessary to protect the surrounding area from fire damage resulting from construction operations.
g. **Access Roads**. The Contractor and his employees will only be permitted to utilize and park their vehicles on existing access roads. No vehicle travel across undeveloped land shall be permitted at any time. Contractor shall take careful note of the existing access conditions.
h. **Sanitary Facilities**. Contractor shall furnish temporary sanitary facilities at the Site for the needs of all construction workers and others performing work or furnishing services on the Project. Secondary containment shall be provided at all facilities.
i. **Disposal**. All rubbish produced in course of work or by employees relating to the work shall be collected and legally disposed off-site by the Contractor at his own expense.

The following is a summary of the reasons for this well rehabilitation effort:

Reason: The 3 wells have gone unused since their initial development in 2003 (TW-1) and 2008 (PW-2 and PW-3). The Department requires maximum well efficiency values from each well.

Attachments:
A. Well Completion Reports and Pertinent Well Data
B. Well Development Discharge Piping Alignment
C. Site Security
D. Itemized Proposal Breakdown

Please transmit your quotation to me at the email address noted below by the date noted:

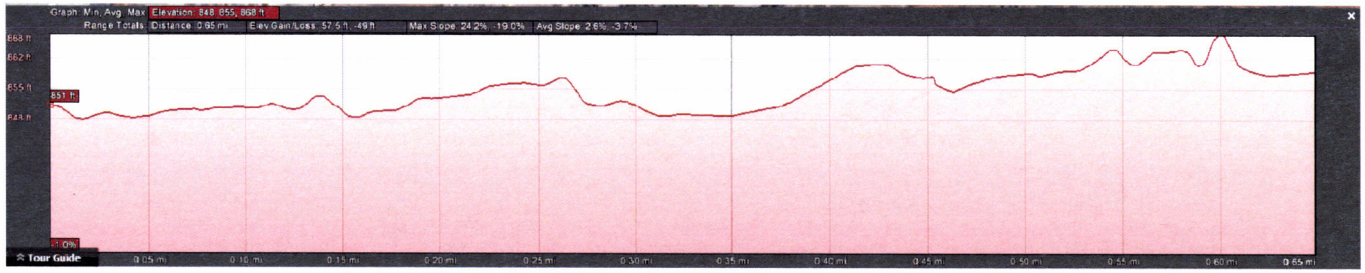
Due Date: Thursday, September 8, 2016 by 5:00 PM PDT

Kevin Stewart, Construction Project Manager
kevin.stewart@sbmwd.org
(909) 454-5651

1 SITE PLAN

NOTES:

1. CONTRACTOR MAY DISCHARGE TESTING WATER INTO TURNOUT STRUCTURE 1 ON THE RIX FACILITY. CONTRACTOR MAY TRANSMIT THE WATER FROM THE 3 RIXES WELLS TO THE DISCHARGE POINT THROUGH ANY REASONABLE MEANS. SUBMIT PROPOSED MEANS FOR DEPARTMENT APPROVAL.
2. CONTRACTOR SHALL SATISFY DEPARTMENT THAT THEIR SELECTED METHOD OF TRANSMISSION DOES NOT IMPART / ADD ANY IMPURITIES INTO THE PUMPED GROUNDWATER.
3. PATH SHOWN IN YELLOW MEASURES APPROXIMATELY 3,408 LINEAR FEET ON GOOGLE EARTH. THIS DIMENSION HAS NOT BEEN VERIFIED IN THE FIELD. APPROXIMATE GROUND PROFILE FROM GOOGLE EARTH IS ALSO PROVIDED HEREIN BUT HAS NOT BEEN VERIFIED. CONTRACTOR SHALL DETERMINE AND VERIFY ANY SELECTED PROFILE ELEVATIONS NECESSARY TO ACCOMPLISH WORK.
4. CONTRACTOR SHALL PROVIDE ROAD CROSSINGS AND BLOCKADES AS SHOWN ON THE DRAWING AND AS NECESSARY TO PROTECT THE TEMPORARY SYSTEM. ROAD CROSSINGS SHALL BE SUITABLE FOR FULL-SIZE OFF-ROAD VEHICLES. NO EXCAVATION OR TRENCHING WILL BE PERMITTED. TEMPORARY DIRT ROAD CLOSURES SHALL PREVENT FREQUENT OFF-ROAD TRAFFIC BY UNAUTHORIZED PERSONS.



A APPROXIMATE GROUND PROFILE
GOOGLE EARTH - UNVERIFIED

DIAGRAMMATIC - NOT TO SCALE

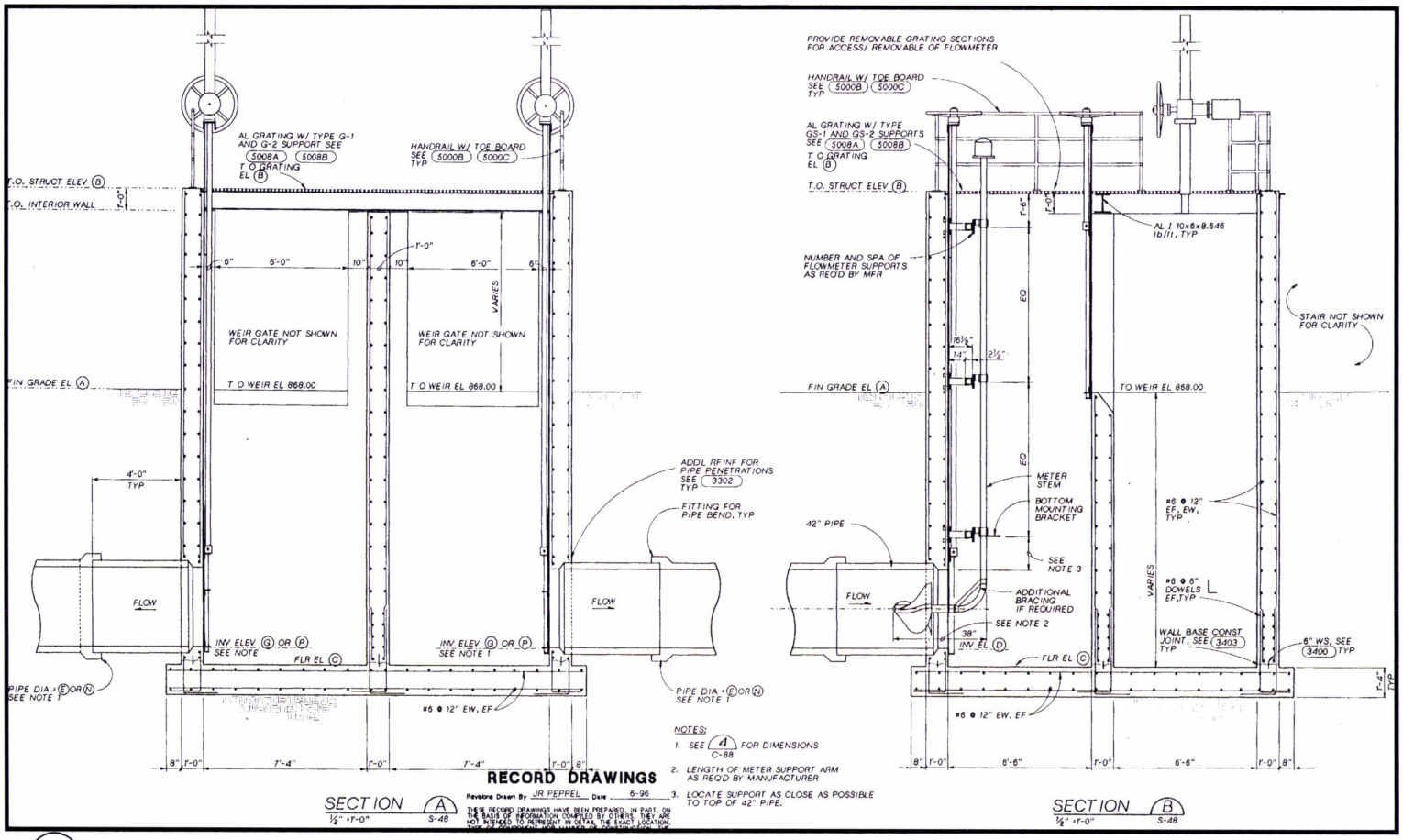
PREPARED BY: KEVIN STEWART, CONSTRUCTION PROJECT MANAGER
PREPARATION DATE: AUGUST 30, 2016

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

REMEDIATION OF THREE RIXES WELLS
WELL DEVELOPMENT DISCHARGE PIPING
ALIGNMENT

SHEET 01 OF 02

FILE: N:\Admin 2\CAPITAL PROJECTS\CO-00189 RIX Well Conversion\02 Prelim Design\Well Remediation\SOW\Discharge Pipe Alignment v01.pdf



(B) PORTION OF DWG S-49
1994 RIX RECORD DRAWINGS

DIAGRAMMATIC - NOT TO SCALE

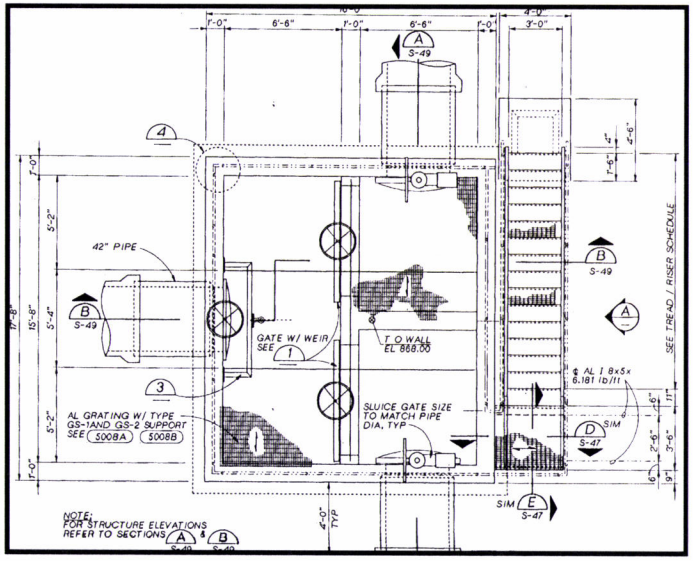
PREPARED BY: KEVIN STEWART, CONSTRUCTION PROJECT MANAGER
PREPARATION DATE: AUGUST 30, 2016

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

REMEDIATION OF THREE RIXES WELLS
TURNOUT STRUCTURE 1
SECTION VIEWS

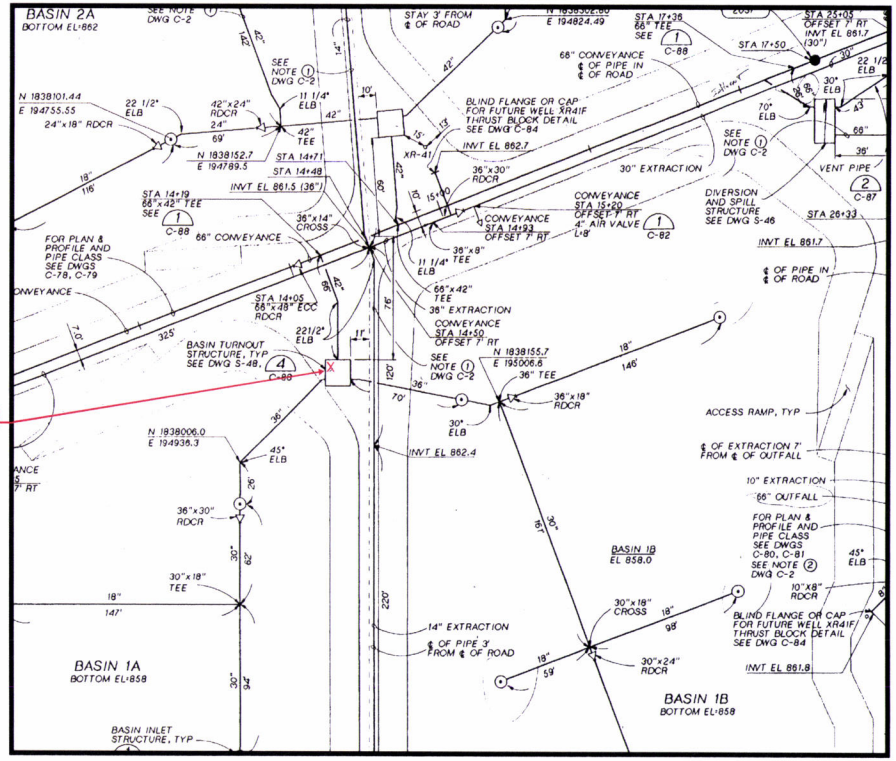
SHEET 01 OF 02

FILE: N:\Admin 2\CAPITAL PROJECTS\CO-00189 RIX Well Conversion\02 Prelim Design\Well Remediation\SOW\Discharge Pipe Alignment v01.pdf



2 PORTION OF DWG S-48"PLAN"
1994 RIX RECORD DRAWINGS

DISCHARGE POINT ("X")



3 PORTION OF DWG C-61
1994 RIX RECORD DRAWINGS

DIAGRAMMATIC - NOT TO SCALE

PREPARED BY: KEVIN STEWART, CONSTRUCTION PROJECT MANAGER
PREPARATION DATE: AUGUST 30, 2016

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

REMEDIATION OF THREE RIXES WELLS
TURNOUT STRUCTURE 1
PLAN VIEWS

SHEET 01 OF 02

FILE: N:\Admin 2\CAPITAL PROJECTS\CO-00189 RIX Well Conversion\02 Prelim Design\Well Remediation\SOW\Discharge Pipe Alignment v01.pdf

	TW-1	PW-2	PW-3
Latitude	034° 02' 05.78" N | 034.034939N	034° 02' 10.37" N | 034.036214N	034° 01' 58.76" N | 034.032989N
Longitude	117° 21' 30.15" W | 117.358375W	117° 21' 25.77" W | 117.357158W	117° 21' 33.99" W | 117.359442W
Date Drilled	November 2003	April 2008	March 2008
Drilling Contractor	Beylik Drilling	Best Drilling and Pump, Inc	Best Drilling and Pump, Inc
Boring Depth	135' BGS	91' BGS	90' BGS
Completed Well Depth	110.5' BGS	82' BGS	82' BGS
Casing	18" Mild Steel	18" Stainless Steel	18" Stainless Steel
Casing Details	000' to 045' BGS - Blank Casing 045' to 105' BGS - SST Wire Wrap (0.060") 105' to 110' BGS - Blank Casing	000' to 041' BGS - 304L SST Blank Casing 041' to 071' BGS - 304L SST Screen 0.060" Louvers 071' to 082' BGS - 304L SST Blank Casing	000' to 042' BGS - 304L SST Blank Casing 042' to 072' BGS - 304L SST Screen 0.060" Louvers 072' to 082' BGS - 304L SST Blank Casing
Estimated Yield @ Time of Construction	1,500 GPM (Constant Rate Test - 24 Hours) (March 2006)	1,400 GPM (Constant Rate Test - 24 Hours)	1,050 GPM (Constant Rate Test - 24 Hours)
Static Water Level @ Time of Construction	13' BGS	22' BGS	18' BGS

LOG OF WELL REST-TW1

PARSONS

Project Name:	RIX	**Date Started:**	November 18, 2003
Project Number:	733204 **Logged By:** J. Sacker	**Date Complete:**	November 21, 2003
Borehole Location:	Not Surveyed	**TOC Elevation and Datum:**	Not Surveyed
Drilling Contractor:	Beylik Drilling, Inc.	**Sampling Method:**	Sampled from Cuttings
Drilling Method:	Bucket Auger (top 40 ft)	**Borehole Diameter:**	26-inch
	Reverse Rotary (below conductor casing)	**Groundwater Depth:**	13 feet bgs
Hammer Type/Weight:	Automatic/140-lb and 30-inch drop	**Total Depth:**	135 feet bgs
Driller:	E. Trinidad	**Borehole Abandonment:**	Completed as Test/Extraction Well

Depth (feet)	Sample	Sample Number	Blow Counts	Lithologic Description	USCS	Symbol	Well	Well Construction Details (ref. to ground surface)
				GRAVEL.	GP			SURFACE COMPLETION: Standpipe PROTECTIVE CASING TYPE: 30 in. Conductor Casing SURFACE SEAL TYPE: Concrete
5				SAND, light yellowish brown (2.5Y 6/3), dry, fine grained, loose, with trace silt (<2%).	SP			30 in. conductor casing set to depth of 35 ft bgs to provide sanitary seal.
				GRAVEL, slightly moist, fine to coarse grained, medium dense, with ~20-35% fine to coarse sand, and <4" cobble.	GP			WELL CASING: TYPE: Mild Steel DIAMETER: 18 in.
10				SAND, light olive brown (2.5Y 5/3), slightly moist, fine to coarse grained, medium dense, with ~20-35% gravel (up to 4" cobble) and trace (<2%) silt.	SP			WELL SEAL TYPE: Cement-Bentonite Grout TOP: 0 ft.
				Same as above, moist, fine to very coarse, dense, with 10-20% gravel.	SP			FILTER PACK TYPE: 6 X 12 TOP: 41 ft.
				Same as above, saturated, medium dense, with ~5% fine and ~1% coarse gravel (<1").	SP			SCREEN TOP OF SCREEN: 45 ft. BOTTOM OF SCREEN: 105 ft. TYPE: Stainless Steel Wire Wrap DIAMETER: 18 in. SLOT SIZE: 0.060 in. BOTTOM OF SUMP: 110.5 ft. TYPE: 18 in. Welded
15				GRAVEL, olive brown (2.5Y 5/3), saturated, fine to coarse grained (up to 3"), dense, with ~30% sand and up to 6" occasional cobble.	GP			
				Same as above, olive brown (2.5Y 4/3), predominantly coarsegravel , with 20-35% fine to coarse sand, and cobbles up to 3 1/2".	GP			
20				Same as above, with 25-30% sand, and cobbles up to 4".	GP			**Notes** Groundwater first encountered at 13 ft bgs.
				SAND, olive brown (2.5Y 4/3), saturated, fine to very coarse grained, with 20-35% coarse gravel and cobbles up to 3 1/2".	SP			
25				GRAVEL, olive brown (2.5Y 5/3), saturated, fine to coarse grained, dense, with 20% cobbles and 20-35% fine to coarse sand.	GP			
30				GRAVEL, olive brown (2.5Y 4/3), saturated, fine to coarse grained, dense, with cobbles up to 4" and 35-50% fine to coarse sand.	GP			"Chatter" in hole, indicating cobbles.

LOG OF WELL REST-TW1

PARSONS

Project Name:	Project Number:	Logged By:
RIX	733204	J. Sacker

Depth (feet)	Sample	Sample Number	Blow Counts	Lithologic Description	USCS	Symbol	Well	Well Construction Details (ref. to ground surface)
				GRAVEL, olive brown (2.5Y 4/3), saturated, fine to coarse grained, dense, with cobbles up to 4" and 35-50% fine to coarse sand.	GP			
35				GRAVEL, olive brown (2.5Y 4/3), saturated, fine to coarse grained, dense, with cobbles up to 3.5" and some (20-35%) coarse sand.	GP			Logged from Bucket Auger Cuttings to 35 ft bgs. End of Bucket Auger at 35 ft bgs. Conductor casing set at 35 ft bgs. End of Drilling 4/19/04 at 35 ft bgs.
				SAND, olive brown (2.5Y 4/3), saturated, very fine to very coarse grained, predominantly medium grained, dense, with trace (<2%) fine gravel.	SP			
				Same as above, with ~5% gravel (<1/2").	SP			
40				Same as above, fine to very coarse grained, with <2% gravel (<1/2").	SP			Slow drilling. Drillbit rolling or chattering.
				Same as above, fine to very coarse grained, with some fine sand and trace fine gravel (<1/4").	SP			
				Same as above, 5% fine gravel (<1/2").	SP			
45				Same as above, trace (<1%) fine gravel (<1/4").	SP			
				Same as above, 10-20% gravel (<3/4").	SP			
50				Same as above, fine to coarse grained, with trace very corase sand and trace fine gravel.	SP			
55				Same as above, fine to coarse grained, primarily medium, <10% very coarse and no gravel.	SP			
60				Same as above, medium to coarse grained, ~10% very coarse and trace (1-2%) gravel up to 1/2".	SP			
65				Same as above, medium to coarse grained, ~10% very coarse and ~1-2% fine gravel (<1").	SP			
70								

LOG OF WELL REST-TW1

PARSONS

Project Name:	Project Number:	Logged By:
RIX	733204	J. Sacker

Depth (feet)	Sample	Sample Number	Blow Counts	Lithologic Description	USCS	Symbol	Well	Well Construction Details (ref. to ground surface)
				SAND, olive brown (2.5Y 4/3), saturated, fine to medium grained, with ~10% coarse sand, and trace (~1-2%) gravel up to 1/2".	SP			
75				Same as above, with 5% coarse sand and 2-3% fine gravel (<1/2").	SP			
				Same as above, medium to coarse grained, with 5-10% very coarse sand and ~5% fine gravel (<1").	SP			
80				Same as above, fine to coarse grained, mostly medium sand, with ~1-2% fine gravel up to 1/2".	SP			
85				Same as above, coarse grained, trace medium sand, with ~3-6% gravel up to 3/4".	SP			
				Same as above, fine to coarse grained, mostly medium sand, with ~5% gravel up to 3/4".	SP			
90				Same as above, with ~2-3% gravel up to 3/4"and <1% gravel up to 1".	SP			
				Same as above, mostly medium to coarse sand and ~3-5% fine gravel up to 3/4".	SP			
95				Same as above, fine to coarse grained, mostly medium sand, with 2-4% gravel up to 3/4" and <1% gravel up to 1".	SP			
100				Same as above, very fine to very coarse grained, mostly fine to medium sand, with ~10-15% gravel up to 3/4" and <1% gravel up to 1".	SP			
				Same as above, fine to coarse grained, mostly medium sand, with ~5-10% gravel up to 1/2".	SP			
105				Same as above, ~10% very coarse grained sand.	SP			
				Same as above, fine to medium grained, with ~1-2% gravel up to 1".	SP			
110								

LOG OF WELL REST-TW1

PARSONS

Project Name: RIX
Project Number: 733204
Logged By: J. Sacker

Depth (feet)	Sample	Sample Number	Blow Counts	Lithologic Description	USCS	Symbol	Well	Well Construction Details (ref. to ground surface)
				SAND, olive brown (2.5Y 4/3), saturated, fine to medium grained, with ~10% coarse to very coarse sand, and trace (~1-2%) gravel up to 3/4".	SP			
				GRAVEL AND SAND, sat., 35-50% fine gravel up to 1", 5% coarse gravel and fine to very coarse sand.	GP			
				SAND, light olive brown (2.5Y 5/3), saturated, uniformly medium grained, with very coarse sand.	SP			
115				SILTY SAND, light olive brown (2.5Y 5/3), saturated, fine to med. grained, with <5% silt, significant mica (originally may have been 20-30% silt), & <5% clay.	SP/ SM			
				Same as above, with 1-2% clay. Some silt/clay likely removed in shaker.	SP/ SM			
120								
				SAND, dark yellowish brown (10YR 4/4), saturated, fine to medium grained, with trace (<5%) silt and ~1-5% fine gravel up to 1".	SP			
				Same as above, <2% gravel up to 3/4" and mica suggests silt may be 5-10%.	SP			
125				Same as above.	SP			
130								
				SILT, with trace fine to medium sand, and <10% clay	ML			
				SILTY SAND, fine grained, with ~5-10% silt. Some silt likely removed in shaker.	SP/ SM			
135								
				End of boring at 135 feet bgs. Groundwater 13 feet bgs during drilling. Completed as test/extraction well.				
140								
145								
150								

*The free Adobe Reader may be used to view and complete this form. However, software must be purchased to complete, save, and reuse a saved form.

PW-2

File Original with DWR

State of California

Well Completion Report

Refer to Instruction Pamphlet

No. e069445

Page 1 of 1

Owner's Well Number PW-2

Date Work Began 3-12-08 Date Work Ended 5-19-08

Local Permit Agency San Bernardino County DEH

Permit Number 4773 Permit Date 2-26-08

DWR Use Only – Do Not Fill In

State Well Number/Site Number

N W

Latitude Longitude

APN/TRS/Other

Geologic Log

Orientation ☒ Vertical ○ Horizontal ○ Angle Specify

Drilling Method Reverse Circ Drilling Fluid Mud

Depth from Surface Feet	to Feet	Description Describe material, grain size, color, etc
		See Attached

Total Depth of Boring 90 Feet

Total Depth of Completed Well 82 Feet

Well Owner

Name San Bernardino Municipal WD

Mailing Address 300 North D St

City San Bernardino State CA Zip 92418

Well Location

Address 1990 Agua Mansa Rd

City Colton County San Bernardino

Latitude 34 Deg. 2 Min. 9.9 Sec. N Longitude -117 Deg. 21 Min. 21.8 Sec. W

Datum ____ Decimal Lat. ____ Decimal Long. ____

APN Book 0260 Page 091 Parcel 76

Township 1S Range 5W Section 36

Location Sketch

(Sketch must be drawn by hand after form is printed.)

North

See MAP ATTACHED

West East

South

Illustrate or describe distance of well from roads, buildings, fences, rivers, etc. and attach a map. Use additional paper if necessary. **Please be accurate and complete**

Activity

☒ New Well

○ Modification/Repair

○ Deepen

○ Other ____

○ Destroy

Describe procedures and materials under "GEOLOGIC LOG"

Planned Uses

○ Water Supply

☐ Domestic ☐ Public

☐ Irrigation ☒ Industrial

○ Cathodic Protection

☒ Dewatering

○ Heat Exchange

○ Injection

○ Monitoring

○ Remediation

○ Sparging

○ Test Well

○ Vapor Extraction

○ Other ____

Water Level and Yield of Completed Well

Depth to first water ____ (Feet below surface)

Depth to Static Water Level 22 (Feet) Date Measured 6-10-08

Estimated Yield * 1400 (GPM) Test Type Constant

Test Length 24 (Hours) Total Drawdown 25 (Feet)

*May not be representative of a well's long term yield.

Casings

Depth from Surface Feet	to Feet	Borehole Diameter (Inches)	Type	Material	Wall Thickness (Inches)	Outside Diameter (Inches)	Screen Type	Slot Size if Any (Inches)
0	36	48	Conductor	CS	.375	36		
+3	41	32	Blank	SS 304L	.312	18 5/8		
41	71	32	Screen	SS 304L	.312	18 5/8	Louver	.090
71	82	32	Blank	SS 304L	.312	18 5/8		
+3	40	32	Tube	CS	Sch 40	3.5		
+3	40	32	Tube	SS 304L	Sch 40	2.5		

Annular Material

Depth from Surface Feet	to Feet	Fill	Description
0	32	Cement	10.5 sk
32	35	Bentonite	Benseal
35	37	Sand	1C
37	73	Sand	1/4x16
73	90	Benseal Sand	

Attachments

☒ Geologic Log

☒ Well Construction Diagram

☐ Geophysical Log(s)

☐ Soil/Water Chemical Analyses

☒ Other MAP

Attach additional information, if it exists.

Certification Statement

I, the undersigned, certify that this report is complete and accurate to the best of my knowledge and belief

Name Best Drilling and Pump, Inc. Person, Firm or Corporation

Best Drilling and Pump, Inc.

1640 W. Pellisier Rd Address Colton City CA State 92324 Zip

Signed [signature] C-57 Licensed Water Well Contractor 7-29-16 Date Signed 826672 C-57 License Number

DWR 188 REV. 1/2006

IF ADDITIONAL SPACE IS NEEDED, USE NEXT CONSECUTIVELY NUMBERED FORM

Reissued

Project Name: RIX Capacity Restoration Project **Project Location:** Colton, Riverside **Project Number:** 005-003-005 **Client:** City of San Bernardino Municipal Water Department	**Boring Log / PW-2** Sheet 1 of 3	

Date Started	3/12/08	Date Finished	4/9/08	Borehole Depth	91.0 feet	Drilling Contractor	Best Drill and Pump
Lat.	34° 2' 9.9"	Long.	-117° 21' 21.8"	Drill Bit Size/Type	17.5" Tri-cone	Driller	Ernest, Chris
Ground Surface Elevation	858.0			Screened Interval(s)	42-72	Drill Rig Type	Wagner Morehouse
Top of Casing Elevation	860.0			Depth to Groundwater	21.27 ft-bgs	Drilling Method	Flooded reverse
Logged By	C. Landaverde			Reviewed By	A. Malone	Sampling Method	Interval collection by splitter box

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	0			ARTIFICIAL FILL: Poorly Graded SAND (SP): light brownish gray (2.5Y, 6/2), 100% sand, trace of gravel. Mostly fine sand with a trace of medium sand.		
855						
	5				TW-2 18" dia. SS casing (with 0.060" perforation horizontal louver shutter screen from 40.9-70.9 ft-bgs)	
850				Poorly Graded SAND (SP): dark yellowish brown (10YR, 3/4), 100% sand. Mostly fine sand with a trace of coarse sand.		
	10			Well Graded SAND (SW): pale brown (10YR, 6/3), 100% sand. Mostly find sand with a trace of coarse sand.	Conductor Casing (0-32 bgs).	
845						
	15			Boulders and Cobbles, 6"-18" in diameter.	Concrete (0-32 bgs)	
				Well Graded SAND (SW): pale brown (10YR, 6/3), 15% boulders and cobbles, 85% sand. Fine to coarse sand with boulders and cobbles 6"-18" in diameter.		
840						
	20					
				Well Graded SAND (SW): brown (10YR, 5/3), 10% gravel, 90% sand. Medium to coarse sand with gravel. Groundwater.	SWL=21.27 ft-bgs on 5/6/2008	
835						
	25			Well Graded SAND (SW): very dark grayish brown (10YR, 6/2), 15% boulders, cobbles and gravel, 85% sand. Fine to coarse sand with boulders and cobbles 6"-18" in diameter.		
830						
	30					

WILDERMUTH ENVIRONMENTAL INC

Figure 2

Report: WELL LOG - NO SAMPLE TIME; File: RIX.GPJ; 5/27/2009

Project Name: RIX Capacity Restoration Project **Project Location:** Colton, Riverside **Project Number:** 005-003-005 **Client:** City of San Bernardino Municipal Water Department	**Boring Log / PW-2** Sheet 2 of 3

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	30			Well Graded SAND with Gravel (SW): very dark grayish brown (10YR, 6/2), 20% boulders, cobbles and gravel, 80% sand. Fine to coarse sand with cobbles 6"-18" in diameter.		
820				Well Graded SAND (SW): grayish brown (10YR, 5/1), 100% sand. Fine to coarse sand with quartz, biotite, and potassium feldspar.	Benseal (32-35 ft bgs)	
	35			Poorly Graded SAND (SP): grayish brown (10YR, 5/2), 100% sand. Fine to medium sand.	Fine Sand (35-37 ft-bgs)	
815						
	40				Artifical filter pack (37-73 ft-bgs)	
810						
	45			Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Fine to coarse sand.	18" dia. SS casing, 0.060" perforation horizontal louver shutter screen from 40.9-70.9 ft-bgs)	
805						
	50			Poorly Graded SAND (SP): grayish brown (10YR, 5/2), 5% gravel 95% sand. Medium to coarse sand with trace of gravel.		
800						
	55			Poorly Graded SAND (SP): grayish brown (10YR, 5/2), 5% gravel 95% sand. Medium to coarse sand with gravel up to 0.25" in diameter.		
795						
	60			Well Graded SAND (SW): grayish brown (10YR, 5/2), 100% sand. Fine to coarse sand with trace of gravel.		
790						
	65					

Report: WELL LOG - NO SAMPLE TIME; File: RIX.GPJ; 5/27/2009

WILDERMUTH ENVIRONMENTAL INC

Figure 2

Project Name: RIX Capacity Restoration Project **Project Location:** Colton, Riverside **Project Number:** 005-003-005 **Client:** City of San Bernardino Municipal Water Department	**Boring Log / PW-2** Sheet 3 of 3

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	65			Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Fine to coarse sand with gravel up to 0.25" in diameter.	18" dia. SS casing, 0.060" perforation horizontal louver shutter screen from 40.9-70.9 ft-bgs)	
785						
	70			Well Graded SAND (SW): grayish brown (10YR, 5/2), 10% gravel, 90% sand. Fine to coarse sand with gravel up to 0.5" in diameter.	Silt Trap	
780						
	75			Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Fine to coarse sand with gravel up to 0.5" in diameter.	Benseal (73-76 ft-bgs)	
775						
	80				Benseal and Sand mixture	
770						
	85			Well Graded SAND (SW): grayish brown (10YR, 5/2), 10% gravel, 90% sand. Fine to coarse sand with gravel up to 0.25" in diameter.		
765						
	90				Slough	
760						
	95					
755						
	100					

Report: WELL LOG - NO SAMPLE TIME; File: RIX.GPJ; 5/27/2009

WILDERMUTH ENVIRONMENTAL INC

Figure 2

Proposed Production Wells

Proposed Observation Wells

Existing Extraction Well

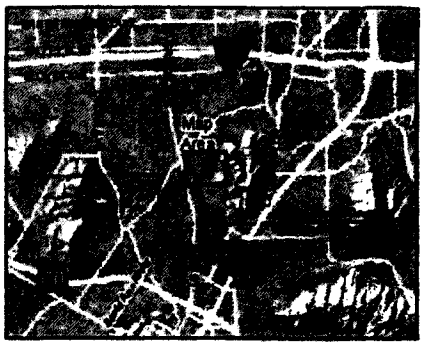
Existing Test Well

Existing Monitoring Well

Discharge Piping

Proposed RIX Basins

Proposed RIX Expansion Site



Produced by: WILDERMUTH

Site Map for New Wells

Feet

Site I
RIX Facility, Colton, CA

*The free Adobe Reader may be used to view and complete this form. However, software must be purchased to complete, save, and reuse a saved form.

File Original with DWR

State of California

Well Completion Report

Refer to Instruction Pamphlet

No. e069444

Page 1 of 1

Owner's Well Number PW-3

Date Work Began 3-12-08 Date Work Ended 6/19/08

Local Permit Agency SAN BERNARDINO COUNTY DEH

Permit Number 4774 Permit Date 2-20-08

DWR Use Only – Do Not Fill In

State Well Number/Site Number

N W

Latitude Longitude

APN/TRS/Other

Geologic Log

Orientation ☒ Vertical ○ Horizontal ○ Angle Specify

Drilling Method Reverse Circ. Drilling Fluid WATER

Depth from Surface Feet	to Feet	Description Describe material, grain size, color, etc
		See ATTACHED

Total Depth of Boring 90 Feet

Total Depth of Completed Well 82 Feet

Well Owner

Name SAN BERNARDINO MUNICIPAL WD

Mailing Address 1300 NORTH D ST

City SAN BERNARDINO State CA Zip 92418

Well Location

Address 1990 AQUA MANSA RD

City COLTON County 92324

Latitude 34 Deg. 1 Min 58.1 Sec. N Longitude 117 Deg. 21 Min 30.3 Sec. W

Datum ~~34~~ Decimal Lat. Decimal Long.

APN Book 0260 Page 091 Parcel 76

Township 1S Range 5W Section 36

Location Sketch

(Sketch must be drawn by hand after form is printed.)

North

See ATTACHED MAP

West East

South

Illustrate or describe distance of well from roads, buildings, fences, rivers, etc. and attach a map. Use additional paper if necessary. Please be accurate and complete.

Activity

☒ New Well

○ Modification/Repair

○ Deepen

○ Other

○ Destroy

Describe procedures and materials under "GEOLOGIC LOG"

Planned Uses

○ Water Supply

☐ Domestic ☐ Public

☐ Irrigation ☒ Industrial

○ Cathodic Protection

☒ Dewatering

○ Heat Exchange

○ Injection

○ Monitoring

○ Remediation

○ Sparging

○ Test Well

○ Vapor Extraction

○ Other

Water Level and Yield of Completed Well

Depth to first water (Feet below surface)

Depth to Static Water Level 8 (Feet) Date Measured 6-17-08

Estimated Yield * 1050 (GPM) Test Type CONSTANT

Test Length 24 (Hours) Total Drawdown 44 (Feet)

*May not be representative of a well's long term yield.

Casings

Depth from Surface Feet	to Feet	Borehole Diameter (Inches)	Type	Material	Wall Thickness (Inches)	Outside Diameter (Inches)	Screen Type	Slot Size if Any (Inches)
0	36	48	CONDUCTOR	STEEL	.375	36		
+3	42	32	CASING	SS 304L	.312	18 5/8		
42	72	32	SCREEN	SS 304L	.312	18 5/8	LOUVER	.090
72	82	32	CASING	SS 304L	.312	18 5/8		
+3	40	32	TUBE	LCS	SCH 40	3.5		
+3	40	32	TUBE	SS 304L	SCH 40	2.5		

Annular Material

Depth from Surface Feet	to Feet	Fill	Description
0	32	CEMENT	10.5 SK
32	35	BENTONITE	BENSEAL
35	37	SAND	1C
37	82	SAND	#4 X 16
82	90	BENTONITE	SAND

Attachments

☒ Geologic Log

☒ Well Construction Diagram

☐ Geophysical Log(s)

☐ Soil/Water Chemical Analyses

☒ Other MAP

Attach additional information, if it exists.

Certification Statement

I, the undersigned, certify that this report is complete and accurate to the best of my knowledge and belief

Name Best Drilling and Pump, Inc.

Person, Firm or Corporation

1640 W. Devlin Rd Colton CA 92324

Address City State Zip

Signed [signature] 7/29/16 826672

C-57 Licensed Water Well Contractor Date Signed C-57 License Number

DWR 188 REV. 1/2006

IF ADDITIONAL SPACE IS NEEDED, USE NEXT CONSECUTIVELY NUMBERED FORM

REVISED

Project Name:	**RIX Capacity Restoration Project**
Project Location:	**Colton, Riverside**
Project Number:	**005-003-005**
Client:	**City of San Bernardino Municipal Water Department**

Boring Log / PW-3

Sheet 1 of 3

Date Started	3/17/08	Date Finished	3/25/08	Borehole Depth	90.0 feet	Drilling Contractor	Best Drill and Pump
Lat.	34° 1' 58.1"	Long.	-117° 21' 30.3"	Drill Bit Size/Type	17.5" Tri-cone	Driller	Ernest, Chris
Ground Surface Elevation	854.1			Screened Interval(s)	42-72	Drill Rig Type	Wagner Morehouse
Top of Casing Elevation	858.1			Depth to Groundwater	15.89 ft-bgs	Drilling Method	Flooded reverse
Logged By	C. Landaverde			Reviewed By	A. Malone	Sampling Method	Interval collection by splitter box

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	0			Artificial Fill: Poorly Graded SAND (SP): yellowish brown (10YR, 5/6), 100% sand. Fine to medium sand.		
850	5				TW-3 18" dia. SS casing (with 0.060" perforation horizontal louver shutter screen from 42-72 ft-bgs)	
845	10			Poorly Graded SAND (SP): yelowish brown (10YR, 5/6), 100% sand. Medium to coarse sand. Well Graded SAND (SW): yellowish brown (10YR, 5/6), 100% sand, trace of gravel. Fine to coarse sand.	Conductor Casing (0-32 bgs).	
840	15			Well graded SAND (SW): brown (10YR, 4/3), 100% sand, trace of gravel. Fine to coarse sand.	Concrete (0-32 bgs) SWL=15.89 ft-bgs on 6/10/2008	
835	20			Well graded SAND (SW): brown (10YR, 4/3), 15% gravel, cobble and boulders, 85% sand. Fine to coarse sand. Cobbles and Boulders are 6"-18" in diameter.		
830	25			Well Graded SAND (SW): brown (10YR, 5/3), 100% sand, trace of cobbles. Fine to medium sand.		
825	30			Well Graded SAND (SW): brown (10YR, 5/3), 5% gravel, 95% sand, trace of cobbles. Fine to coarse sand.		

Report: WELL LOG - NO SAMPLE TIME File: RIX.GPJ 5/27/2009

WILDERMUTH ENVIRONMENTAL INC.

Figure 3

Project Name: RIX Capacity Restoration Project **Project Location:** Colton, Riverside **Project Number:** 005-003-005 **Client:** City of San Bernardino Municipal Water Department	**Boring Log / PW-3** Sheet 2 of 3

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	30			Well Graded SAND with Clay and Gravel (SW-SC): Sand: gray (10YR, 6/1), Clay: dark grayish brown (2.5 4/3). 15% gravel, 70% sand, 15% clay. Sand and clay are interbedded. Clay has iron staining. Fine to coarse sand.		
				Well Graded SAND (SW): brown (10YR, 5/3), 1% gravel, 99% sand. Fine to coarse sand, some small gravel.	Benseal (32-35 ft-bgs)	
815				Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Medium to coarse sand, gravel.		
	35					
				Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Medium to coarse sand, gravel size 1/2" in diameter.	Fine Sand (35-37 ft-bgs)	
				Well Graded SAND (SW): brown (10YR, 5/3), 10% gravel, 90% sand. Fine to coarse sand, gravel.		
810						
	40			Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Fine to coarse sand, gravel.	Artifical filter pack (37-76 ft-bgs)	
				Well Graded SAND (SW): gray (10YR, 5/1), 10% gravel, 90% sand. Medium to coarse sand, gravel, gravel size 1/2" in diameter.		
805						
	45			Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Fine to coarse sand, gravel, gravel size 1/2" in diameter.	18" dia. SS casing with 0.060" perforation horizontal louver shutter screen from 42-72 ft-bgs	
				Well Graded SAND (SW): gray (10YR, 5/1), 100% sand. Medium to coarse sand.		
800						
	50			Well Graded Sand with Gravel (SW): gray (10YR, 5/1), 15% gravel, 85% sand. Medium to coarse sand, gravel, gravel size 1/2" in diameter.		
				Well Graded SAND with Gravel (SW): gray (10YR, 5/1), 20% gravel, 80% sand. Medium to coarse sand, gravel, gravel size 1/2" to 3/4" diameter.		
795				Well Graded SAND with Gravel (SW): gray (10YR, 5/1), 25% gravel, 75% sand. Medium to coarse sand, gravel, gravel size 1/2" to 3/4" diameter.		
	55					
				Well Graded SAND with Gravel (SW): gray (10YR, 5/1), 20% gravel, 80% sand. Medium to coarse sand, gravel, gravel size 1/2" to 3/4" diameter.		
790				Well Graded SAND (SW): graysih brown (10YR, 5/2), 100% sand. Fine to coarse sand.		
	60					
				Well Graded SAND (SW): graysih brown (10YR, 5/2), 100% sand. Medium to coarse sand.		
				Well Graded SAND (SW): grayish brown (10YR, 5/2), 10% gravel, 90% sand. Fine to coarse sand, gravel.		
785						
	65					

Report: WELL LOG - NO SAMPLE TIME; File: RIX.GPJ; 5/27/2009

WILDERMUTH ENVIRONMENTAL INC

Figure 3

Project Name: RIX Capacity Restoration Project **Project Location:** Colton, Riverside **Project Number:** 005-003-005 **Client:** City of San Bernardino Municipal Water Department	**Boring Log / PW-3** Sheet 3 of 3

Elevation, feet-msl	Depth, feet-bgs	Sample Interval	Graphic Log	MATERIAL DESCRIPTION	WELL SCHEMATIC AND CONSTRUCTION DETAILS	FIELD NOTES
	65			Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Fine to coarse sand, gravel.	18" dia. SS casing with 0.060" perforation horizontal louver shutter screen from 42-72 ft-bgs	
				Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Fine to coarse sand, gravel, gravel size 1/2" in diameter.		
780				Well Graded SAND (SW): grayish brown (10YR, 5/2), 5% gravel, 95% sand. Fine to coarse sand, gravel, gravel size 1/4" in diameter.		
	70					
				Well Graded SAND (SW): grayish brown (10YR, 5/2), 100% sand. Medium to coarse sand.		
775						
	75				Benseal (73-82 ft-bgs)	
				Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Medium to coarse sand.	Silt Trap	
770						
	80					
765						
	85				Benseal and Sand mixture (79-90 ft-bgs)	
				Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 20% gravel, 80% sand. Medium to coarse sand, large cobbles.		
760						
	90			Well Graded SAND with Gravel (SW): grayish brown (10YR, 5/2), 15% gravel, 85% sand. Medium to coarse sand.		
755						
	95					
750						
	100					

Report: WELL LOG - NO SAMPLE TIME; File: RIX.GPJ; 5/27/2009

WILDERMUTH ENVIRONMENTAL INC

Figure 3

Proposed Production Wells

Proposed Observation Wells

Existing Extraction Well

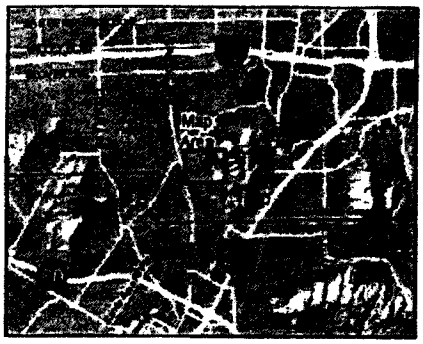
Existing Test Well

Existing Monitoring Well

Discharge Piping

Proposed RIX Basins

Proposed RIX Expansion Site



Produced by: WILDERMUTH

Site Map for New Wells

Feet

Site I

RIX Facility, Colton, CA

SECTION 013553 SECURITY PROCEDURES – RIX FACILITY

PART 1.00 - GENERAL

1. Summary: The Rapid Infiltration and Extraction (RIX) Facility is a functioning municipal waste water reclamation plant that operates 24 hours per day, 7 days per week. The Facility contains critical infrastructure for the San Bernardino Municipal Water Department (Department) and the City of Colton. The security of this critical infrastructure is vital to the community and must be maintained at all times, without exception. Department safety protocols mandate that the Operations Center at the Department's Water Reclamation Plant (WRP) be aware of all personnel located on-site at all times. Although there are staff members on-duty at all times, the staff members are fully occupied performing their assigned duties and are not free to assist the Contractor or any persons performing work or deliveries for, or on behalf of, the Contractor.

   Every person employed by the Contractor or performing work or deliveries for, or on behalf of, the Contractor under this project will be required to strictly adhere to the following requirements. Failure to adhere to these protocols or to Department safety protocols will result in immediate suspension of access to the RIX or WRP at the discretion of the Department. Suspension will extend for the remainder of the day for the first offense and for the remainder of the project for the second offense.

   At no time shall adherence to the aforementioned protocols result in justification for an equitable adjustment of contract cost or time.

2. Access List: A site-security access list is maintained by Department Administration at all times. Addition of names for specific individuals will be granted by the Department's Construction Project Manager on a case-by-case basis. The Contractor shall submit a written request that the specific person be added to the list at least 3 full working days in advance of the access needed. Request for addition of an employer's name with "all employed staff" or similar will not be accepted. Each staff member's name must be accompanied with a driver's license or other government-issued identification card number. This document must be presented for photocopy on their first visit to the RIX Facility and will be retained in a secure location for project records.

   Upon addition to the list, the personnel will only remain on the list through the expiration date noted by the Construction Project Manager. At no point shall the duration between date of addition to the list and expiration date exceed six (6) months. Access will only be granted between 7:00 AM PST/PDT and 4:00 PM PST/PDT, Monday through Friday, except Department-recognized holidays unless extenuating circumstances exist and are specifically noted to the Construction Project Manager.

3. Reception Desk: The RIX Facility is not staffed with a full-time receptionist and is only open by prior appointment between the hours of 7:00 AM PST/PDT to 4:00 PM PST/PDT, Monday through Friday, except Department-recognized holidays.
    a. A Department-designated staff member is responsible for observing the sign-in process and will verify the presence of the personnel on the access list prior to permitting access.
    b. The Department-designated staff member will not be responsible for contacting any other personnel to discuss the presence or lack thereof on the access list.
    c. Once permitted, each person signing in will personally and legibly write their own full name on a single line on the sign in sheet. Multiple names per line and persons signing in or out for other personnel will not be permitted.
    d. Each person shall sign in and sign out each time they utilize the access gate. This includes leaving the site with intent to return shortly thereafter (lunch, etc.).
    e. No after hour access to the RIX Facility is permitted at any time. Emergency access shall be discussed with the Department's Construction Project Manager.
    f. Vehicle access pass: Upon signing in, each vehicle may be issued one color-coded, numbered vehicle access pass. If provided, this pass MUST be displayed on the windshield prior to entering the Facility entrance gate. Each pass MUST be returned upon departing and may not be retained for later use (that day or any subsequent days).

4. Deliveries: Deliveries, parcels, or other materials will not be accepted by any Department staff. Delivery personnel will not be granted access to the Facility unless previously and specifically authorized. Exceptions for routine deliveries (drinking water delivery, septage pickup, etc.) may be discussed with the Construction Project Manager and permitted at Department's discretion. The Contractor and any person or entity working for, or on behalf of, the Contractor shall make appropriate arrangements to receive deliveries.

5. Contractor Escort: Personnel and delivery drivers not present on the access list may be individually escorted on to and off of the Facility property by the Contractor or his authorized representative. Escorting personnel shall remain with the escorted individual(s) at all times. The Contractor shall make all arrangements for the communication between the arriving individual and the Contractor's escort as the Department's Designated-staff member will not be responsible for contacting the Contractor or his personnel.

6. Access Gate: All personnel shall utilize the Agua Mansa gate at all times, without exception. Unless specifically authorized by the Department's Construction Project Manager, the RIXES Gate or the Levee Gate shall not be utilized except in cases of extreme emergency (fire, medical, etc.). All personnel shall wait at the Agua Mansa Gate and utilize the intercom system provided. Use of air horns and other signaling devices will not be permitted as this is disruptive to Department business. Drivers of vehicles with loud engines (diesel engines, etc.) shall turn off their vehicles when using the intercom due to excessive noise at the receiving end of the intercom.

7. Emergency Vehicles, Concrete Trucks, and Critically-Timed Deliveries: Occasionally, it is necessary for emergency personnel, concrete ready-mix truck drivers, or other delivery personnel to access the Facility without expending the time to sign in. In the cases of emergency vehicles, emergency personnel may use the intercom to access the gate. In the cases of concrete trucks and other deliveries, arrangements shall be made in advance with the Construction Project Manager so that documentation of presence on site can be entered by other personnel.

8. Department Employee Parking Area and Designated Work Areas: The Contractor and any persons performing work or deliveries for, or on behalf of, the Contractor shall not utilize, drive through, or access the Department's employee parking area adjacent to the RIX Facility Administration Building. The Contractor and any persons performing work or deliveries for, or on behalf of, the Contractor shall remain in their designated work area(s) and shall not leave these areas except over plant roadways to and from their designated work area(s).

9. Pets: Pets are not permitted on-site at any time.

10. After-Hours Access: No after-hours access will be permitted on-site at any time without the expressed written consent of the Department's Construction Project Manager in advance. This consent is not typically granted. At no time will any person be permitted to remain on-site overnight.

11. Access Badge: The Department may elect to provide all, some, or none of the personnel related to this project with an access badge. If provided, the access badge shall be worn on the external-most layer of clothing above the waist and conspicuously worn. At any time, any Department staff member has the authority to stop any personnel located on-site to verify the staff member's access rights.

12. Report of Damage or Incident: Every person employed by the Contractor or performing work or deliveries for, or on behalf of, the Contractor under this project shall **immediately** report any damage to Department Property, inadvertent release or spill of any fluid or waste, or loss, regardless of the severity, extent, or nature of the issue. Leaving the scene of the incident, failure to report the incident immediately, or returning to work to report the incident at a later or more convenient time are some causes for immediate revocation of access privileges.

Only in cases of a life-threatening emergency that requires constant attention will this notification requirement be relaxed to "as soon as possible." Notification shall be to the Construction Project Manager for this Project by phone or by requesting the presence of the Project Manager through any Department staff member.

13. Nature of On-Site Security: Contractor is urged to use significant means of securing all tools, materials, and other items as the nature of the project location is not inherently secure. Thefts of tools, materials, and vehicles have occurred on past projects within the Facility boundaries. The Department is not responsible for any reliance on the Department's security measures as the Contractor's own measures.

14. Project-Specific Considerations:

    a. Work on the RIXES Property is not considered work on the Facility. No sign-in procedures are necessary when working on the RIXES Property.
    b. All persons performing work on the RIXES Property or RIX Facility shall wear a reflective safety vest or other suitable means of distinguishing themselves from unauthorized persons frequenting the RIXES Property.
    c. Work within the perimeter of the RIX Facility on the discharge piping and discharge point is considered work on the Facility. All sign in procedures shall be strictly followed.
    d. Contractor's Project Manager or Site Foreman shall notify the Department's Construction Project Manager at the beginning and conclusion of each working period, regardless of physical location.
    e. Contractor shall be aware of the high frequency of traffic on the RIXES Property by unauthorized persons (transients, off-road enthusiasts, etc).
    f. Contractor shall be aware of the high frequency of theft and vandalism on Department property in the area and take all necessary precautions.

PART 2.00 - PRODUCTS
Not used.

PART 3.00 - EXECUTION
Not used.

END OF SECTION

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

SEP 27 2016

BOARD OF WATER COMMISSIONERS
STAFF REPORT

TO: Stacey R. Aldstadt, General Manager

FROM: John A. Claus, Director of Water Reclamation

SUBJECT: **REQUEST TO APPROVE CHANDLER WELL REMEDIATION – BEST DRILLING AND PUMP, INC.**

DATE: September 27, 2016

Copies: Greg Evans, Chris Phelps, Kevin Stewart, Michelle Honis, Sydney Morrison, Laserfiche

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BACKGROUND:

In 1993 and 1994, a deep agriculture-grade groundwater extraction well (Chandler Well [formerly titled the Bloodbank Well]) was constructed and equipped at the Water Reclamation Plant (WRP) for the San Bernardino Municipal Water Department (Department). The original design intent for the well was to reduce the groundwater depth to prevent damage to existing structures at the WRP. The intent of the well was later revised (prior to equipping) to include use as WRP process water (seal water, cooling water, spray-wash water, irrigation, etc.; due to the proximity to the WRP, this well could not be used as a source of potable water).

Due to prolonged drought conditions and increased groundwater pumping within the Bunker Hill Groundwater Basin, the average groundwater surface elevation at the Chandler Well has dropped. In addition to the decline of groundwater surface elevation, continuous use of the Chandler Well to provide WRP process water is believed to have resulted in reduced transmissivity, due to media and well screen fouling. On August 1, 2016, the Chandler Well (and one other at the WRP) ran dry.

Staff has identified the three (3) tasks that should rehabilitate the Chandler Well to return it to service: (1) Removal and Remediation Recommendation; (2) Remediation/Rehabilitation and Test Pumping; and (3) Well Equipping. The first task consists of removing the existing motor and pump, performing a video survey of the well casing condition, and evaluating all existing equipment. Based on the results of a written report (the deliverable for the first task), the second task consists of remediation and redevelopment of the well casing and surrounding filter pack, along with test pumping of the well to determine the most appropriate well yield values to use in a pump design. The final task is a pump design by Department Staff, followed by procurement and installation of a new or rehabilitated pump and motor system.

Agenda Item 8

SUBJECT: **REQUEST TO APPROVE CHANDLER WELL REMEDIATION – BEST DRILLING AND PUMP, INC.**

In December 2014, staff issued a Request for Qualifications (RFQ) under Specification No. 1640 – Well Rehabilitation Assessment and Repair. As a result, in February 2015, five (5) well rehabilitation contractors were prequalified based on work experience, minimum insurance requirements, proper contractor's license, bonding capacity, experience level, and adequate staffing.

Transmittal of Video Survey Results from Tri County Pump Company (TCPC) confirmed the expected reduced transmissivity due to heavy well screen fouling. Following transmittal and review of a Pump Inspection Report from TCPC, Staff requested proposals from these five prequalified contractors to remediate the Chandler Well. Best Drilling and Pump, Inc. (Best) was responsive and provided the lowest quotation in the amount of $66,750.00 (a copy of Best's proposal, along with the Scope of Work, is attached for reference).

FUNDING SOURCE:

On September 6, 2016, the Board of Water Commissioners approved the addition of the WRP Wells Rehabilitation project to the Fiscal Year 2016/17 Sewer Fund Capital Improvement Budget. There are sufficient funds in Construction Order No. 00192 to fund the Chandler Well remediation effort.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners make the following motion:

- Approve the award of the Remediation of the Chandler Well to Best Drilling and Pump, Inc., in the amount of SIXTY SIX THOUSAND SEVEN HUNDRED FIFTY AND 00/100 DOLLARS ($66,750.00).

Respectfully submitted,

John A. Claus
Director of Water Reclamation

JAC:KTS

Attachments:

- Chandler – Remediation Scope of Work – Best – 09-07-16
- Chandler – Quote – Best – 09-16-16

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

BOARD OF WATER COMMISSIONERS

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Director of Water Reclamation
JENNIFER SHEPARDSON
Director of Environmental & Regulatory Compliance
TERRI WILLOUGHBY
Director of Finance

"Trusted, Quality Service since 1905"

September 7, 2016

Mr. Dean Garcia
Pump Division Manager
Best Drilling and Pump, Inc.
1640 Pellisier Road
Colton, CA 92324

Reference: Informal Request for Quotation
Remediation of the Chandler Well

Dear Mr. Garcia,

Recently, the Department utilized the services of a qualified Contractor to remove and make recommendations on potential rehabilitation of the Chandler Well. The Chandler Well is located at:

Water Reclamation Plant (WRP)
399 Chandler Place
San Bernardino, CA 92408

In December 2014, the Department issued a Request for Qualifications (RFQ) under Specification No. 1640 – Well Rehabilitation Assessment and Repair. As a result, your firm was selected as one of five (5) well rehabilitation contractors that were prequalified to perform well rehabilitation, assessment, and repair. A scope of work is itemized below that defines this type of work for the Chandler Well. If your firm is interested in providing the services listed below, please transmit an itemized quotation to provide all labor, materials, and equipment necessary to complete the Scope of Work listed below. The quotation may be submitted on the Contractor's own form but shall include a completed "Itemized Proposal Breakdown" form without modification in Excel format.

Evaluation, Purchase Order, and Payment Process

All quotations received will be evaluated for responsiveness to all stipulated requirements. The Contractor's evaluated cost will be the sum of all extended line items on the Itemized Proposal Breakdown with the assumed hour quantities shown. Any proposed deviations shall be proposed as

300 North "D" Street, San Bernardino, California 92418 P.O. Box 710, 92402 Phone: (909) 384-5141
FACSIMILE NUMBERS: Administration: (909) 384-5215 Engineering: (909) 384-5532 Customer Service: (909) 384-7211
Corporate Yards: (909) 384-5260 Water Reclamation Plant: (909) 384-5258

a notation on the Contractor's own form and discussed in a scoping meeting prior to the award recommendation that follows. A memorandum shall be made to the Board of Water Commissioners recommending award of a Purchase Order to the lowest responsive, responsible respondent. Payment applications shall be submitted no more frequently than once per calendar month and shall be on a unit price basis based upon the hours completed multiplied by the hourly unit prices identified in the Itemized Proposal Breakdown or the lump sum ("each") items completed. Payment will be made on a Net 30 basis in accordance with Public Contract Code requirements.

Administrative Requirements:

1. Schedule and confirm an appropriate period of time to complete the work listed below with the Department's Construction Project Manager.
2. Complete all safety requirements (lock-out, tag-out, block-out, etc.) in accordance with OSHA standards.
3. Refer to Attachment A for the Well Completion Report.
4. A Site Walk is not mandatory for this Quotation but is recommended. A Site Walk may be scheduled with the Construction Project Manager. The intent of the site walk is for the Contractor to acquaint themselves with the existing site conditions, including, but not limited to, site access and temporary facility / security constraints.
5. The Contractor alone shall be responsible for the security, safety, efficiency, and adequacy of their equipment, appliances, and methods, and for any damage, which may result from their security efforts, improper construction, maintenance, or operation.
6. All persons involved in the aforementioned work shall adhere to the Department's Standard Security Procedures (Section 013553).
7. All work performed shall be subject to prevailing wage rules.
8. Time is of the essence for this Work. The Department is relying solely on the Potable Water System for all process water within the Plant at significant additional cost. All possible effort shall be expended to complete the full Scope of Work in the shortest possible duration.
    a. The following project durations apply:
        i. The temporary pipeline installation shall commence within 14 calendar days of the Notice to Proceed.
        ii. The Contractor shall complete the work through Substantial Completion within 14 calendar days of the commencement of temporary pipeline installation.
    b. Substantial Completion, for the purposes of this Project, shall consist of receipt of the Well Report. Teardown, demobilization, and similar efforts are not considered a part of the contract duration but shall be completed immediately following Substantial Completion without significant delay.
    c. Work inside the Plant on a double-shift or 24-hour per day, 7-day per week basis may be permitted by the Department at the request of the Contractor to accommodate the Project duration.

Technical Requirements:

9. Not used.
10. Wire brush and bail the well from the top of casing to the bottom.
11. Perform video inspection of the well to check the structure of the well following the wire brushing. Provide digital video file and selected, applicable images from the inspection that accurately represent the condition of the well.

12. Verify or correct all blank and screened casing boundary depths shown on the Well Completion Report, including the true casing bottom.
13. Meet with Department's Construction Project Manager to verify that remediation work will be performed for the well. Department may elect not to proceed with further remediation at this point.
14. Perform Sonar-Jet® remediation of the gravel pack surrounding the casing through the full screened depth to loosen hardened mineral or bacterial deposits and "deep clean" the aquifer immediately surrounding the casing. Discuss and coordinate the detonation "strength" level with the Department in advance of the work, taking into consideration the condition of the existing screen.
15. Perform Dual-Swabbing while airlifting to agitate and redevelop the well by removing dissolved minerals and dislodged formation materials / sediment. All Respondents shall use an assumed sixteen (16) hours of dual-swabbing for each well.
16. Provide suitable temporary storage for containment of swabbing and bailing fluids developed from the Well.
    a. Decanted fluids not exceeding ten (10) Nephelometric Turbidity Units (NTU) may be discharged into the temporary discharge line. This limitation applies only to the water pulled from the casing during the bailing and dual swab airlifting operations (and similar activities). This limitation does not apply to pump development activities.
    b. Legally dispose of sediment-filled fluids off-site and provide Department with documentation of legal disposal.
17. Furnish, install, and remove a 2,500 gallon-per-minute (GPM) test pump capable of being turned down to at least 1,000 GPM. Provide all hoses, pumps, temporary piping, and other appurtenances / equipment.
18. Refer to Attachment B for the Well Development Discharge Piping Alignment. Contractor shall note that there are numerous scope of work requirements listed on the Discharge Piping Alignment document in addition to those noted herein. Discharge piping into the Unit 1 Secondary Clarifier Effluent discharge shall be self-supported and flow shall not be permitted to leave the structure (splashing out).
19. All discharged groundwater shall meet the following requirements:
    a. Temporary pumps, piping, and appurtenances shall impart on the extracted groundwater no additional chemicals, constituents, contaminants, or other foreign matter that will place the Department in violation of permitted effluent limits. Contractor shall submit proposed discharge piping system for acceptance by the Department. No additional testing shall be required of the Contractor to verify compliance, only confirmation that the equipment utilized by the Contractor will not impart chemicals, constituents, contaminants, or other foreign matter that is not already in the groundwater being extracted.
    b. Should Contractor elect to discharge testing water into the Unit 1 Secondary Clarifier Effluent, discharge MUST be accurately metered and reported on a daily basis, without exception. Values shall be reported to Designated Operator in Charge or other Department-designated staff member with acknowledgement by the conclusion of each day. The volumetric flow rate and metered discharge must be included in the Department's mandatory regulatory reporting.
20. Re-develop the well with the test pump. All Respondents shall use an assumed twenty-four (24) hours of well re-development time. Hourly rates shall be shown on the

itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected respondent. In no event shall this task exceed forty-eight (48) hours.

21. Perform a step drawdown test with the test pump. All Respondents shall use an assumed twenty-four (24) hours of test pumping time (including either step drawdown testing or constant rate testing. Hourly rates shall be shown on the itemized cost list. Following selection of the lowest responsive, responsible respondent, a coordination meeting will be held to determine the exact number of hours to be included in the Project, as recommended by the selected respondent. In no event shall this task exceed forty-eight (48) hours.
22. Provide a sampling location with minimal discharge pressure. Coordinate with the Department's Construction Project Manager in advance to determine if Department Water Quality Staff will take water quality samples while test pumping is ongoing. Assist Department with all necessary steps to complete proper sampling methods (assist with the determination of well flushing rate, etc.) Hourly unit rates shall be shown on the itemized cost list for assistance with sampling. All Respondents shall use an assumed two (2) hours of assistance.
23. Provide a written report (digitally transmitted) that documents the results of all tests performed. Provide the following pieces of information:
    a. Well Yield
    b. Specific Capacity
    c. Results of step drawdown testing at each flow rate tested

    Include in the report any other pertinent findings or recommendations of the Contractor. All well testing logs and data shall be provided to the Department digitally in PDF format. This deliverable is of great importance and urgency to the Department.
24. No digitally-prepared Daily Report is required for this Project.
25. Department intends to utilize the findings of the remediation and test pumping report in the final design of the well rehabilitation work. A final design shall then be issued as the basis for a third Request for Quotation from the five (5) pre-qualified Contractors to perform the well rehabilitation work.
26. Contractor shall minimize the work area footprint to the minimum possible space.
27. Temporary Facilities:
    a. The Contractor shall provide all temporary facilities and utilities required for prosecution of the work, protection of employees and the public, protection of the work from damage by fire, weather or vandalism and such other facilities as may be specified or required by any legally applicable law, ordinance, rule or regulation. No additional temporary facilities or utilities shall be provided for the Department unless listed below.
    b. **Electricity**. The Contractor shall provide at his own cost all electric power required for construction, testing, general and security lighting, and all other purposes until the substantial completion of the Project. One (1) 120-volt, 20-amp duplex receptacle may be used by the Contractor. Receptacle is located within the Maintenance Shop. Contractor shall provide any extension cords to cross the Plant Road.
    c. **Lighting**. The Contractor shall provide at his own cost all lighting in all work areas sufficient to maintain a lighting level during working hours not less than the

lighting level required by California OSHA standards until the substantial completion of the Project

d. **Construction Water**. The Contractor shall provide at his own cost all water sources necessary for dust control, construction, testing, general, and all other purposes until the substantial completion of the Project.
   i. A garden-hose at the nearby Maintenance Shop is connected to the Department's process water system that is currently being served by the Department's potable water system and may be used by the Contractor.

e. **Dust Control**. No dust control is anticipated for this Project, however, no dust is permitted to cause a nuisance or leave the site. Refer to requirements of the South Coast Air Quality Management District for dust control regulations. Use only water to control any dust.

f. **Fire Danger**. Minimize fire danger in the vicinity of an adjacent to the Work area. Provide equipment necessary to protect the surrounding area from fire damage resulting from construction operations.

g. **Plant Roads**. The Contractor and his employees will only park on the crushed asphalt area south of the Plant Road adjacent to the well. Work vehicles required to be directly adjacent the Well may be located in the Employee parking area with sufficient orange plastic delineators placed in advance to keep Employee vehicles away from the work area. The Plant Road is used frequently by Septic-hauler trucks and tractor-trailers, as well as all Department staff and may not be closed or blocked without advanced planning and justification of need.

h. **Sanitary Facilities**. Contractor shall furnish temporary sanitary facilities at the Site for the needs of all construction workers and others performing work or furnishing services on the Project. Secondary containment shall be provided at all facilities. No use of Department facilities will be permitted.

i. **Disposal**. All rubbish produced in course of work or by employees relating to the work shall be collected and legally disposed off-site by the Contractor at his own expense.

The following is a summary of the equipment noted above:

Name of Well: Chandler Well
Latitude: 34.0766356 (34° 4' 35.87"N)
Longitude: -117.289581 (117° 17' 22.49"W)
State Well ID: 01S-04W-15P05S
Year Drilled: 1993
Year Equipped: 1994
Boring Depth: 410 feet
Completed Well Depth: 400 feet
Casing:

Depth	Material	Diameter	Thickness	Type
000 – 040 ft	Steel	32 in	3/16 in	blank conductor casing
000 – 260 ft	Steel	16 in	3/16 in	blank casing
260 – 380 ft	Steel	16 in	3/16 in	0.090" screen
380 – 400 ft	Steel	16 in	3/16 in	blank casing

Former Pump: Fairbanks Morse 14M 7000

	2-stage water lube bowl assembly Installed 1994 by Layne Western - McCalla Division Pump will be replaced
Pump Size:	10 in
Pump Type:	Vertical Turbine
Design Flow Rate:	2,000 GPM
Total Dynamic Head:	280 ft
Stages:	2
Column Length:	225 ft
Motor:	125 hp, 3-phase, 460 volt, UNK amp, US Motor
Access Constraints:	None – Site security only.

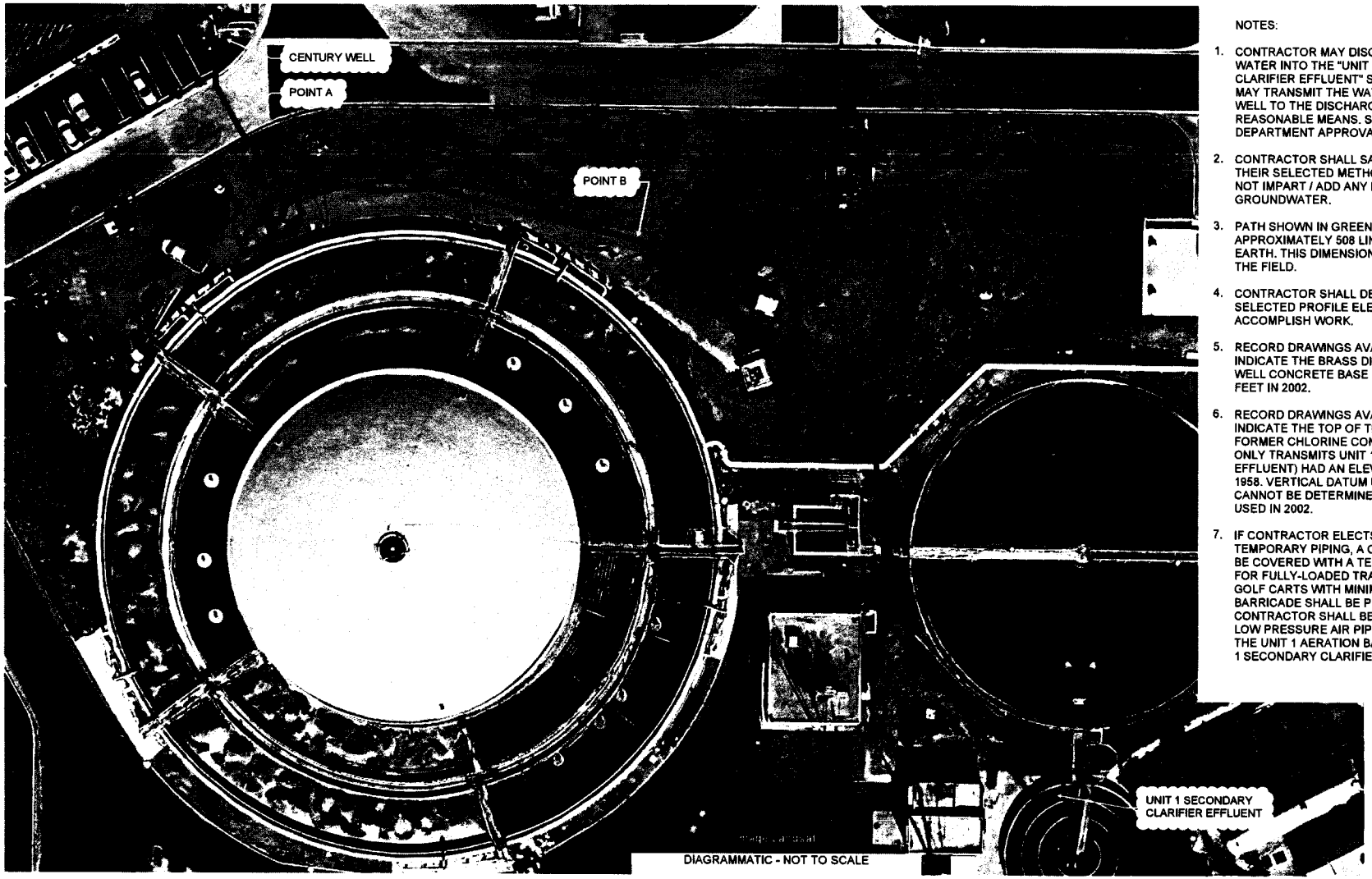
The following is a summary of the suspected reasons for this well rehabilitation effort:

Reason: Pump flow rate has decreased over time. It is suspected that the gravel pack surrounding the well casing may have reduced flow as no remediation work has ever occurred since initial drilling / development.

Please transmit your quotation to me at the email address noted below by the date noted:

Due Date: Friday, September 16, 2016

Kevin Stewart, Construction Project Manager
kevin.stewart@sbmwd.org
(909) 454-5651



DIAGRAMMATIC - NOT TO SCALE

NOTES:

1. CONTRACTOR MAY DISCHARGE TESTING WATER INTO THE "UNIT 1 SECONDARY CLARIFIER EFFLUENT" STRUCTURE. CONTRACTOR MAY TRANSMIT THE WATER FROM THE CHANDLER WELL TO THE DISCHARGE POINT THROUGH ANY REASONABLE MEANS. SUBMIT PROPOSED MEANS FOR DEPARTMENT APPROVAL.
2. CONTRACTOR SHALL SATISFY DEPARTMENT THAT THEIR SELECTED METHOD OF TRANSMISSION DOES NOT IMPART / ADD ANY IMPURITIES INTO THE PUMPED GROUNDWATER.
3. PATH SHOWN IN GREEN MEASURES APPROXIMATELY 508 LINEAR FEET ON GOOGLE EARTH. THIS DIMENSION HAS NOT BEEN VERIFIED IN THE FIELD.
4. CONTRACTOR SHALL DETERMINE AND VERIFY ANY SELECTED PROFILE ELEVATIONS NECESSARY TO ACCOMPLISH WORK.
5. RECORD DRAWINGS AVAILABLE TO THE DEPARTMENT INDICATE THE BRASS DISC ON TOP OF THE CHANDLER WELL CONCRETE BASE HAD AN ELEVATION OF 989.82 FEET IN 2002.
6. RECORD DRAWINGS AVAILABLE TO THE DEPARTMENT INDICATE THE TOP OF THE CONCRETE WALL AT THE FORMER CHLORINE CONTACT BASIN (CURRENTLY ONLY TRANSMITS UNIT 1 SECONDARY CLARIFIER EFFLUENT) HAD AN ELEVATION OF 992.00 FEET IN 1958. VERTICAL DATUM USED FOR THIS PROJECT CANNOT BE DETERMINED AND MAY NOT MATCH THAT USED IN 2002.
7. IF CONTRACTOR ELECTS TO PROCEED WITH TEMPORARY PIPING, A CROSSING AT POINT A SHALL BE COVERED WITH A TEMPORARY SYSTEM SUITABLE FOR FULLY-LOADED TRACTOR TRAILERS, AS WELL AS GOLF CARTS WITH MINIMAL GROUND CLEARANCE. A BARRICADE SHALL BE PROVIDED AT POINT B. CONTRACTOR SHALL BE AWARE OF ABOVE-GRADE LOW PRESSURE AIR PIPING (LIGHT BLUE) BETWEEN THE UNIT 1 AERATION BASINS AT LEFT AND THE UNIT 1 SECONDARY CLARIFIERS AT RIGHT.

PREPARED BY: KEVIN STEWART, CONSTRUCTION PROJECT MANAGER
PREPARATION DATE: TUESDAY, SEPTEMBER 06, 2016

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT

CHANDLER WELL
TEST PUMPING DISCHARGE ROUTING

SHEET 01 OF 01

FILE: N:\Admin 2\Construction Proj Mgr\Mini Projects\017 - WRP Wells\02 Chandler\04 - Remediation\SOW\Chandler - Discharge Routing.pdf

File with DWR

WELL COMPLETION REPORT

Refer to Instruction Pamphlet

Page 1 of 1

Owner's Well No. Treatment Plant 2 No. 395311

Date Work Began 9-7-93, Ended 11-15-93

Local Permit Agency San Bernardino Co. Environmental Health

Permit No. 09079302 Permit Date 9-7-93

STATE WELL NO./STATION NO. 01S04W15P05S

LATITUDE LONGITUDE

APN/TRS/OTHER

GEOLOGIC LOG

ORIENTATION (✓) X VERTICAL ___ HORIZONTAL ___ ANGLE ___ (SPECIFY)

DEPTH TO FIRST WATER ___ (Ft.) BELOW SURFACE

DEPTH FROM SURFACE Ft.	to Ft.	DESCRIPTION *Describe material, grain size, color, etc.*
0	40	Conductor
40	70	Gravel and sand
70	80	Sand, gravel and rock
80	120	San and gravel
120	150	Gravel, sand and some rock
150	170	Sand and clay
170	180	Rock, gravel and sand
180	190	Gravel and sand
190	200	Sand, clay and gravel
200	220	Sand and gravel
220	230	Sand and gravel
230	250	Gray clay and sand
250	260	Sand
260	270	Gravel, rocks, sand and clay
270	280	Sand and gravel
280	310	Clay and little bit of sand
310	330	Clay
330	340	Sand and gravel
340	360	Clay
360	380	Sand and gravel
380	390	Gravel rocks, clay
390	400	Rocks and sand
400	410	Gray clay

TOTAL DEPTH OF BORING 410 (Feet)

TOTAL DEPTH OF COMPLETED WELL 405 (Feet)

WELL OWNER

Name City of San Bernardino

Mailing Address P.O. Box 710

San Bernardino (City) CA (State) 92402 (ZIP)

WELL LOCATION

Address off end of Bloodbank Drive

City San Bernardino

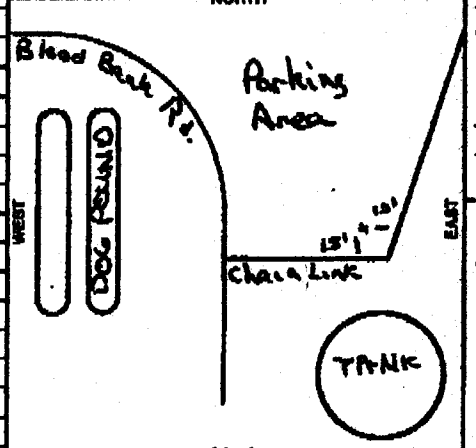
County San Bernardino

APN Book 0141 Page 291 Parcel 23

Township 1N Range 4W Section 20 15 P

Latitude 117 (DEG.) 23 (MIN.) 39 (SEC.) NORTH Longitude 34 (DEG.) 07 (MIN.) 55 (SEC.) WEST

LOCATION SKETCH



Illustrate or Describe Distance of Well from Landmarks such as Roads, Buildings, Fences, Rivers, etc.
PLEASE BE ACCURATE & COMPLETE.

ACTIVITY (✓)

X NEW WELL

MODIFICATION/REPAIR

___ Deepen

___ Other (Specify)

___ DESTROY (Describe Procedures and Materials Under "GEOLOGIC LOG")

PLANNED USE(S) (✓)

___ MONITORING

WATER SUPPLY

___ Domestic

___ Public

X Irrigation

___ Industrial

___ "TEST WELL"

___ CATHODIC PROTECTION

___ OTHER (Specify)

DRILLING METHOD Reverse Rotary FLUID Water

WATER LEVEL & YIELD OF COMPLETED WELL

DEPTH OF STATIC WATER LEVEL 50 (Ft.) & DATE MEASURED 10-26-93

ESTIMATED YIELD* 2400 (GPM) & TEST TYPE Vert. Turbine

TEST LENGTH 57.25 (Hrs.) TOTAL DRAWDOWN 111 (Ft.)

** May not be representative of a well's long-term yield.*

CASING(S)

DEPTH FROM SURFACE Ft.	to Ft.	BORE-HOLE DIA. (Inches)	TYPE (✓) BLANK	SCREEN	OPEN-PERFORATED	FILL TYPE	MATERIAL/GRADE	INTERNAL DIAMETER (Inches)	GAUGE OR WALL THICKNESS	SLOT SIZE IF ANY (Inches)
0	40	42			X		Steel	32	3/16	
0	260	28	X				Steel	16	3/16	
260	380	28		X			Steel	16	3/16	.090
380	400	28	X				Steel	16	3/16	

ANNULAR MATERIAL

DEPTH FROM SURFACE Ft.	to Ft.	TYPE: CEMENT (✓)	BENTONITE (✓)	FILL (✓)	FILTER PACK (TYPE/SIZE)
0	40	X			10 sack
0	405			X	Gravel

ATTACHMENTS (✓)

___ Geologic Log

___ Well Construction Diagram

___ Geophysical Log(s)

___ Soil/Water Chemical Analyses

___ Other

ATTACH ADDITIONAL INFORMATION, IF IT EXISTS.

CERTIFICATION STATEMENT

I, the undersigned, certify that this report is complete and accurate to the best of my knowledge and belief.

NAME Layne Western - McCalla Div.
(PERSON, FIRM, OR CORPORATION) (TYPED OR PRINTED)

900 Nevada Street Redlands CA 92373
ADDRESS CITY STATE ZIP

Signed Bill Pannell 1-26-94 610011
(WELL BUILDER/AUTHORIZED REPRESENTATIVE) DATE SIGNED C-57 LICENSE NUMBER

DWR 188 REV. 7-80

IF ADDITIONAL SPACE IS NEEDED, USE NEXT CONSECUTIVELY NUMBERED FORM

SECTION 013553 SECURITY PROCEDURES

PART 1.00 - GENERAL

1. Summary: The Water Reclamation Plant (WRP) is a functioning municipal waste water reclamation plant that operates 24 hours per day, 7 days per week. The plant contains critical infrastructure for the San Bernardino Municipal Water Department (Department). The security of this critical infrastructure is vital to the community and must be maintained at all times, without exception. Department safety protocols mandate that the Operations Center be aware of all personnel located on-site at all times. Although there are staff members on-site at all times, the staff members are fully occupied performing their assigned duties and are not free to assist the Contractor or any persons performing work or deliveries for, or on behalf of, the Contractor.

   Every person employed by the Contractor or performing work or deliveries for, or on behalf of, the Contractor under this project will be required to strictly adhere to the following requirements. Failure to adhere to these protocols or to Department safety protocols will result in immediate suspension of access to the WRP at the discretion of the Department. Suspension will extend for the remainder of the day for the first offense and for the remainder of the project for the second offense.

   At no time shall adherence to the aforementioned protocols result in justification for an equitable adjustment of contract cost or time.

2. Access List: A site-security access list is maintained by Department Administration at all times. Addition of names for specific individuals will be granted by the Department's Construction Project Manager on a case-by-case basis. The Contractor shall submit a written request that the specific person be added to the list at least 3 full working days in advance of the access needed. Request for addition of an employer's name with "all employed staff" or similar will not be accepted. Each staff member's name must be accompanied with a driver's license or other government-issued identification card number. This document must be presented for photocopy on their first visit to the project site and will be retained in a secure location for project records.

   Upon addition to the list, the personnel will only remain on the list through the expiration date noted by the Construction Project Manager. At no point shall the duration between date of addition to the list and expiration date exceed six (6) months. Access will only be granted between 6:30 AM PST/PDT and 5:00 PM PST/PDT, Monday through Friday, except Department-recognized holidays unless extenuating circumstances exist and are specifically noted to the Construction Project Manager.

3. Reception Desk: The WRP reception desk is open from 6:30 AM PST/PDT to 5:00 PM PST/PDT, Monday through Friday, except Department-recognized holidays.
    a. The receptionist is responsible for observing the sign-in process and will verify the presence of the personnel on the access list prior to permitting access.
    b. The receptionist will not be responsible for contacting any other personnel to discuss the presence or lack thereof on the access list.
    c. Once permitted, each person signing in will personally and legibly write their own full name on a single line on the sign in sheet. Multiple names per line and persons signing in or out for other personnel will not be permitted.
    d. Each person shall sign in and sign out each time they utilize the access gate. This includes leaving the site with intent to return shortly thereafter (lunch, etc.).
    e. After hours, the doorbell may be utilized on an infrequent basis to access the reception area. This bell is monitored by the Plant Operations staff that is fully consumed with their assigned duties. The Operators will not serve as early or late reception staff. All personnel shall wait until the reception area is open for business to sign in, as attending to an onrush of workers preparing to start their shift is a burden on the operation of the Plant.
    f. Vehicle access pass: Upon signing in, each vehicle will be issued one color-coded, numbered vehicle access pass. This pass MUST be displayed on the windshield prior to entering the Plant entrance gate. Each pass MUST be returned upon departing and may not be retained for later use (that day or any subsequent days).

4. Deliveries: Deliveries, parcels, or other materials will not be accepted by any Department staff. Delivery personnel will not be granted access to the Plant unless previously and specifically authorized. Exceptions for routine deliveries (drinking water delivery, septage pickup, etc.) may be discussed with the Construction Project Manager and permitted at Department's discretion. The Contractor and any person or entity working for, or on behalf of, the Contractor shall make appropriate arrangements to receive deliveries.

5. Contractor Escort: Personnel and delivery drivers not present on the access list may be individually escorted on to and off of the Plant property by the Contractor or his authorized representative. Escorting personnel shall remain with the escorted individual(s) at all times. The Contractor shall make all arrangements for the communication between the arriving individual and the Contractor's escort as the Department's receptionist will not be responsible for contacting the Contractor or his personnel.

6. Access Gate: All personnel shall utilize the north guest entrance gate (Chandler Gate) at all times, without exception. Unless specifically authorized by the Department's Construction Project Manager, the western gate (Century Gate) or the northern Septic / Brine Hauler gate shall not be utilized except in cases of extreme emergency (fire, medical, etc.). All personnel shall wait at the gate and utilize the intercom system provided. Use of air horns and other signaling devices will not be permitted as this is disruptive to Department business being conducted immediately adjacent to the gates. Drivers of vehicles with loud engines (diesel engines, etc.) shall turn off their vehicles when using the intercom due to excessive noise at the receiving end of the intercom. At no time shall the Employee-Only Access entrance gate adjacent the Chandler Gate be utilized.

7. Emergency Vehicles, Concrete Trucks, and Critically-Timed Deliveries: Occasionally, it is necessary for emergency personnel, concrete ready-mix truck drivers, or other delivery personnel to access the plant without expending the time to sign in. In the cases of emergency vehicles, emergency personnel may use the intercom to access the gate. In the cases of concrete trucks and other deliveries, arrangements shall be made in advance with the Construction Project Manager so that documentation of presence on site can be entered by other personnel.

8. Department Employee Parking Area and Designated Work Areas: The Contractor and any persons performing work or deliveries for, or on behalf of, the Contractor shall not utilize, drive through, or access the Department's employee parking area immediately south of the WRP Administration Building. The Contractor and any persons performing work or deliveries for, or on behalf of, the Contractor shall remain in their designated work area(s) and shall not leave these areas except over plant roadways to and from their designated work area(s).

9. Pets: Pets are not permitted on-site at any time.

10. After-Hours Access: No after-hours access will be permitted on-site at any time without the expressed written consent of the Department's Construction Project Manager in advance. This consent is not typically granted. At no time will any person be permitted to remain on-site overnight.

11. Access Badge: The Department may elect to provide all, some, or none of the personnel related to this project with an access badge. If provided, the access badge shall be worn on the external-most layer of clothing above the waist and conspicuously worn. At any time, any Department staff member has the authority to stop any personnel located on-site to verify the staff member's access rights.

12. Report of Damage or Incident: Every person employed by the Contractor or performing work or deliveries for, or on behalf of, the Contractor under this project shall **immediately** report any damage to Department Property, inadvertent release or spill of any fluid or waste, or loss, regardless of the severity, extent, or nature of the issue. Leaving the scene of the incident, failure to report the incident immediately, or returning to work to report the incident at a later or more

convenient time are some causes for immediate revocation of access privileges. Only in cases of a life-threatening emergency that requires constant attention will this notification requirement be relaxed to "as soon as possible." Notification shall be to the Construction Project Manager for this Project by phone or by requesting the presence of the Project Manager through any Department staff member.

13. Nature of On-Site Security: Contractor is urged to use significant means of securing all tools, materials, and other items as the nature of the project location is not inherently secure. Thefts of tools, materials, and vehicles have occurred on past projects within the Plant boundaries. The Department is not responsible for any reliance on the Department's security measures as the Contractor's own measures.

PART 2.00 - PRODUCTS
Not used.

PART 3.00 - EXECUTION
Not used.

END OF SECTION

Quotation Form

Customer: San Bernardino Municipal Water Department
300 North D Street
San Bernardino, Ca. 92418

Proposal No.: 31445
Contact: Kevin Stewart
Date: 9/22/2016

Well or Description of Work: Chandler Well Remediation

Terms: Due Upon Receipt

Quantity	Description	Price	Unit	Total
16	Wire brush and bail Chandler Well	$470.00	HR.	$7,520.00
1	Video inspection, post brushing	$1,200.00	EA.	$1,200.00
1	Sonar-Jet remediation Chandler Well	$4,616.00	EA.	$4,616.00
16	Dual-swabbing while airlifting Chandler Well	$810.00	HR.	$12,960.00
1	Temporary storage as specified	$5,000.00	EA.	$5,000.00
1	Furnish, install test pump and discharge piping	$16,000.00	EA.	$16,000.00
24	Well redevelopment, Chandler Well	$390.00	HR.	$9,360.00
24	Step drawdown testing, Chandler Well	$390.00	HR.	$9,360.00
2	Sampling assistance, Chandler Well	$117.00	HR.	$234.00
1	Written report, Chandler Well	$500.00	EA.	$500.00
	Best Drilling and Pump Acknowledges Addendum No. 1 and Q&A #001			
		TOTAL		$66,750.00

Best Drilling and Pump, Inc. does not assume liability for pump/motor suppliers delays in manufacturing, testing or deliveries. Best Drilling and Pump is not responsible for labor or rig cost associated with replacement of manufactures equipment failures or warranty replacement.
Best does not take any responsibility for any damage to the well casing, screen, gravel pack, pump equipment, motors, valves, pump house and any other damage arising in the course of any well work including but not limited to: inspection, cleaning, repairing, chemical treatment, brushing, bailing, or replacement of any new or defective parts manufactured or installed by others.

1640 Pellisier Road, Colton, CA 92324
Telephone: (951) 684-1952 Fax: (951) 684-3852 Email: DGarcia@BestDrillingandPump.com
Contractor No.: C-57, 826672 DIR Registration No. 1000001067

Itemized Proposal Breakdown

Project: [CO 00192] Chandler Well Remediation

Line Item	Description	UOM	Qty	Specified Duration Unit Price	Specified Duration Line Total
1	Wire brush and bail Chandler Well	HR	16	$ 470.00	$ 7,520.00
2	Video inspection, post brushing	EA	1	$ 1,200.00	$ 1,200.00
3	Sonar-Jet remediation Chandler Well	EA	1	$ 4,616.00	$ 4,616.00
4	Dual-Swabbing while Airlifting Chandler Well	HR	16	$ 810.00	$ 12,960.00
5	Temporary storage as specified	EA	1	$ 5,000.00	$ 5,000.00
6	Furnish, install test pump and discharge piping	EA	1	$ 16,000.00	$ 16,000.00
7	Well redevelopment, Chandler Well	HR	24	$ 390.00	$ 9,360.00
8	Step drawdown testing, Chandler Well	HR	24	$ 390.00	$ 9,360.00
9	Sampling Assistance, Chandler Well	HR	2	$ 117.00	$ 234.00
10	Written Report Well Chandler Well	EA	1	$ 500.00	$ 500.00
	Total Quoted Price				[redacted]

Best Drilling and Pump Acknowledges addendum No. 1 and Q&A #001

Note 1: Overhead and general conditions, as well as all labor, materials, and equipment necessary to complete the work noted within the Description shall be distributed amongst the applicable line items.

Note 2: N/A

Note 3: The lowest bid shall be determined as the sum of all extended line items.

CITY OF SAN BERNARDINO
MUNICIPAL WATER DEPARTMENT
BOARD OF WATER COMMISSIONERS
STAFF REPORT

SEP 27 2016

TO: Stacey R. Aldstadt, General Manager

FROM: Terri A. Willoughby, Director of Finance

SUBJECT: **WATER REVENUE BONDS**

DATE: September 27, 2016

BACKGROUND:

Staff is seeking approval from the Board of Water Commissioners to issue the 2016 Water Revenue Bonds in an amount not to exceed $65,000,000 through the California Municipal Finance Authority to refund existing debt of the Water Fund and provide funding for critical capital projects. The Department intends the proceeds to refund all of the outstanding debt ($18,169,173) issued through the California Infrastructure and Economic Development Bank (I-Bank), and fund the following capital projects:

Reservoir Seismic Upgrades	$17,000,000	Prevent failure of reservoirs
Intermediate Zone 24" Transmission Main	5,500,000	Will provide supply and storage to the IVDA area.
SBMWD Administration	9,500,000	Consolidation of facilities
Customer Service Relocation	2,000,000	Facilitate move from City Hall
Total Projects	$34,000,000	

The attached Preliminary Official Statement has been reviewed and approved for transmittal to the Board of Water Commissioners by Department staff and its financing team. The Preliminary Official Statement must include all facts that would be material to an investor in the 2016 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2016 Bonds. Members of the Board of Water Commissioners may review the Preliminary Official Statement and/or question staff and consultants to make sure they feel comfortable that it includes all material facts. The key provisions of the Preliminary Official Statement include:

- The terms of the 2016 Bonds are summarized on the cover/inside cover and the section entitled "DESCRIPTION OF THE 2016 BONDS."

- The security for the 2016A Bonds is described in the section entitled "SECURITY and SOURCES OF PAYMENT FOR THE 2016 BONDS." The 2016 Bonds are secured by a pledge of and payable from net revenues of the water system.

- The water system is described in the section entitled "THE ENTERPRISE."

- The key risk factors posed to owners of the 2016 Bonds are summarized in the section entitled "RISK FACTORS."

FISCAL IMPACT:

The refunding of the existing debt will create debt service savings, which will free up net revenue of the water system to be used for ongoing operations and other projects. Funding of the capital projects will ensure that critical projects are completed.

SUMMARY OF DOCUMENTS:

Proposed Preliminary Official Statement – this is the offering document that will be presented to potential investors in the 2016 Bonds, and includes information about the Department and the Water Enterprise, as well as a summary of the terms and payment obligations for the 2016 Bonds. The proposed preliminary official statement is materially complete in regards to the bond issuance, with only non-essential information that will be completed or updated for the Official Statement.

Indenture of Trust/Installment Sale Agreement – these documents outline the specific terms describing how the proceeds of the refunding bonds will be used, how payments are to be made out of the Water Enterprise and the legal security for investors, along with other terms of the borrowing.

Bond Purchase Agreement – this document defines the terms under which the Department's underwriter will purchase the Bonds and deliver them to investors.

RECOMMENDATION:

Staff recommends that the Board of Water Commissioners, by resolution, approve the forms of the Preliminary Official Statement, Installment Purchase Agreement, Indenture of Trust, Bond Purchase Agreement, and Continuing Disclosure Agreement.

Respectfully submitted,

Terri A. Willoughby
Director of Finance

Attachments:

- Resolution
- Preliminary Official Statement-Water Revenue Bonds, Series 2016
- Installment Purchase Agreement by and between California Municipal Finance Authority and City of San Bernardino
- Indenture of Trust by and between the California Municipal Finance Authority and U.S. Bank National Association, as Trustee
- Bond Purchase Agreement

RESOLUTION NO._____

RESOLUTION OF THE BOARD OF WATER COMMISSIONERS OF THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT (I) APPROVING THE ISSUANCE OF NOT TO EXCEED $65,000,000 AGGREGATE PRINCIPAL AMOUNT OF WATER REVENUE BONDS, SERIES 2016 (CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT WATER FACILITIES PROJECT) OF THE CALIFORNIA MUNICIPAL FINANCE AUTHORITY; (II) APPROVING THE FORM OF AN INDENTURE OF TRUST AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE AGREEMENT, A CONTINUING DISCLOSURE AGREEMENT, A BOND PURCHASE AGREEMENT AND OTHER RELATED DOCUMENTS; (III) APPROVING THE DELIVERY OF AN OFFICIAL STATEMENT; AND (IV) APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH

WHEREAS, the City of San Bernardino, California (the "City") is a member of the California Municipal Finance Authority (the "Authority"); and

WHEREAS, pursuant to Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law") and the Authority's Joint Exercise of Powers Agreement, the Authority is authorized to borrow money for the purpose of assisting the City in the financing and refinancing of costs related to public capital improvements of the City; and

WHEREAS, it has been proposed that the Authority assist the City in the financing of certain public capital improvements to the City's water system (the "Improvements") and the refinancing of certain assets of the City's water system (the "Assets" and, together with the Improvements, the "Water System Assets"); and

WHEREAS, in order to assist the City with the financing of the Improvements and the refinancing of the Assets, it has been proposed that the City initially sell the Water System Assets to the Authority, and that the Authority sell the Water System Assets to the City and the City purchase such Water System Assets from the Authority pursuant to an Installment Purchase Agreement (the "Installment Purchase Agreement"), by and between the City and the Authority, the proposed form of which has been presented to this Board (as defined herein), pursuant to which the City will agree to make certain installment purchase payments (the "2016 Purchase Payments") in connection therewith; and

WHEREAS, the Authority and the City have determined that it would be in the best interests of the Authority, the City and the citizens of the City to authorize, pursuant to an Indenture of Trust (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), the proposed form of which has been presented to this Board, the issuance of the Authority's Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) (the "2016 Bonds") in the aggregate principal amount of not to exceed $65,000,000 under the provisions of the Bond Law, for the purpose of raising funds necessary to provide such financial assistance to the City; and

WHEREAS, the 2016 Bonds will be offered for sale through a Preliminary Official Statement and an Official Statement, the proposed form of which has been presented to this Board; and

WHEREAS, it has been proposed that the City enter into a Bond Purchase Agreement (the "Bond Purchase Agreement") with Raymond James & Associates, Inc. (the "Underwriter") and the Authority, the proposed form of which has been presented to the Board, providing for the purchase of the 2016 Bonds by the Underwriter; and

WHEREAS, it has been proposed that the City enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") with the Trustee, the proposed form of which has been presented to the Board, in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12;

WHEREAS, the City has determined that it is in the best public interest of the City to approve the above documents and authorize and approve the transactions contemplated thereby; and

WHEREAS, pursuant to the City Charter and actions of the Common Council of the City, the power and authority to approve the issuance of the 2016 Bonds, to approve the agreements described herein and to authorize the other actions described herein have been lawfully delegated to the Board;

NOW, THEREFORE, the Board of Water Commissioners of the City of San Bernardino Municipal Water Department (the "Board") does hereby resolve, determine and order as follows:

Section 1. The Board hereby approves the issuance of the 2016 Bonds by the Authority under and pursuant to the Bond Law; provided, the aggregate principal amount of the 2016 Bonds shall not exceed $65,000,000. The 2016 Bonds shall be issued pursuant to the Indenture. The Board hereby approves the Indenture in the form thereof on file with the Secretary, together with such additions thereto and changes therein as are approved in accordance with Section 6 hereof, such approval to be conclusively evidenced by the execution and delivery thereof. The Board hereby approves the issuance of the 2016 Bonds in accordance with the terms and provisions of the Indenture (as executed and delivered).

Section 2. The Board hereby approves the Installment Purchase Agreement in the form thereof on file with the Secretary, together with such additions thereto and changes therein as are approved in accordance with Section 6 hereof, such approval to be conclusively evidenced by the execution and delivery thereof. The General Manager of the City's Municipal Water Department (the "Department"), the Deputy General Manager of the Department, the Finance Director of the Department and their respective designees (each, an "Authorized Officer"), are each hereby authorized to execute the final form of the Installment Purchase Agreement, for and in the name and on behalf of the City. The Board hereby authorizes the delivery and performance of the Installment Purchase Agreement.

Section 3. The Board hereby approves the Continuing Disclosure Agreement in the form on file with the Secretary, together with such additions thereto and changes therein as are approved in accordance with Section 6 hereof, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized to execute the final form of the Continuing Disclosure Agreement, for and in the name and on behalf of the City. The Board hereby authorizes the delivery and performance of the Continuing Disclosure Agreement.

Section 4. The Board hereby approves the Bond Purchase Agreement in the form thereof on file with the Secretary, together with such additions thereto and changes therein as are approved in accordance with Section 6 hereof, such approval to be conclusively evidenced by the execution and delivery thereof. The Authorized Officers are each hereby authorized to execute the final form of the Bond Purchase Agreement, for and in the name and on behalf of The City. The Board hereby authorizes the delivery and performance of the Bond Purchase Agreement.

Section 5. The Board hereby approves the Preliminary Official Statement relating to the 2016 Bonds (the "Preliminary Official Statement") in the form thereof on file with the Secretary, with such additions thereto and changes therein as are approved by any Authorized Officer, upon consultation with the City Attorney, Norton Rose Fulbright US LLP, Bond Counsel ("Bond Counsel"), and Orrick, Herrington & Sutcliffe LLP, Disclosure Counsel ("Disclosure Counsel"). Each of the Authorized Officers is hereby authorized to execute and deliver a certificate deeming the Preliminary Official Statement final for purposes of SEC Rule 15c2-12. Upon the pricing of the 2016 Bonds, each of the Authorized Officers is hereby authorized to prepare and execute a final Official Statement (the "Official Statement"), substantially in the form of the Preliminary Official Statement, with such additions thereto and changes therein as approved by any Authorized Officer, upon consultation with the City Attorney, Bond Counsel and Disclosure Counsel. The Board hereby authorizes the distribution of the Preliminary Official Statement and the Official Statement by the Underwriters in connection with the offering and sale of the 2016 Bonds.

Section 6. The agreements approved in Sections 1, 2, 3 and 4 of this Resolution shall, when executed and delivered pursuant to said sections, contain such additions and changes as shall have been approved by the Authorized Officers. Each Authorized Officer is hereby authorized to determine, in connection with the issuance of the 2016 Bonds and the execution and delivery of the agreements approved in Sections 1, 2, 3 and 4 hereof, the following with respect to the 2016 bonds.

(a) the aggregate principal amount of the 2016 Bonds, which shall not exceed $65,000,000;

(b) the capital projects to be financed with the proceeds of the 2016 Bonds;

(c) the outstanding obligations of the City to be defeased or refunded by the 2016 Bonds;

(d) the other uses of proceeds of the 2016 Bonds;

(e) the final 2016 Purchase Payment under the Installment Purchase Agreement, which shall be due and payable not later than August 1, 2046;

(f) the true interest cost of the 2016 Bonds, which shall not exceed 5.00%; and

(g) the Underwriter's discount on the 2016 Bonds, which shall not exceed 0.50% of the principal amount thereof.

Section 7. The General Manager of the Department, the Deputy General Manager of the Department, the Finance Director of the Department, the City Attorney and the Secretary of the Department and the other officers, employees and agents of the Department or the City are hereby authorized and directed, jointly and severally, for and in the name of the City, to do any and all things and to take all actions, including execution and delivery of any and all assignments, certificates, requisitions, agreements, notices, 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 and sale of the 2016 Bonds, including, without limitation, any and all actions in connection with defeasing, refunding or prepaying any obligations owed to the California Infrastructure and Economic Development Bank or with obtaining a Reserve Account Credit Facility (as defined in the Indenture), and to otherwise consummate the transactions contemplated by the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Agreement, the Bond Purchase Agreement

and this Resolution, and such actions previously taken by such officers, employees and agents are hereby ratified and confirmed.

Section 8. This Board hereby finds and determines that the transfer of title to Water System Assets to the Authority under the terms of the Installment Purchase Agreement is in the best interests of the City, and hereby agrees to transfer such title to the Authority.

Section 9. This Resolution shall take effect from and after its date of adoption.

I HEREBY CERTIFY that the foregoing resolution was duly adopted by the Board of Water Commissioners of the City of San Bernardino at a Regular Meeting thereof held on the fourth day of October, 2016 by the following vote to wit:

AYES:

NAYES:

ABSENT:

Robin L. Ohama
Deputy City Clerk & Ex-Officio Secretary

(SEAL)

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2016

"NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: S&P (Insured): "___" (___ outlook)
S&P (Underlying): "___" (___ outlook)
(See "RATINGS.")

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the 2016 Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the 2016 Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.

$_____*

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT WATER FACILITIES PROJECT)

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

The $_____* aggregate principal amount of California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) (the "2016 Bonds") are being issued by the California Municipal Finance Authority (the "Authority") pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Act") and an Indenture of Trust, dated as of November 1, 2016 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the 2016 Bonds will be used to (i) finance the acquisition and construction of certain water system capital improvements (the "Project") of the City of San Bernardino, California (the "City"); (ii) refund outstanding obligations of the City relating to the City of San Bernardino Municipal Water Department (the "Department"); (iii) fund a deposit to a common reserve account for the 2016 Bonds; and (iv) pay the costs of issuance of the 2016 Bonds. See "PLAN OF FINANCE." Capitalized terms used on this cover page and not otherwise defined shall have the meanings ascribed to them elsewhere in this Official Statement. See in particular APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE" and "– INSTALLMENT PURCHASE AGREEMENT."

The 2016 Bonds are special obligations of the Authority payable solely from and secured by Project Revenues which consist of 2016 Purchase Payments (as defined herein) to be made by the Department, on behalf of the City, to the Authority under the Installment Purchase Agreement (as defined herein), and certain other moneys and securities held by the Trustee as provided in the Indenture. The 2016 Purchase Payments will be payable from and secured by a pledge of and lien on Net Revenues of the Water Fund (each as defined herein). As provided in the Installment Purchase Agreement, the City will irrevocably pledge all Net Revenues to the payment of the 2016 Purchase Payments and Additional Purchase Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS" and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INSTALLMENT PURCHASE AGREEMENT."

The 2016 Bonds will accrue interest from their date of delivery, and interest thereon will be payable on February 1 and August 1 of each year, commencing on February 1, 2017. The 2016 Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See "DESCRIPTION OF THE 2016 BONDS – General."

The 2016 Bonds will be issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2016 Bonds, the principal, the redemption premium, if any, and interest on the 2016 Bonds will be made as described in APPENDIX F – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The 2016 Bonds are subject to optional and mandatory sinking fund redemption as described herein. See "DESCRIPTION OF THE 2016 BONDS – Redemption of 2016 Bonds."

The City is the debtor in an ongoing Chapter 9 bankruptcy case ("chapter 9") pending in the United States Bankruptcy Court for the Central District of California. The City believes that the chapter 9 proceedings will not adversely impact the issuance or timely repayment of the 2016 Bonds, however, see "INTRODUCTION – Effect of City Chapter 9 Filing" and "RISK FACTORS – Effect of City of San Bernardino Bankruptcy Case."

[The scheduled payment of principal of and interest on the 2016 Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the 2016 Bonds by _____.]

[INSERT INSURER LOGO]

THE 2016 BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE PROJECT REVENUES PLEDGED THEREFOR AND CERTAIN OTHER MONEYS AND

* Preliminary, subject to change.

SECURITIES HELD BY THE TRUSTEE AS PROVIDED IN THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2016 PURCHASE PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY, THE CITY, THE COUNTY OF SAN BERNARDINO (THE "COUNTY"), THE STATE OF CALIFORNIA (THE "STATE"), OR ANY POLITICAL SUBDIVISION OF THE STATE NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE 2016 BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE 2016 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE 2016 PURCHASE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains information for general reference only. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The 2016 Bonds are offered when, as, and if delivered to and received by the Underwriter, subject to the approval of legality by Norton Rose Fulbright US LLP, Los Angeles, California, acting as Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, San Francisco, California, for the City by the City Attorney, and for the City by Orrick, Herrington & Sutcliffe LLP as Disclosure Counsel. Orrick, Herrington & Sutcliffe LLP is also serving as counsel to the Underwriter. It is anticipated that the 2016 Bonds will be available for delivery through the book-entry facilities of DTC in New York, New York on or about November __, 2016.

RAYMOND JAMES

Dated: October __, 2016

MATURITY SCHEDULE*

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
WATER FACILITIES PROJECT)

Base CUSIP No.† _____

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

$_____ ____% Term Bonds due August 1, 20__ - Price or Yield: ____% CUSIP No. _____†
$_____ ____% Term Bonds due August 1, 2046 - Price or Yield: ____% CUSIP No. _____†

* Preliminary, subject to change.

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No dealer, broker, salesperson, or other person has been authorized by the City or the Authority 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 Authority. 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 2016 Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation, or sale.

This Official Statement is not a contract with the purchasers of the 2016 Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been furnished by the City and by other sources that are believed to be reliable. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the Department, the Authority, or any other parties described herein since the date hereof. All summaries of the 2016 Bonds, the Indenture, the Installment Purchase Agreement, and other documents summarized herein 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.

This Official Statement is submitted in connection with the issuance of the 2016 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

THE 2016 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2016 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE 2016 BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

The City and the Authority each maintain a website. However, the information presented at such websites is not part of this Official Statement, is not incorporated by reference herein, and must not be relied upon in making an investment decision with respect to the 2016 Bonds.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

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Paula Connors
Justin McCarthy
Deborah Moreno
Faye K. Watanabe

CITY OF SAN BERNARDINO

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Henry Nickel, *Councilmember*
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Judith Valles, *Vice President*
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Louis A. Fernandez, *Commissioner*
David E. Mlynarski, *Commissioner*

City of San Bernardino Municipal Water Department Management

Stacey R. Aldstadt – *General Manager*
Robin L. Ohama – *Deputy General Manager*
Miguel Guerrero, PE – *Director of Water Utility*
John A. Claus – *Director of Water Reclamation*
Terri Willoughby – *Director of Finance*
Jennifer L. Shepardson – *Director of Environmental Regulatory Compliance*

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Orange, California

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Los Angeles, California

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[CITY LOCATION MAP]

OFFICIAL STATEMENT

$_____*

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
WATER FACILITIES PROJECT)

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and appendices hereto and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California (the "State") and any documents, reports, and other instruments referred to herein do not purport to be complete and such references are qualified in their entirety by reference to each such law, document, report, or instrument. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture or the Installment Purchase Agreement, each as defined herein. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE" and "– INSTALLMENT PURCHASE AGREEMENT."

General

The $_____* aggregate principal amount of California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) (the "2016 Bonds") are being issued by the California Municipal Finance Authority (the "Authority") pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "JPA Act") and an Indenture of Trust, dated as of November 1, 2016 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The proceeds of the 2016 Bonds will be used to (i) finance the acquisition and construction of certain water system capital improvements (the "Project") of the City of San Bernardino, California (the "City"); (ii) refund outstanding obligations of the City relating to the City of San Bernardino Municipal Water Department (the "Department"); (iii) fund a deposit to a common reserve account for the 2016 Bonds; and (iv) pay the costs of issuance of the 2016 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

The 2016 Bonds

The 2016 Bonds will accrue interest from their date of delivery, and interest thereon will be payable on February 1 and August 1 of each year, commencing on February 1, 2017. The 2016 Bonds will bear interest at the rates set forth on the inside cover page hereof. See "DESCRIPTION OF THE 2016 BONDS – General" and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The 2016 Bonds are being issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book-entry

form only. So long as DTC or its nominee is the Owner of the 2016 Bonds, the principal, the redemption premium, if any, and interest on the 2016 Bonds will be made as described in APPENDIX F – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The 2016 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2016 BONDS – Redemption of 2016 Bonds."

Security and Sources of Payment for the 2016 Bonds

The 2016 Bonds are special obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from and secured by a pledge, charge and lien upon the Project Revenues, which consist of 2016 Purchase Payments (as defined below) to be made by the Department on behalf of the City of San Bernardino, California (the "City") under the Installment Purchase Agreement (as defined below), and certain other moneys and securities held by the Trustee as provided in the Indenture. The Project Revenues will consist primarily of 2016 Purchase Payments (as defined below) to be made by the Department, on behalf of the City, to the Authority under the Installment Purchase Agreement, dated as of November 1, 2016 (the "Installment Purchase Agreement"), by and between the City and the Authority.

The 2016 Purchase Payments will be payable from and secured by a pledge of and lien on Net Revenues of the Water Fund (each as defined herein). As provided in the Installment Purchase Agreement, the City will irrevocably pledge all Net Revenues to the payment of the 2016 Purchase Payments and Additional Purchase Payments. Such pledge together with the City's obligation to pay any Bonds or Contracts (each as defined herein) shall constitute a first lien on Net Revenues and, subject to the Installment Purchase Agreement, the other funds and accounts created under the Installment Purchase Agreement for the payment of the 2016 Purchase Payments and all other Contracts and Bonds in accordance with the terms of the Installment Purchase Agreement and of the Indenture. As defined in the Installment Purchase Agreement, the term "2016 Purchase Payments" means the installment payments scheduled to be paid by the City pursuant to the Installment Purchase Agreement.

The City is a party to the Installment Purchase Agreement and the Continuing Disclosure Agreement and is acting through the Department. The Department is a semi-autonomous unit of the City that has specific powers granted to it under the City Charter. See "Municipal Water Department and the Water Enterprise" below. References to, and obligations of, the City under the Installment Purchase Agreement are, except as noted, expected to be performed by the Department, secured by and payable from the Water Fund as more particularly described in the Installment Purchase Agreement. The Water Enterprise, as more particularly described herein, is the City's water utility (including all buildings, systems, plants, works, facilities or undertakings used for or useful in the collection, storage, treatment or provision of potable water).

The Department is responsible for both water service and sewage treatment and disposal in the City. The sewage treatment and disposal system is a separate enterprise of the City, managed by the Department, not included in the Water Enterprise, and its revenues do not secure the 2016 Purchase Payments or the 2016 Bonds. The Water Enterprise's principal sources of revenues are water rates and service charges to City residents and non-residential customers as discussed in this Official Statement. As described in this Official Statement, total operating revenues of the Water Enterprise consist of water rate revenues, other charges for water service, and other operating revenues. The City owns the Water Enterprise and operates the Water Enterprise through the Department. See "THE WATER ENTERPRISE" below.

The City is the county seat of San Bernardino County (the "County"). The City encompasses approximately 59.6 square miles in the San Bernardino foothills and the eastern portion of San

Bernardino Valley, approximately 60 miles east of the City of Los Angeles. See APPENDIX A – "ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF SAN BERNARDINO AND SAN BERNARDINO COUNTY."

Under the Installment Purchase Agreement, the City will agree and covenant that all Revenues (as defined herein) will be received by the City in trust under the Installment Purchase Agreement and will be deposited when and as received in the Water Fund, which fund has been established under the City Charter and which fund the City will agree, as provided in the Installment Purchase Agreement, to maintain and to hold separate and apart from other funds so long as any Installment Payments (including the 2016 Purchase Payments), Bonds or Contracts remain unpaid. As defined in the Installment Purchase Agreement, the term "Installment Payments" means the installment payments, lease payments or other payments of interest and principal scheduled to be paid by the City pursuant to the Contracts, if any. Moneys in the Water Fund will be used and applied by the City as provided in the Installment Purchase Agreement.

See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS."

[The scheduled payment of principal of and interest on the 2016 Bonds when due will be guaranteed under an insurance policy (the "Policy") to be issued concurrently with the delivery of the 2016 Bonds by _____ (the "Bond Insurer").]

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE PROJECT REVENUES PLEDGED THEREFOR AND CERTAIN OTHER MONEYS AND SECURITIES HELD BY THE TRUSTEE AS PROVIDED IN THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2016 PURCHASE PAYMENTS UNDER THE INSTALLMENT PURCHASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE CITY FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE FULL FAITH AND CREDIT OF THE AUTHORITY, THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE NOR THE TAXING POWER OF THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE BONDS NOR THE OBLIGATION OF THE CITY TO MAKE 2016 PURCHASE PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

As of the date of issuance of the 2016 Bonds, the only long-term indebtedness secured by Net Revenues will be the 2016 Bonds.

Rate Covenant

The City will covenant in the Installment Purchase Agreement to fix, prescribe and collect rates, fees, charges and connection fees for water service of the Water Enterprise which will be at least sufficient to yield, during each Fiscal Year, Net Revenues equal to one hundred ten percent (110%) of Debt Service for such Fiscal Year. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Rate Covenant." For information on the possible limitation on the ability of the Department, on behalf of the City to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL

LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

As defined in the Installment Purchase Agreement, the term "Debt Service" means, for any Fiscal Year, the sum of (1) the interest paid or payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) those portions of the principal amount of all outstanding serial Bonds maturing in such Fiscal Year, and (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year; provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value amount shall be deemed a principal payment, and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate, (b) if any of such Bonds or if the Installment Payments due under any such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the current SIFMA Index Rate plus 2.0%, and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the City, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Installment Payments, provided that the full amount of such principal shall be included in the calculation of Debt Service in the event the date of calculation is within 12 months of the actual maturity date of such Bonds or Installment Payment due under such Contract.

Additional Obligations

The 2016 Purchase Payments securing payment of the 2016 Bonds will be payable from Net Revenues. Pursuant to the Installment Purchase Agreement, the City may at any time issue obligations the Installment Payments pursuant to which, as the case may be, are payable from the Net Revenues on a parity with the payment by the City of the 2016 Purchase Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Issuance of Additional Obligations Under the Installment Purchase Agreement," "THE WATER ENTERPRISE – Capital Improvement Plan" and "– Anticipated Additional Obligations; Financing Plans for the Water Enterprise CIP."

The Authority

Under the JPA Act, certain California cities, including the City, counties and special districts have entered into a joint exercise of powers agreement (the "JPA Agreement") forming the Authority for the purpose of exercising to powers common to the members and exercising the additional powers granted to the Authority by the JPA Act and any other applicable provisions of California law. Under the JPA Agreement, the Authority may issue bonds, notes or any other evidence of indebtedness, for any purpose or activity permitted under the JPA Act or any other applicable law. See "THE AUTHORITY." The Authority does not and will not in the future monitor the financial condition of the City or the Department or otherwise monitor payment of the 2016 Bonds or compliance with the documents relating thereto.

Municipal Water Department and the Water Enterprise

The Department is responsible for water service and sewage treatment and disposal. The Department operates two enterprise funds: the Water Utility Enterprise Fund (the "Water Fund" as defined herein) and the Sewer Utility Enterprise Fund (the "Sewer Fund"), each as referred to in the audited financial statements of the Department. See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015." As used herein, and defined in the Indenture, the "Water Enterprise" means the entire water utility (including all buildings, systems, plants, works, facilities or undertakings used for or useful in the collection, storage, treatment or provision of potable water) of the City as such utility now exists, together with all improvements and extensions to said system later constructed or acquired, and including buildings and facilities for administration and/or customer service used jointly with the City's sewer utility (the "Sewer Enterprise"). The City owns the Water Enterprise and operates the Water Enterprise through the Department. The City has, and will have, obligations of the Sewer Fund outstanding from time to time. There is no cross-collateralization of obligations of the Water Fund and the Sewer Fund.

The Department and its governing Board of Water Commissioners (the "Board") were established on May 8, 1905 by the Mayor and the governing board of the City (called the Common Council) in accordance with the provisions specified in the City Charter. The Board consists of five members, each appointed by the Mayor. The City Charter gives the Board a semi-autonomous authority to manage the Department independent of the Common Council. Under the City Charter, the Board has the power to set water rates and other charges of the Water Enterprise, to hire employees, and to finance, maintain, and operate water facilities.

The Board appoints the general manager of the Department, who is responsible for day-to-day operation of the Department. Stacey R. Aldstadt was appointed General Manager in 2005. The Water Enterprise is under the direction of Miguel Guerrero, PE, Director of Water Utility. See "THE WATER ENTERPRISE - Management."

The Water Enterprise delivers more than 47,676 acre-feet per year (15.5 billion gallons) of water to its service area for both commercial and residential use and serves a population of about 173,000 residents through over 40,000 service connections.

The Department's water service area (the "Service Area") consists of approximately 45 square miles. The Service Area includes customers within the City, with a small percentage of out-of-city accounts. The Service Area is bounded on the north by the San Bernardino National Forest and Devore Water Company, on the east by the East Valley Water District and Redlands Municipal Utilities Department, on the south by the cities of Loma Linda and Colton, and on the west by the West Valley Water District, the City of Rialto, and the Muscoy Mutual Water Company.

The Service Area receives the majority of its water supply from an underground aquifer called the Bunker Hill Basin which has served portions of the City and portions of unincorporated areas of the County since 1905. The water contained in the Bunker Hill Basin is replenished with rain and snowmelt that filters through the local San Bernardino Mountains. This local water supply provides high quality, inexpensive water as compared to other communities. Many other communities in Southern California must import their water supplies from remote locations via the Colorado River and Northern California pipelines. Many water supplies imported from distant locations can be impacted by certain man-made and natural contaminants as the water is transported to the customer.

See "THE WATER ENTERPRISE" and "WATER ENTERPRISE REGULATORY REQUIREMENTS."

Effect of City Chapter 9 Filing

The City is the debtor in an ongoing Chapter 9 bankruptcy case ("chapter 9"), Case No. 6:12-bk-28006 MJ, pending in the United States Bankruptcy Court for the Central District of California. The City believes that the pending chapter 9 proceedings will not adversely impact the issuance or timely repayment of the 2016 Bonds. However, no guaranty can be provided by the City and Bond Counsel is not providing an opinion and has expressed no view regarding the potential impact of the City's bankruptcy on Net Revenues. See the caption "RISK FACTORS – Effect of City of San Bernardino Bankruptcy Case" for a discussion of the potential impacts of the City's chapter 9 bankruptcy case.

Continuing Disclosure

The Department, on behalf of the City has agreed to provide, or cause to be provided, certain annual financial information and operating data and notice of certain Notice Events as described in the Continuing Disclosure Agreement (as defined herein). The form of the Continuing Disclosure Agreement is attached hereto as APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT. The Authority has not undertaken any similar obligation with respect to the 2016 Bonds, and any obligation for continuing disclosure with respect to the 2016 Bonds, has been undertaken solely by the Department, on behalf of the City. See "CONTINUING DISCLOSURE" herein.

Forward-Looking Statements

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." All forward-looking statements are predictions and are subject to known and unknown risks and uncertainties. No assurance can be given that the future results discussed herein will be achieved, and actual results may differ materially from the forecasts described herein. In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties, and other factors that may cause the actual results, performance, or achievements described to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. No updates or revisions to these forward-looking statements are expected to be issued if or when the expectations, events, conditions, or circumstances on which such statements are based change. **INVESTORS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS, WHICH SPEAK ONLY AS OF THE DATE HEREOF.**

Miscellaneous

Copies of the Indenture and the Installment Purchase Agreement may be obtained from the Trustee at U.S. Bank National Association, 700 South Flower Street, Suite 500, Los Angeles, California 90017.

PLAN OF FINANCE

The net proceeds of the 2016 Bonds will be used to (i) finance the acquisition and construction of certain capital improvements for the Water Enterprise as described below (the Project herein); (ii) prepay in full the Enterprise Fund Installment Sale Agreement between the Department and the California Infrastructure and Economic Development Bank ("CIEDB"), dated as of April 30, 2002, as amended, the

Enterprise Fund Installment Sale Agreement between the Department and the CIEDB, dated as of July 1, 2007, as amended, and the Enterprise Fund Installment Sale Agreement between the Department and the CIEDB, dated as of May 15, 2012 (collectively, the "CIEDB Debt"); (iii) fund a deposit to a common reserve account for the 2016 Bonds; and (iv) pay the costs of issuance of the 2016 Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Department expects the Project to include the following capital improvements:

Project Name	Estimated Cost
Seismic Upgrade of Reservoirs	$ 17,000,000
Intermediate Zone 24" Transmission Main	5,500,000
Department Administration Building	9,500,000
Customer Service Relocation	2,000,000
	$34,000,000

The following is a summary description of these projects.

Seismic Upgrade of Reservoirs. This project involves the seismic retrofitting of the Department's reservoirs, consisting of multiple reinforced concrete and welded steel water storage tanks. In 2003, a vulnerability assessment was performed by a consultant which identified deficiencies that could lead to failure of the reservoirs following a significant seismic event. Maintaining pressure in the water distribution system is a vital component to responding to the public's needs after a seismic event including fire suppression and drinking water. This project is a planned multi-year project due to the extensive scope and cost.

Intermediate Zone 24" Transmission Main. This project involves the construction of approximately 14,000 linear feet of 24-inch diameter transmission main that will extend the Intermediate Pressure Zone to include the Inland Valley Development Agency ("IVDA") Upper Pressure Zone. The transmission main will provide supply and storage to the IVDA area, allowing the demolition of the IVDA elevated tank and facilitate development in this area.

Department Administration Building. Currently, various divisions of the Department are located in several, non-contiguous buildings which are leased or owned by the City. Construction of the administration building at the main Chandler Avenue complex will eliminate the need for leased space and will consolidate staff. The costs of this project will be split between the Water Fund and the Sewer Fund, with the Sewer Fund expected to contribute approximately $2,125,000 in addition to the amount in the table above.

Customer Service Relocation. The Department's Customer Service staff are currently located in the San Bernardino City Hall. Due to seismic concerns, all City Hall staff are being located to other facilities. The Department has acquired a building at 1350 "E" Street which will be used to house Customer Service staff. This building requires major renovations in order to be functional. The costs of this project will be split between the Water Fund and the Sewer Fund, with the Sewer Fund expected to contribute approximately $1,000,000 in addition to the amount in the table above.

These projects involve replacement, upgrading and increasing the capacity of existing facilities. There are no current or anticipated environmental considerations that would adversely affect the completion of these projects within the contemplated budgets or current timelines.

For a list of additional capital improvements pending for the Water Enterprise, see "THE WATER ENTERPRISE – Capital Improvement Plan" and "– Anticipated Additional Obligations; Financing Plans for the Water Enterprise CIP."

The funds deposited in the Acquisition Fund will not be available for the payment of debt service on to the 2016 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table details the estimated sources and uses of the proceeds of the sale of the 2016 Bonds and other available funds.

Estimated Sources:	
Principal Amount of the 2016 Bonds	$
Net Original Issue Premium/(Discount)	
Total Sources	$
Estimated Uses:	
Acquisition Fund	$
CIEDB Debt Prepayment [1]	
[Common Reserve Account]	
Costs of Issuance Fund [2]	
Total Uses	$

[1] Transfer to the California Infrastructure and Economic Development Bank for prepayment of the CIEDB Debt.

[2] Costs of Issuance for the 2016 Bonds including underwriter's discount, bond insurance and reserve policy premiums, fees of legal counsel and advisors to the Department and the Authority and other costs of issuing the 2016 Bonds.

DESCRIPTION OF THE 2016 BONDS

General

The 2016 Bonds will accrue interest from their date of delivery, and interest thereon will be payable on February 1 and August 1 of each year, commencing on February 1, 2017 (each, an "Interest Payment Date"). The 2016 Bonds will bear interest at the rates set forth on the inside cover page hereof. The 2016 Bonds will be issued as fully-registered bonds in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of DTC. DTC will act as securities depository for the 2016 Bonds. Ownership interests in the 2016 Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2016 Bonds, principal of, redemption premium, if any, and interest on the 2016 Bonds will be made as described in APPENDIX F – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

Interest on the 2016 Bonds will be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books as of the preceding Record Date; provided, however, that at the written request of the Owner of at least $1,000,000 in aggregate principal amount of

Outstanding 2016 Bonds filed with the Trustee prior to any Record Date, interest on such 2016 Bonds will be paid to such Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the continental United States designated in such written request (any such written request will remain in effect until rescinded in writing by such Owner). Principal of and premium (if any) on any 2016 Bond will be paid upon presentation and surrender thereof, at maturity, at the corporate Trust Office of the Trustee. The principal of and interest and premium (if any) on the 2016 Bonds will be payable in lawful money of the United States of America. As defined in the Indenture, the term "Record Date" for the 2016 Bonds means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving written notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC. The Indenture provides terms for the transfer and exchange of 2016 Bonds otherwise on the registration books maintained by the Trustee. The Trustee may require the Bond Owner requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer.

See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE."

Redemption of 2016 Bonds

Optional Redemption of 2016 Bonds. The 2016 Bonds maturing on or before August 1, 20__ are not subject to optional redemption prior to their maturity. The 2016 Bonds maturing on or after August 1, 20__ are subject to redemption in whole, or in part among maturities on such basis as the City may designate and by lot within a maturity, at the option of the City, on any date on or after August 1, 20__, from any available source of funds, at a redemption price equal to the principal amount of the 2016 Bonds to be redeemed, plus accrued interest to the date of redemption.

Mandatory Sinking Account Redemption of 2016 Bonds. The 2016 Bonds maturing on August 1, 20__ are subject to mandatory redemption, in part, from sinking account payments set forth in the following schedule commencing August 1, 20__, and on August 1 in each year thereafter to and including August 1, 20__ at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

2016 Term Bonds maturing on August 1, 20__

Redemption Date (August 1)	Principal Amount To be Redeemed

* Maturity

The 2016 Bonds maturing on August 1, 20__ are subject to mandatory redemption, in part, from sinking account payments set forth in the following schedule commencing August 1, 20__, and on August 1 in each year thereafter to and including August 1, 20__ at a redemption price equal to the principal

amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

2016 Term Bonds maturing on August 1, 20__

Redemption Date (August 1)	Principal Amount To be Redeemed

* Maturity

If some but not all of the 2016 Bonds have been optionally redeemed pursuant to the Indenture, the total amount of Sinking Account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the 2016 Bonds so redeemed by reducing each such future Sinking Account payment on a *pro rata* basis (as nearly as practicable) in integral multiples of $5,000, as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Notice of Redemption. So long as DTC is acting as securities depository for the 2016 Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any Bonds designated for redemption), not less than at least 20 but nor more than 60 days prior to the redemption. The Indenture provides that the Trustee on behalf and at the expense of the Authority will mail (by first-class mail) notice of any redemption to the respective Owners of any 2016 Bonds designated for redemption, at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2016 Bonds or the cessation of the accrual of interest thereon, and so long as DTC is acting as securities depository for the 2016 Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any 2016 Bonds designated for redemption). Such notice will state the date of the notice, the Redemption Date, the redemption place and the redemption price and will designate the CUSIP numbers, the 2016 Bond numbers (but only if less than all of the Outstanding 2016 Bonds are to be redeemed) and the maturity or maturities in the event of redemption of all of the 2016 Bonds of such maturity or maturities in whole of the 2016 Bonds to be redeemed, and will require that such 2016 Bonds be then surrendered at the Corporate Trust Office for redemption at the redemption price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the redemption date. With regard to optional redemption in the event that funds required to pay the redemption price are not on deposit under the Indenture at the time the notice of redemption is sent, such notice may include a statement to the effect that the redemption is conditioned upon the receipt of the appropriate funds required to pay the redemption price by the Trustee on or prior to the redemption date.

Notice of redemption may be rescinded by the Authority prior to the specified date for redemption by notice of such rescission given by the Trustee to the City and, as applicable, to DTC, the MSRB, to the Securities Depositories and to the Information Services in the same manner the original notice was provided.

Partial Redemption of 2016 Bonds. In the event only a portion of any 2016 Bond is called for redemption, then upon surrender of such 2016 Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2016 Bond or 2016 Bonds of the same maturity date, of Authorized Denominations in aggregate principal amounts equal to the unredeemed portion of the 2016 Bond to be redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the 2016 Bonds so called for redemption will have been duly provided, such 2016 Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the principal, interest accrued to the Redemption Date, and premium, if any, and no interest will accrue thereon from and after the Redemption Date specified in such notice.

All 2016 Bonds redeemed in whole or in part pursuant to the Indenture will be canceled by the Trustee and destroyed, and the Trustee will certify in writing as to their destruction.

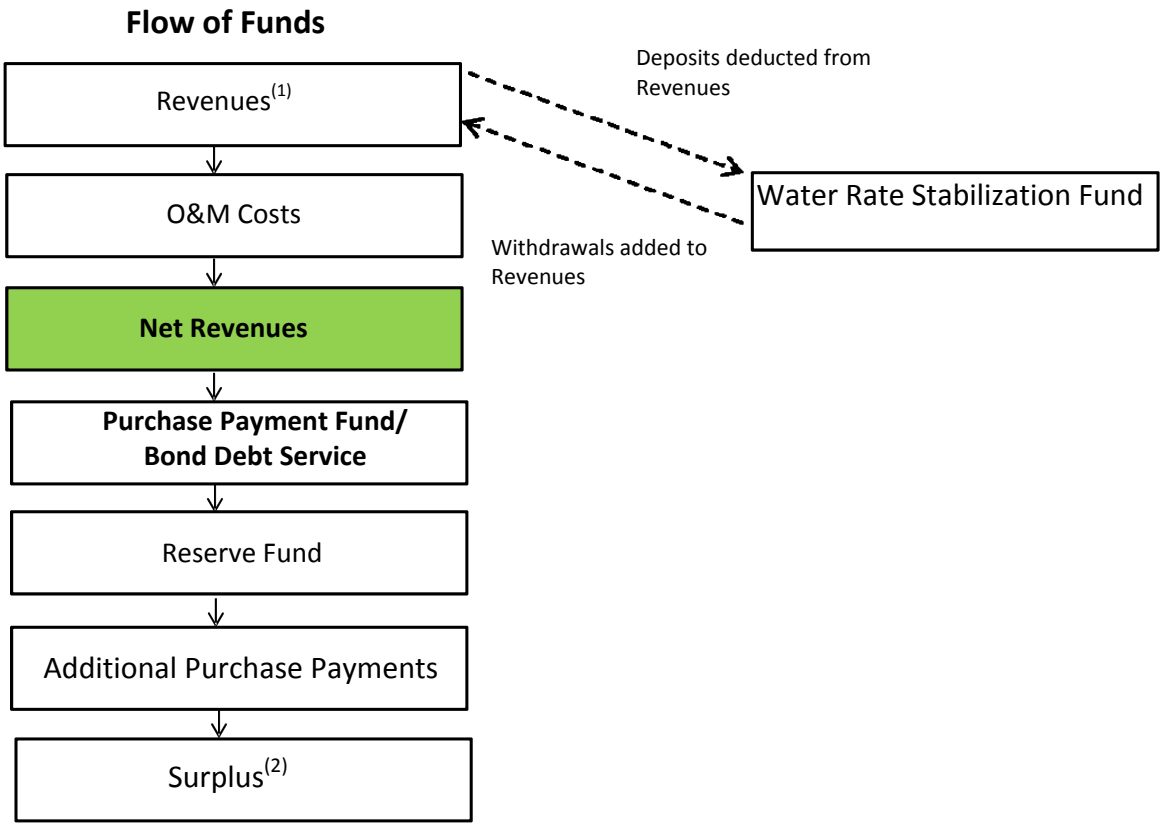
SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS

Pledges of Project Revenues and Net Revenues

Pursuant to the Indenture, the 2016 Bonds are special obligations of the Authority payable from and secured by the pledge of the Project Revenues and certain other moneys and securities held by the Trustee as provided in the Indenture. The term "Project Revenues," as applied to the 2016 Bonds, means all 2016 Purchase Payments received by or due to be paid to the Authority pursuant to the Installment Purchase Agreement and the interest or profits from the investment of money in the Purchase Payment Fund pursuant to the Indenture. To secure the pledge of the Project Revenues, the Authority will transfer, convey, and assign to the Trustee, for the benefit of the Owners, all of the Authority's right to receive 2016 Purchase Payments from the Department, on behalf of the City. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE."

The 2016 Purchase Payments will be payable from and secured by a pledge of and lien on Net Revenues of the Water Fund. As provided in the Installment Purchase Agreement, the City will irrevocably pledge all Net Revenues to the payment of the 2016 Purchase Payments and Additional Purchase Payments. Such pledge together with the obligation of the City to pay any Bonds or Contracts will constitute a first lien on Net Revenues and, subject to the Installment Purchase Agreement, the other funds and accounts created under the Installment Purchase Agreement for the payment of the 2016 Purchase Payments and all other Contracts and Bonds in accordance with the terms of the Installment Purchase Agreement and of the Indenture. All money in the Purchase Payment Fund will be used and withdrawn by the Trustee in accordance with the Indenture.

The following flow of funds illustrates the flow of funds comprising Net Revenues under the Installment Purchase Agreement, the payment, as 2016 Purchase Payments, into the Purchase Payment Fund under the Indenture, and the resulting flow of funds under the Indenture:



1 Revenues includes Current Revenues as defined by the Installment Purchase Agreement plus transfers to the Water Fund from amounts on deposit in the Water Rate Stabilization Fund less amounts transferred to the Water Rate Stabilization Fund.

2 Surplus revenues may be expended by the City for any Water Enterprise purpose permitted by law, but only if enough funds have been set aside to cover the next debt service payment on outstanding bonds.

The Indenture provides for the transfer and assignment, in trust, by the Authority to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Project Revenues and all of the right, title and interest of the Authority in and to the Installment Purchase Agreement (other than the Unassigned Rights). The Trustee will be entitled to and will receive all of the Purchase Payments, and any Purchase Payments collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee.

The City is a party to the Installment Purchase Agreement and the Continuing Disclosure Agreement and is acting through the Department. References to, and obligations of, the City under the Installment Purchase Agreement are, except as noted, expected to be performed by the Department, secured by and payable from the Water Fund as more particularly described in the Installment Purchase Agreement.

The Water Fund

The City accounts for the operations and maintenance of the Water Enterprise through an enterprise fund known as the Water Utility Enterprise Fund (the "Water Fund" herein). The Water Fund

was established pursuant to Sections 143 and 146 of the City Charter. The City Charter provides that out of the Water Fund shall be paid all warrants drawn thereon duly authorized by the Board. As provided in the Installment Purchase Agreement, the City will agree and covenant that all Revenues will be received by the City in trust under the Installment Purchase Agreement and will be deposited when and as received in the Water Fund, which fund has been established under the City Charter and which fund the City will agree, as provided in the Installment Purchase Agreement, to maintain and to hold separate and apart from other funds so long as any Installment Payments (including the 2016 Purchase Payments), Bonds or Contracts remain unpaid. Moneys in the Water Fund will be used and applied by the City as provided in the Installment Purchase Agreement.

The Department, on behalf of the City will, from the moneys in the Water Fund, pay all Operation and Maintenance Costs as provided in the Installment Purchase Agreement. All remaining moneys in the Water Fund will be set aside at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds will be held in trust and will be applied, used and withdrawn only for the purposes set forth in the Installment Purchase Agreement.

(a) *Purchase Payment Fund*. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in the Indenture, the City shall, from the moneys in the Water Fund, transfer to the Trustee for deposit in the Purchase Payment Fund the 2016 Purchase Payment due and payable on that 2016 Purchase Payment Date. The City shall also, from the moneys in the Water Fund, transfer to the Trustee and any other trustee or payee with respect to Bonds and Contracts, for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

No deposit need be made in the Purchase Payment Fund if the amount in the Purchase Payment Fund is at least equal to the amount of the 2016 Purchase Payment due and payable on said 2016 Purchase Payment Date.

All money in the Purchase Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture.

(b) *Reserve Fund*. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in the Indenture, the City shall, from the remaining moneys in the Water Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee for deposit in the Reserve Fund and such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than the Installment Purchase Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement and/or such other reserve funds or accounts to an amount equal to the amount required to be maintained therein; provided, however, that the City may meet the Reserve Requirement by obtaining a Reserve Account Credit Facility pursuant to the Indenture. See "Reserve Fund" below for a description of the Common Reserve Account within the Reserve Fund that will secure the 2016 Bonds and future Bonds under certain conditions.

No transfer of moneys for deposit to the Reserve Fund in connection with the 2016 Purchase Payments need be made if the amount contained therein is at least equal to the Reserve Requirement.

(c) *Additional Purchase Payments*. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in the Indenture, the City shall, from the remaining moneys in the Water Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable payee as provided in the Installment Purchase Agreement and any similar provisions established in connection with Bonds or Contracts other than the Installment Purchase Agreement, that sum, if any, necessary to pay all Additional Purchase Payments then due and payable and any corresponding payments then due and payable under any Bond or Contract other than the Installment Purchase Agreement.

(d) *Surplus*. Subject to the following sentence, moneys on deposit in the Water Fund on each 2016 Purchase Payment Date not necessary to make any of the payments required above, may be expended by the City for any Water Enterprise purpose permitted by law. Moneys on deposit in the Water Fund on any date other than a 2016 Purchase Payment Date may be expended by the City on such date for any Enterprise purpose permitted by law, provided that the amount needed to pay (i) the 2016 Purchase Payment due on the next succeeding 2016 Purchase Payment Date, (ii) any Installment Payments due on the next succeeding Installment Payment Date and (iii) (without duplication) the debt service on any outstanding Bonds due in the succeeding six-month period, in each case, shall have been set aside and deposited in the Purchase Payment Fund or any similar fund or account relating to any outstanding Bond or Contract, as the case may be.

As defined in the Installment Purchase Agreement, the term “Revenues” means Current Revenues plus transfers to the Water Fund from amounts on deposit in the Water Rate Stabilization Fund but only to the extent specified in the Installment Purchase Agreement, less amounts transferred to the Water Rate Stabilization Fund (other than the initial deposit therein). See "Water Rate Stabilization Fund" below.

The term “Current Revenues” means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water Enterprise, including, without limiting the generality of the foregoing, all income, rents, rates, fees, charges (including standby, capacity and connection charges), business interruption insurance proceeds or other moneys derived by the City from the furnishing and supplying of water or other services, facilities and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water Enterprise, and including, without limitation, all earnings and income derived from the investment of all such money and derived from the investment of all money in the Water Fund and investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water Enterprise by or pursuant to law; (ii) the proceeds derived by the City directly or indirectly from the lease of a part of the Water Enterprise; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Water Enterprise; and (iv) all proceeds of insurance covering business interruption loss relating to the Water Enterprise. Notwithstanding the foregoing, Current Revenues shall not include: (a) in all cases, customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (b) any advances or contributions in aid of construction; (c) amounts paid to developers, or to reimburse developers, for capital improvements to the Water Enterprise, including, but not limited to, water meter sets, grid system revenue, water well taxes and water frontage fees; and (d) the proceeds of borrowings. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Water Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses

necessary to maintain and preserve the Water Enterprise in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Water Enterprise, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System or any other pension system or plan, payments for post-retirement healthcare benefits, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than Debt Service payments) required to be paid by it to comply with the terms of the 2016 Bonds or of the Installment Purchase Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and operation and maintenance costs reimbursed by funds attributable to the Consent Decree (as defined herein under the caption "THE WATER ENTERPRISE – Consent Decree" below).

See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Reserve Fund

The Reserve Fund and the Reserve Accounts therein will be held and administered by the Trustee, and will be used solely for the purpose of paying the Series of Bonds secured by the Reserve Accounts in the manner provided in the Indenture. In connection with the issuance of the 2016 Bonds, the Authority will establish the Common Reserve Account, and the 2016 Bonds will be secured by the Common Reserve Account as a Common Reserve Series under the Indenture. As provided in the Indenture, the Common Reserve Account will thereafter be maintained at all times at the Reserve Requirement. As defined in the Indenture, the term "Reserve Requirement" means, (a) with respect to the Common Reserve Series, the least of (i) 10% of the issue price of the Common Reserve Series, (ii) the Maximum Annual Debt Service on the Common Reserve Series, and (iii) 125% of the average annual debt service on the Common Reserve Series, and (b) with respect to any other Series of Bonds, such amount as shall be specified in the Supplemental Indenture authorizing the issuance of such Series of Bonds. Future issues of Bonds, if any, may or may not participate in the Common Reserve Account as a Common Reserve Series of Bonds, and may be issued with no debt service reserve account and no claim to any account of the Reserve Fund, nor any Reserve Account Credit Facility or Facilities on deposit in an account thereof.

At the option of the Authority, at the request of the City, amounts on deposit in a Reserve Account may be substituted at any time, in whole or in part, by the deposit with the Trustee of a Reserve Account Credit Facility or Facilities in a stated amount equal to the amounts so substituted. Any amounts released from a Reserve Account as a result of such substitution will be transferred to the City and applied for any lawful purpose of the Water Enterprise consistent with the Tax Certificate. [The City and the Authority have elected to fund the Common Reserve Account with a Reserve Account Credit Facility.] The term "Reserve Account Credit Facility" means a letter of credit, insurance policy, surety bond, other credit facility provided to the Trustee by a bank, insurance company or other financial institution whose senior unsecured debt obligations are, or whose claims-paying ability is, at the time of the delivery of such Reserve Account Credit Facility, rated in one of the top two rating categories (without giving effect to any numerical or other modifiers) by any Rating Agency, which provides for payment when due, in accordance with the terms thereof, of the principal or redemption price of and/or interest on one or more Series of Bonds. As provided in the Indenture, the Trustee will deposit in each Reserve Account proceeds of sale of each Series of Bonds to be secured thereby or Reserve Account Credit Facility or Facilities, or any combination of the foregoing, in such amount as will be necessary to bring the amount on deposit therein to the Reserve Requirement for such Series of Bonds. The Indenture does not require the replacement of all or any portion of a Reserve Account Credit Facility following the rating thereon being

downgraded, suspended or withdrawn nor any other action to alternatively satisfy the applicable Reserve Requirement.

Each Reserve Account will be replenished in the following priority: first, to make all payments required under all reimbursement agreements with the providers of Reserve Account Credit Facilities credited to such Reserve Account (and if there is not sufficient money on deposit in such Reserve Account to make all such payments, then on a *pro rata* basis to each provider); and second, after all such payments are made in full, the amount necessary to make the money and Reserve Account Credit Facility or Facilities or any combination of the foregoing deposited in or credited to such Reserve Account equal to the aggregate Reserve Requirements of the Bonds secured by such Reserve Account. If at any time there is not sufficient money to make all of the foregoing payments, such payments will be made to the extent of available money into each Reserve Account in the same ratio as the principal amount of the Outstanding Bonds secured thereby bears to the aggregate principal amount of all Outstanding Bonds secured by the Reserve Fund.

In the event of a deficiency in the Purchase Payment Fund for Bonds secured by a Reserve Account, the Trustee will make up such deficiency from such Reserve Account in the following priority: first, by the withdrawal of cash held therein; second, by the sale or redemption of Permitted Investments held therein; and third, from draws upon the Reserve Account Credit Facility or Facilities credited thereto, on a *pro rata* basis, in sufficient amounts to make up such deficiency. Such draws will be made at such times and under such conditions as provided in such Reserve Account Credit Facility or Facilities.

Subject to the paragraph immediately below, each Reserve Account may be drawn upon for the sole purpose of paying the principal and redemption price of and interest on the Bonds secured by such Reserve Account. Money set aside from time to time with the Trustee for the payment of such principal, redemption price, or interest will be held in trust equally and ratably for the Owners.

If at any time no event of default has occurred and is continuing and the amount on deposit in a Reserve Account is greater than the applicable Reserve Requirement, the Trustee will, upon receipt of a Written Request of the Authority, withdraw such excess and apply such amount as directed in such Written Request of the Authority.

Water Rate Stabilization Fund

The Water Rate Stabilization Fund is required to be established and is maintained pursuant to the Installment Purchase Agreement; however, no minimum balance is required by the Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Water Enterprise operations, and maintain stable debt service coverage ratios for the Outstanding Obligations.

From time to time the City may deposit in the Water Rate Stabilization Fund established under the Installment Purchase Agreement, from Current Revenues, such amounts as the City shall determine, provided that deposits for each Fiscal Year may be made until (but not after) two hundred seventy (270) days following the end of such Fiscal Year. As of June 30, 2016, the amount designated for water rate stabilization was $5,516,992. Upon the delivery of the 2016 Bonds, the City will transfer such amount to the Water Rate Stabilization Fund established under the Installment Purchase Agreement. The Department, on behalf of the City may withdraw amounts from the Water Rate Stabilization Fund for transfer to the Water Fund in accordance with the Installment Purchase Agreement, for inclusion in Revenues for any Fiscal Year, such withdrawals to be made until (but not after) two hundred seventy (270) days after the end of such Fiscal Year. Notwithstanding the foregoing, no deposit of Current Revenues to the Water Rate Stabilization Fund may be made to the extent such Current Revenues were

included in the report of an Independent Certified Public Accountant or an Independent Financial Consultant submitted in accordance with the terms of the Installment Purchase Agreement regarding the issuance of Additional Obligations, and withdrawal of the Current Revenues to be deposited in the Water Rate Stabilization Fund from Revenues described in said report would cause noncompliance with the terms of the Installment Purchase Agreement. Amounts on deposit in the Water Rate Stabilization Fund are not pledged to the payment of any Installment Payments (including the 2016 Purchase Payments) or the payment of debt service on the 2016 Bonds.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments as defined in the Indenture. Obligations purchased as an investment of moneys in any fund will be deemed to be part of such fund or account. All moneys held in the Water Fund will be invested in Qualified Investments and the investment earnings thereon will remain on deposit in such fund, except as otherwise provided in the Installment Purchase Agreement Indenture. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE" and "– INSTALLMENT PURCHASE AGREEMENT."

Rate Covenant

The City will covenant in the Installment Purchase Agreement to fix, prescribe and collect rates, fees, charges and connection fees for water service of the Water Enterprise which will be at least sufficient to yield, during each Fiscal Year, Net Revenues equal to one hundred ten percent (110%) of Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates, fees, charges and connection fees and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates, fees, charges and connection fees will at all times be sufficient to meet the requirements of such covenant. For information on the possible limitation on the City's ability to comply with the rate covenant described above as a consequence of Proposition 218, see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Covenant to Budget

The City will covenant in the Installment Purchase Agreement that it will include in the annual budget for the Water Fund for each Fiscal Year the Installment Payments due in that Fiscal Year. The City will furnish to the Trustee (who shall have no duty to review such budget), copies of each final budget of the Water Fund by September 1 of each year. The covenants on the part of the City are deemed by the City to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Installment Purchase Agreement agreed to be carried out and performed by the City.

Issuance of Additional Obligations Under the Installment Purchase Agreement

Pursuant to the Installment Purchase Agreement, the City may at any time issue any Bonds, or arrange with the Authority the issuance of any Bonds, the payments pursuant to which, or execute any Contract the Installment Payments pursuant to which, as the case may be, are payable from the Net Revenues on a parity with the payment by the City of the 2016 Purchase Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement including, without limitation, that either (i) Net Revenues for the most recent audited Fiscal Year or for any unaudited twelve-month period

during the eighteen months preceding the date of issuance or execution of such Additional Obligations shall have been equal to at least one hundred ten percent (110%) of the Maximum Annual Debt Service on all outstanding Bonds and Contracts and on such Additional Obligations, plus all amounts due on Policy Costs during the then current Fiscal Year, as evidenced by a Certification of the City or (ii) the estimated Revenues and Net Revenues for the first Fiscal Year in which no interest on such Additional Obligations is capitalized, as evidenced by a Certification of the City and a report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant, filed with the Trustee (which calculation shall take into account only adopted rates and charges), are sufficient to satisfy the rate covenant under the Installment Purchase Agreement (*i.e.*, 110% of Maximum Annual Debt Service on all outstanding Bonds, Contracts, and Additional Obligations, plus all amounts due on Policy Costs during the then current Fiscal Year).

As defined in the Installment Purchase Agreement, the term "Additional Obligations" means all additional Bonds to be issued, and/or Contracts to be executed, by the City or the Authority in accordance with such terms. The term "Contracts" means the Installment Purchase Agreement and any amendments and supplements thereto, and all contracts of the City authorized and executed by the City, the Installment Payments under which are payable on a parity with the 2016 Purchase Payments and which are secured by a parity pledge and lien on the Net Revenues, but excluding contracts entered into for operation and maintenance of the Water Enterprise. The term "Bonds" means all revenue bonds or notes or other obligations of the City authorized, executed, issued and delivered by the City, or any revenue bonds or notes or other obligations payable from revenues generated by any Contract, in each case the payments of which are on a parity with the 2016 Purchase Payments and which are secured by a parity pledge of and lien on the Net Revenues. The term "Maximum Annual Debt Service" means, at any point in time, the maximum amount of Debt Service in the then current or any future Fiscal Year, as calculated by the City. The term "Policy Costs" means repayments of any draw under Reserve Account Credit Facility and any expenses related thereto and any accrued interest.

See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INSTALLMENT PURCHASE AGREEMENT – Additional Bonds and Contracts."

Notwithstanding the foregoing provisions, there are no limitations on the ability of the City to execute any Contract or to issue any Bonds, or arrange with the Authority to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contracts, provided that during the period in which Bonds or Contracts (other than the refunding or refunded Bonds and Contracts) will be outstanding, the Debt Service due in each Fiscal Year following such refunding will be less than what the Debt Service due in such Fiscal Year would have been without such refunding. There shall be no limitations on the ability of the City to incur debt or other obligations payable from Net Revenues on a basis subordinate to the payment by the City of the 2016 Purchase Payments.

Issuance of Additional Bonds Under the Indenture

Pursuant to the Indenture, the Authority may at any time issue Additional Bonds payable from Project Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon Project Revenues as provided in the Indenture equal to the pledge, charge and lien securing the Outstanding Bonds (including the 2016 Bonds) theretofore issued under the Indenture, subject to satisfaction of the conditions specified in the Indenture including, without limitation, that (i) such Additional Bonds shall be applied solely for (A) the purpose of financing the completion of the Project or financing an Additional Project, including payment of all costs incidental to or connected with such financing, and/or (B) the purpose of refunding any Bonds then Outstanding, or any Contract, or any other obligation of the City relating to the Water Enterprise as the City may determine, including payment of all costs incidental to or connected with such refunding; and (ii) the provisions of the Installment Purchase

Agreement set forth above under the caption "Issuance of Additional Obligations Under the Installment Purchase Agreement" shall have been satisfied and either (A) the Installment Purchase Agreement shall have been amended so as to modify the 2016 Purchase Payments payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due or (B) the City shall have entered into a Related Contract providing for the City to make Purchase Payments in amounts sufficient to pay the interest on and principal of such Additional Bonds, and in each case such amendment or such Related Contract shall be consistent with the terms of the Installment Purchase Agreement set forth above under the caption "Issuance of Additional Obligations Under the Installment Purchase Agreement."

See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INDENTURE – Conditions for the Issuance of Additional Bonds" and "– Procedure for the Issuance of Additional Bonds."

The Indenture does not limit the issuance of any bonds of the Authority payable from Project Revenues and secured by a pledge of and charge and lien upon Project Revenues if after the issuance and delivery of such bonds none of the Bonds theretofore issued under the Indenture will be Outstanding. Nothing in the Indenture limits in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

DEBT SERVICE SCHEDULE

The following table sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on 2016 Bonds, assuming no optional redemptions.

Table 1
Debt Service Schedule[1]

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
Total[2]:			

(1) Excludes remaining payments on the $246,699 outstanding amount of 2012 Valley District note which matures in Fiscal Year 2017-18.
(2) Amounts have been rounded; total may not equal the sum of the components.
Source: The Department.

BOND INSURANCE

[To Come]

THE WATER ENTERPRISE

General

The Department is responsible for water service and sewage treatment and disposal. The Department operates two enterprise funds: the Water Utility Enterprise Fund (the "Water Fund" herein) and the Sewer Fund, each as referred to in the audited financial statements of the Department. The Sewer Enterprise and its revenues do not secure the 2016 Purchase Payments or the 2016 Bonds. The Water

Enterprise's principal source of revenues are water rates and service charges to City residents and non-residential customers as discussed in this Official Statement. As described in this Official Statement, total operating revenues of the Water Enterprise consist of water rate revenues, other charges for water service, and other operating revenues. The City owns the Water Enterprise and operates the Water Enterprise through the Department. The Water Enterprise includes underground transmission mains and extension pipelines, pumping stations, and reservoirs. The Water Enterprise's reservoirs consist of reinforced concrete and welded steel water storage tanks.

The Department and its governing body, the Board, were established on May 8, 1905 by the Mayor and the governing board of the City (called the Common Council) in accordance with the provisions specified in the City Charter. The Board assembled for the first time on May 16, 1905 to meet the water supply needs of the community by providing trusted, quality service to customers of the Department. This service has grown through the years to include: water supply, water reclamation, geothermal heating supply, and administrative support.

The Department is governed by its five-member Board, appointed by the Mayor. The current members of the Board are:

Name	Office	End of Term
Toni Callicott	President	September 16, 2019
Judith Valles	Vice President	December 4, 2016
Wayne Hendrix	Commissioner	April 6, 2021
Louis A. Fernandez	Commissioner	September 16, 2019
David E. Mlynarski	Commissioner	May 19, 2020

The City Charter gives the Board semi-autonomous authority to manage the Department, including the Water Enterprise, independent of the Common Council. Under the City Charter, the Board has the power to set water rates and charges, to hire employees, and to finance, maintain, and operate water facilities. San Bernardino Municipal Code Section 2.28.040 provides that water rates and charges established by the Board pursuant to City Charter Section 163 may be approved by resolution of the Mayor and Common Council; however this review and approval right has not been practiced. Failure of the Mayor and Common Council to act by the adoption of a resolution or ordinance within 90 days after the establishment of such water rates and charges shall be deemed an automatic approval of such water rates and charges.

As provided in the City Charter, the Board shall have power to control and order the expenditure of all money received from sale or use of water, for the defraying of expenses or maintenance and repairs and operation of the Water Enterprise, and for any expenses for additions to the same; and for supplying the City with water for any and all purposes. Moneys held in the Water Fund shall be kept separate and apart from other moneys of the City. See "RISK FACTORS – Effect of City of San Bernardino Bankruptcy Case."

Operations of the Department are directed by the Board and its general manager. The City Charter provides that the City Manager shall not be responsible for the administration of the Department. The Board appoints the general manager of the Department, who is responsible for day-to-day operation of the Department.

Management

The Department is under the direction of Stacey R. Aldstadt, General Manager and Robin L. Ohama, Deputy General Manager.

Stacey R. Aldstadt – General Manager. Ms. Aldstadt was appointed General Manager in July 2005. Ms. Aldstadt began working for the Department in 1997 as Deputy General Manager. Ms. Aldstadt is a member of the State Bar of California, State Bar of Texas (currently inactive status) and admitted to several federal district courts; member, American Water Works Association, and Western Coalition of Arid States. She is Chairperson of the Colton/San Bernardino Regional Tertiary Treatment and Water Reclamation Joint Powers Authority; Secretary for the Lytle Creek Water Conservation Association; Commissioner of the West End Water Development, Treatment and Conservation Joint Powers Authority; and sits on the Management Committee of the San Bernardino Regional Water Resources Authority. Ms. Aldstadt attended the University of Houston, where she received both her bachelor's degree and law degree. After passing the California bar exam in 1990, Ms. Aldstadt practiced law in Riverside, California with the law firms Thompson & Colegate and Redwine & Sherrill. Her practice areas included contract, personnel and general liability litigation. In 1996, she became a Deputy City Attorney for the City, advising the Department, among other departments, and handling complex litigation matters.

Robin L. Ohama – Deputy General Manager. Ms. Ohama was named as Deputy General Manager in October 2005. As Deputy General Manager, Ms. Ohama assists the General Manager and Water Division and Sewer Division Directors in the administration of water and water reclamation services of the Department. She directly manages administrative services for the Department which includes Purchasing, Customer Service, and Human Resources. With extensive management experience in both the public and private sectors, Ms. Ohama previously worked as a Human Resources Division Chief for the County of San Bernardino. She also was employed as the Department Administrator for Occupational Health Services for the Inland Empire Kaiser Permanente medical facilities. Ms. Ohama also served as Medical Liaison for the State Compensation Insurance Fund, the state's largest workers' compensation carrier. Ms. Ohama attended the University of Southern California where she received her Bachelor of Arts degree in both English and Journalism. She then went on to earn a Juris Doctorate degree from Western State University College of Law.

Terri Willoughby – Director of Finance. Ms. Willoughby was appointed Director of Finance in July 2014. Ms. Willoughby has worked in the public sector for twenty years, working for the County of Riverside, and cities of Riverside, Barstow and Menifee in capacities ranging from Assistant Controller to Finance Director. Ms. Willoughby was previously the Southern California board representative for the California Society of Municipal Finance Officers, and is currently active in the organization. Ms. Willoughby also volunteers her time as the Treasurer of the Riverside Road Runners, a non-profit organization in Riverside, CA. Ms. Willoughby attended California State University, San Bernardino where she earned a bachelor's degree in Business Administration with a concentration in Accounting in 1993 and a Masters in Public Administration in 2007.

The Water Enterprise is under the direction of Miguel Guerrero, PE, Director of Water Utility.

Miguel Guerrero, PE – Director of Water Utility. Mr. Guerrero was appointed Director of Water Utility in August 2015. As Director, Mr. Guerrero oversees the operation, maintenance, water quality, and construction of facilities associated with the Department's water distribution system, geothermal system and water production/treatment facilities. Mr. Guerrero is responsible for maintaining compliance with the State issued Water Supply Permit. He was first hired in 2011 as the Principal Engineer for the Department, nearly four years prior to his appointment as Director. As Principal Engineer, Mr. Guerrero was a manager in the Engineering Section and was in charge of design and construction of water and wastewater infrastructure stemming from the Capital Improvement Plans approved by the Board. Prior to hiring on with the Department, Mr. Guerrero worked for the City of Upland where he managed a team of engineers to provide planning, design, and construction support for the City of Upland's water system. Mr. Guerrero began his career as an engineering consultant with Black & Veatch, where he worked on the

planning, design, and construction management of several water and sewer infrastructure projects. Mr. Guerrero attended Cal Poly Pomona where he received his Bachelor of Science in Civil Engineering. He then went on to earn his Master of Science in Civil and Environmental Engineering from Stanford University. Mr. Guerrero holds a Professional Engineering License (Civil) in the State. In addition, he holds State Water Board Distribution Operator (D2) and Treatment Operator (T2) certificates.

Employees

The Department has a staff of 280, including the Board. Primary functions and staffing are as follows:

Administration:	88	Administration of the Department, including Management, Environmental and Regulatory Compliance, Finance and Accounting, Human Resources, Customer Service, Information Technology and Purchasing.
Water Enterprise:	108	Operate, monitor and regulate wells, reservoirs and treatment plants.
Water Reclamation	84	Utilize modern wastewater treatment processes to maintain compliance with required discharge limits.

There is some overlap of duties among Department employees between the Water Enterprise and the Sewer Enterprise with a roughly 60/40 proportion of headcount and costs between the two divisions. Current staff assigned to the Water Enterprise are trained and certified through a combination of course work in water science, years of work experience, and successfully passing a State-administered examination. These certified employees operate, monitor, and regulate wells, reservoirs and treatment plants to ensure the drinking water meets all State and federal standards.

Department employees are unrepresented. The Department enjoys good relations with its employees and has not experienced a work stoppage.

Board members, management and eligible staff of the Department are provided pension benefits as part of the City's Miscellaneous Plan (the "Miscellaneous Plan"), an Agent Multiple-Employer Defined Benefit Pension Plan administered by the California Public Employees' Retirement System ("CalPERS"). The Department is part of the City's CalPERS Miscellaneous Plan. Additionally, certain other post-employment healthcare benefits ("OPEB") are provided to employees of the Department. For more information including a description of the Miscellaneous Plan, OPEB, plan liabilities, costs to the Water Enterprise, and projections, see "THE WATER ENTERPRISE – Employees' Retirement Benefits" and "– Other Post-Employment Healthcare Benefits." See also, Notes 7 and 8 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

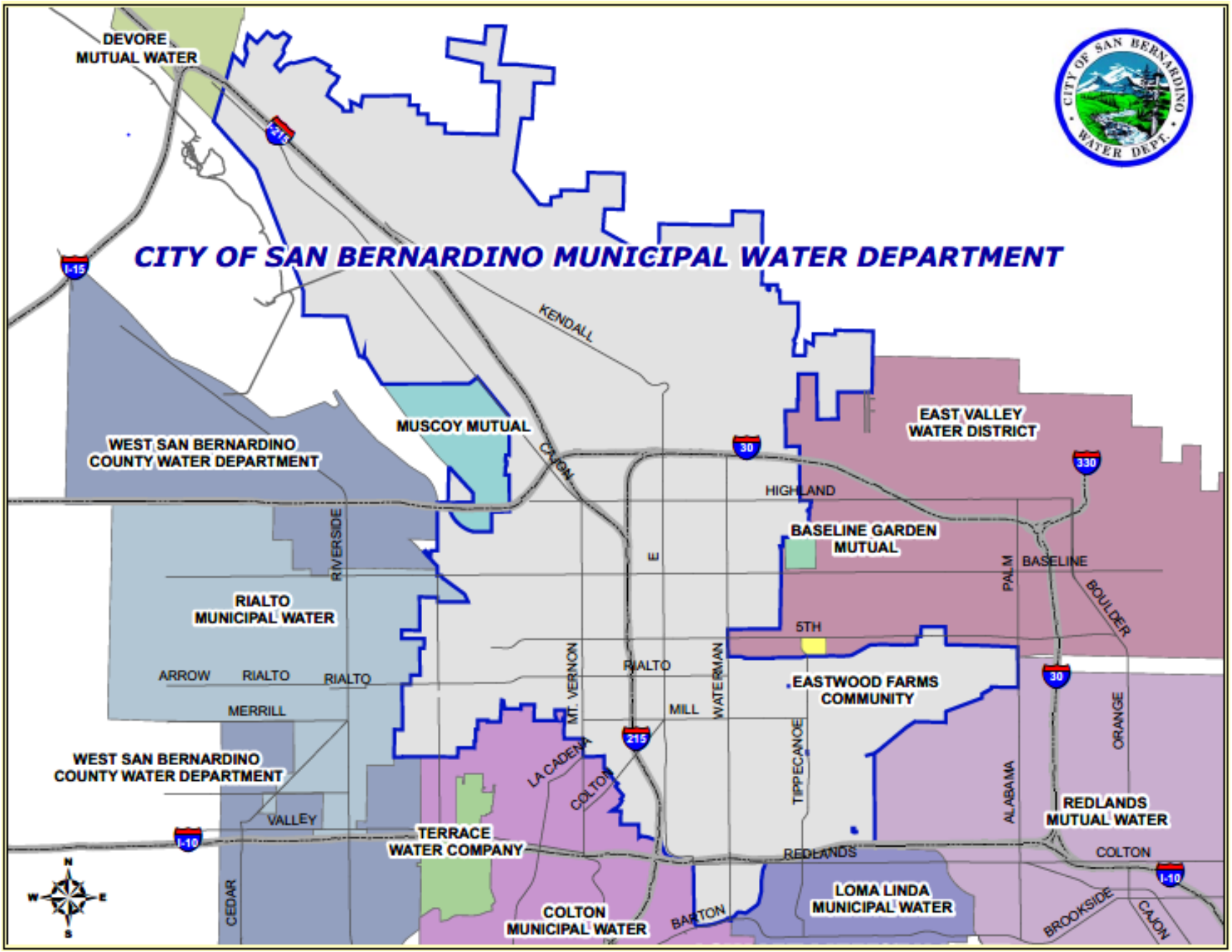
Operations, Service Area and Water Supply

The Water Enterprise delivers more than 47,676 acre-feet per year (15.5 billion gallons) of water to its service area for both commercial and residential use and serves a population of about 173,000 residents through over 40,000 service connections. The Service Area consists of approximately 45 square miles and includes customers within the City, and a small percentage of out-of-city accounts. The Service Area is bounded on the north by the San Bernardino National Forest and Devore Water Company, on the east by the East Valley Water District and Redlands Municipal Utilities Department, on the south by the

cities of Loma Linda and Colton, and on the west by the West Valley Water District, the City of Rialto, and the Muscoy Mutual Water Company.

The Water Enterprise includes production and distribution facilities that include 60 wells located throughout its Service Area, more than 100 million gallons of water storage in 31 covered storage reservoirs, and more than 560 miles of water mains. Since 1990, the Department has installed 60 miles of water lines, added 20.5 million gallons of storage capacity, and constructed 10 production wells.

The map below shows the Service Area.



OHSUSA:765291589.7

The Service Area receives the majority of its water supply from an underground aquifer called the Bunker Hill Basin (also known as the Upper Santa Ana River Basin) in San Bernardino, California. The Bunker Hill Basin is a sub-aquifer of the San Bernardino Basin Area. It is generally bounded by the San Bernardino and San Gabriel Mountains to the north, the Crafton Hills and badlands on the southeast, and by a hydrogeologic barrier formed by the San Jacinto fault along the southwest.

The groundwater in this aquifer is a valuable resource, currently serving nearly a half-million residents of the cities of San Bernardino and Riverside, and surrounding communities including the parties to the Western Judgement (as described below under the caption "Water Rights and Resources") including, without limitation, the City of Riverside, Riverside Highland Water Company, Meeks & Daley Water Company, the Regents of the University of California, and water agencies within San Bernardino County including the City. According to the San Bernardino Valley Municipal Water District, the Bunker Hill Basin aquifer is capable of storing approximately 1.6 trillion gallons and producing 81 billion gallons each year. As noted above, the Water Enterprise delivers more than 47,676 acre-feet per year (15.5 billion gallons) of water to its Service Area.

The water contained in the Bunker Hill Basin is replenished with rain and snowmelt that filters through the local San Bernardino Mountains, collected floodwater from rivers, creeks and washes, and water imported from outside the region that is spread over percolation basins to recharge the basin as necessary. This local water supply provides high quality, inexpensive water as compared to other communities. Many other communities in Southern California must import their water supplies from remote locations via the Colorado River and Northern California pipelines. Many water supplies imported from distant locations can be impacted by certain man-made and natural contaminants as the water is transported to the customer.

Water delivered by the Water Enterprise meets all current government health and safety standards. The Department treats over 30 million gallons of water each day using methods intended to make the water safe for the environment and for re-use. See "WATER ENTERPRISE REGULATORY REQUIREMENTS." The Water Enterprise's goal is to meet the customer's needs by providing high-quality service in water supply, water reclamation and geothermal heating.

Recent City Actions in Response to Drought Conditions

Throughout the current multi-year drought, the Department has been actively pursuing water conservation goals and has met all material goals and restrictions advanced by the State. California's water supply continues to be a concern due to prolonged drought conditions.

Beginning on January 17, 2014, Governor Edmund G. Brown Jr. proclaimed a State of Emergency related to the drought conditions in California and formed the Drought Task Force. On April 1, 2015, Governor Brown issued an executive order mandating a statewide 25% reduction for urban water suppliers. On May 5, 2015, the State Water Resources Control Board ("SWRCB") adopted an emergency regulation which assigned a conservation standard to each urban water supplier. These restrictions imposed a statewide 28% reduction in water usage and assessed financial penalties on usage in excess of these amounts. As a result of these restrictions, water consumption in Fiscal Year 2014-15 decreased 11% from the prior year with an attendant decline in revenues.

The Department was directed to reach conservation goals to reduce water use as compared to 2013. The conservation standard first assigned to the Department was 28%. In response to the State mandated requirements, the Board implemented Stage IIA of the Department's Water Supply Shortage Contingency Plan. In addition to mandatory water reduction for all customers, Stage IIA lists several water restrictions aimed at addressing the drought and meeting the Department's goals. The Department

has expanded and is expected to continue to expand its conservation efforts in order to respond to the State-wide drought emergency. Department staff members continue to seek various methods to increase water source reliability, including increasing production of recycled water.

During this past year conditions have changed somewhat, particularly in the Northern Regions of the State, but not as hoped for in the Southern California Region. On May 18, 2016, the SWRCB adopted a revised emergency water conservation regulation. This regulation will require local agencies to develop conservation standards based on the agencies' particular circumstances rather than a mandatory state conservation percentage.

Since the initial conservation standard was set at 28%, the SWRCB continued to refine the emergency regulation. Initially, the Department's conservation standard was set at 28%, but as SWRCB continued to refine the emergency regulation, the Department's standard was reduced multiple times. The Department complied with a 25% reduction through May 2016. The latest amendment of the emergency regulation outlined a "stress-test" approach to water conservation. It allowed water suppliers to self-certify their own conservation standard based on supply and demand from previous years, and it also extended the emergency regulation through February 2017. The Department's conservation requirement is now set at 15% in accordance with the latest emergency regulation.

Water Rights and Resources

As discussed above, the Service Area receives the majority of its water supply from the Bunker Hill Basin, a sub-aquifer of the San Bernardino Basin Area. The San Bernardino Basin Area ("SBBA") was defined by, and adjudicated in gross, by the Western-San Bernardino Judgment ("Western Judgment") in 1969. The SBBA has a surface area of approximately 141 square miles and lies between the San Andreas and San Jacinto faults. The basin is bordered on the northwest by the San Gabriel Mountains and Cucamonga fault zone; on the northeast by the San Bernardino Mountains and San Andreas fault zone; on the east by the Banning fault and Crafton Hills; and on the south by a low, east-facing escarpment of the San Jacinto fault and the San Timoteo Badlands. The SBBA also encompasses surface water. The Western Judgment established the natural safe yield of the SBBA to be a total of 232,100 AF per year ("AFY") for both surface water diversions and groundwater extractions. Surface water is diverted from Mill Creek, Lytle Creek, and the Santa Ana River. The average surface water diversions in the SBBA for direct use from 1968 to 2000 were 39,000 AFY.

The Western Judgment allocates 64,862 AFY of the safe yield, which equates to 27.95%, to the following plaintiffs requesting the adjudication: the City of Riverside (the successor to the Riverside Water Company and the Gage Canal Company), Riverside Highland Water Company, Meeks & Daley Water Company, and Regents of the University of California. Each plaintiff is allocated a certain extraction amount as established in the Western Judgment. The Non-Plaintiffs' (agencies within San Bernardino County including the City) rights were defined in the Western Judgment as 167,238 AFY, which equates to 72.05% of the safe yield. The Western Judgment does no allocate extractions for individual non-plaintiff entities. Non-plaintiff extractions are allocated and examined in gross. Department is currently working with the Watermaster and the other water agencies to develop refined terms for distribution and replenishment rights and obligations. San Bernardino County agencies are allowed to extract more than 167,238 AFY from the SBBA, as long as a like amount is imported to replenish the SBBA. The Western Judgment provides that the Valley District is responsible for making state project water available for recharging the basin when safe yield is exceeded. To date, credits as described below have been used to forestall this obligation under the Western Judgment. The Western Judgment does not provide terms to allocate costs for such water.

The Valley District serves as the Western-San Bernardino Watermaster (the "Watermaster"). The Watermaster provides an annual accounting of both the plaintiff and non-plaintiff extractions and a comparison to the safe yield. The Watermaster bases the Valley District replenishment water requirement on the cumulative accounting of non-plaintiff extractions. If the cumulative extractions are less than the cumulative safe yield, there is a groundwater "credit" in the basin. In years when cumulative extractions are greater than their allocation, a "debit" is given. Recharge is also required to offset the export of water outside the SBBA in excess of the amount recorded during the base period (1959-1963). Credits are earned for any new supplies such as stormwater capture. As of the accounting performed for the 2015 Annual Western-San Bernardino Watermaster Report, the Non-Plaintiffs have 104,994 AF of net credit accumulated in the SBBA and are, therefore, not required to recharge.

Consent Decree

In 1996, the City and the State filed a complaint against the United States of America, Department of the Army to recover damages, response costs and other available remedies relating to contamination alleged to have originated at a World War II Army installation known as Camp Ono. In March 2005, the United States District Court, Central Division entered judgment, in the form of a consent decree (the "Consent Decree"), *In the matter of City of San Bernardino v. United States of America*. The Consent Decree settled the City's and the State's claims arising from the groundwater contamination allegedly caused by the Army. The Consent Decree contains a number of provisions obligating the City to operate and maintain the Newmark Groundwater Superfund site (the "Site").

The Consent Decree will operate a Groundwater Pump and Treat system for the PCE and TCE found in the water supply. The life of the project, which began in 2004, is for containment and treatment for 50 years (through 2054), or until the Department achieves compliance with its California Department of Public Health permit, whichever comes first. The aquifer has been designated an extremely impaired source, which means that the California Department of Public Health has set the maximum contaminant level ("MCL") for the permit at non-detect (the point at which the contaminant can no longer be detected). An MCL is the legal threshold limit, as set by the United States Environmental Protection Agency (the "EPA") for drinking water quality, on the amount of a substance that is allowed in public water systems under the Safe Drinking Water Act.

The Site consists of two operable units, the Newmark Operable Unit and the Muscoy Operable Unit. The Newmark Operable Unit was declared operational and functional in 1998. The Muscoy Operable unit was declared operational and functional in 2007. The superfund remediation was designed to inhibit migration of groundwater contamination into clean portions of the aquifer, to protect downgradient municipal supply wells, and to begin to remove contaminants from the groundwater plume for eventual restoration of the aquifer to beneficial uses.

The Consent Decree provided for a payment of $69 million from the Army to the City for performance of the work outlined in the Consent Decree. Upon acceptance of the Consent Decree, the City received title to all facilities constructed by the EPA on the Site and agreed to operate and maintain the Site and the groundwater extraction and treatment system for such period of 50 years or until the Department achieves compliance with its California Department of Public Health permit, whichever comes first. The Department's use of the funds are subject to strict limitations, contained in the Consent Decree, as to how the money may be spent.

Of the $69 million, $10 million, including interest earned, has been set aside to be used only for (i) funding construction of treatment and directly related transmission systems that expand the Department's capacity to deliver potable water and (ii) funding work performed by the Department to complete construction of the Muscoy Operable Unit extraction system. These funds were earmarked

specifically for any future construction in capital facilities regarding the cleanup. These capital facility funds may not be used for costs incurred to operate, maintain, repair or retrofit components of the site extraction of treatment systems constructed by EPA. See Note 13 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

Such funds are not included in Net Revenues pledged to the payment of any Installment Payments (including the 2016 Purchase Payments) or the payment of debt service on the 2016 Bonds. Operation and Maintenance Costs herein exclude expenditures paid from any proceeds of the Consent Decree.

In March 2006, the Department purchased an AIG Match Funding Corporation ("AIG") "blended finite risk" policy (the "AIG Policy") and entered into a Guaranteed Investment Contract (the "AIG Contract") with AIG. Of the $69 million, approximately $50 million was applied to purchase the AIG Policy, with the remaining approximately $9 million invested in the AIG Contract. The AIG Policy and the AIG Contract were structured to provide for costs associated with the water facilities defined in the Consent Decree, with the AIG Policy meeting the first 30 years (the AIG Policy terminates in 2035) and the AIG Contract meeting the last 20 years. The AIG Contract has since been terminated and the Department has invested its proceeds (approximately $16,482,039 as of June 30, 2015) into an interest bearing Escrow Fund investment with an interest rate of 4.95% per annum. See Notes 3 and 13 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

Within the AIG Policy timeline, if the Department uses up all of the cash proceeds of the Consent Decree, the insurance will kick in so that the Department is still reimbursed for the expenses of the treatment. If the Department does not use up all funds, then the remainder will be used to fund the remaining 20 years of the consent decree. [As of June 30, 2016, AIG has a balance of $28.3 million, out of $42.5 million.]

Planning and Resource Management; 2015 Urban Water Management Plan

The Department is required by the Urban Water Management Planning Act, California Water Code Sections 10610 through 10657, to prepare and adopt an Urban Water Management Plan ("UWMP") every five years, in years ending in five and zero. The table below sets forth the Department's water demand forecast considering the projections in the 2015 Urban Water Management Plan. These projections are based on certain assumptions, which are subject to change. There can be no assurance that the local supply for the services provided by the Water Enterprise will be maintained at levels described below or elsewhere in this Official Statement. See "RISK FACTORS – Water Enterprise Demand."

Table 2
Water Demand Forecast in the
2015 San Bernardino Valley Regional Urban Water Management Plan
Fiscal Years 2019-20 through 2039-40
(AFY)

Demand	2019-20	2024-25	2029-30	2034-35	2039-40
Groundwater	52,671	54,730	56,866	59,082	59,082
Recycled Water - Landscape Irrig.	2,800	2,800	2,800	2,800	2,800
Recycled Water - Other (sales)	2,800	5,000	7,500	10,000	10,000
Recycled Water – Recharge	0	4,300	8,300	12,200	18,700
Total Demand	58,271	66,830	75,466	84,082	90,582

Source: The Department, based upon 2015 San Bernardino Valley Regional Urban Water Management Plan.

The Water Enterprise has the capacity in its system of delivery and supply to meet the projected demand set forth above, as forecast in the 2015 Urban Water Management Plan. As noted above, the SBBA is a managed basin. The Department has the opportunity to develop additional wells and over-extract groundwater under specified conditions contained in the Western Judgment. Historically, the Department's water wells have, in general, provided a stable source of water supply. Exchanges in the past have occurred during periods of lowered groundwater levels, loss of water by other agencies due to groundwater contamination, and to facilitate increased pumping in the Department's artesian pressure zone to lower groundwater levels that had infiltrated underground utilities. Exchanges are on an as-needed basis and only occur when adequate supplies are available within the Service Area. Therefore, exchanges are not taken into consideration when examining future water supplies.

Customers

The following table sets forth the historical number of connections to the Water Enterprise for each year from Fiscal Years 2010-11 through 2014-15.

Table 3
City of San Bernardino Municipal Water Department
Historical Number of Water Connections
Fiscal Years 2010-11 through 2014-15

Customer Type	2010-11	2011-12	2012-13	2013-14	2014-15
Single Family Residential	34,695	34,716	34,913	35,012	35,695
Multi-Family	2,806	2,801	2,820	2,824	2,869
Commercial	3,117	3,117	3,082	3,085	3,097
Landscape	1,149	1,151	1,104	1,140	1,130
Other	1,571	1,626	1,663	1,703	1,791
Total All Users	43,338	43,411	43,582	43,764	44,582

Source: The Department; from the Department's audited financial statements.

The following table sets forth the historical sources of operating revenues of the Water Fund for Fiscal Years 2010-11 through 2014-15, consisting of water rates and water service charges to City residents and non-residential customers.

Table 4
City of San Bernardino Municipal Water Department
Historical Sources of Operating Revenues of the Water Fund
Fiscal Years 2010-11 through 2014-15

Customer Type	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2014-15
Rate Revenues:					
Single Family Residential	$15,665,580	$18,094,052	$18,741,773	$18,583,708	$16,775,834
Multi-Family Residential	4,025,079	4,510,962	4,704,384	4,591,290	4,349,601
Commercial	4,678,003	5,790,427	6,800,310	6,566,344	6,332,882
Landscape	2,745,990	3,321,846	3,591,678	3,616,135	3,079,610
Other Users	701,296	1,597,791	599,210	1,426,777	792,812
Other Charges for Service	3,099,184	1,247,907	989,740	1,184,536	1,004,071
Other Operating Revenues	2,112,575	2,543,232	2,441,751	703,113	786,318
Total Operating Revenues	$33,027,707	$37,106,217	$37,868,846	$36,671,903	$33,121,128

Source: The Department; from the Department's audited financial statements.

The following table sets forth the 10 largest customers of the Water Enterprise for Fiscal Year 2014-15, which customers provided approximately 11% of the total Water Enterprise operating revenues ($33,121,128) for such Fiscal Year.

Table 5
City of San Bernardino Municipal Water Department
Top Ten Water Customers
(Fiscal Year 2014-15)

Customer	Revenues	Percent of Total
City of San Bernardino	$1,260,575	3.91%
San Bernardino Unified School District	719,163	2.23
Cott Beverages	311,477	0.97
County of San Bernardino	284,351	0.88
Housing Authority of the County of San Bernardino	232,150	0.72
California State University	225,113	0.70
St. Bernardino Hospital/CHW	130,572	0.41
Successor to Former San Bernardino RDA	124,327	0.39
W. Dean Weidner	123,825	0.38
Pama Management Company	123,007	0.38
Top Ten Customers Total	**$3,534,560**	**10.97%**

Source: Statistical Section (Unaudited) of the Department's Comprehensive Annual Financial Reports for Fiscal Year 2014-15.

Establishment of Water Service Charges

The primary sources of moneys deposited in the Water Fund are derived from revenues generated by water rates and service charges to City residents and commercial users and interest income on fund balances. Water rates and service charges to City utility customers are collected on a combined municipal utility bill that also includes sewer charges and storm drain fees. Bills are distributed on a bi-monthly basis for most customers and on a monthly basis for higher consumption residential, commercial and

industrial customers. Additional charges are imposed upon the installation of new, additional, or larger connections to the Water Enterprise.

Under the City Charter, the Board has the power to set water rates and charges, to hire employees, and to finance, maintain, and operate water facilities. San Bernardino Municipal Code Section 2.28.040 provides that water rates and charges established by the Board pursuant to City Charter Section 163 may be approved by resolution of the Mayor and Common Council; however this review and approval right has not been practiced. Failure of the Mayor and Common Council to act by the adoption of a resolution or ordinance within 90 days after the establishment of such water rates and charges shall be deemed an automatic approval of such water rates and charges.

The Department completed a water rate study, and on September 20, 2016 the Board approved water rate increases of 9.5%, 9.5% and 9.5%, respectively, effective October 1, 2016, July 1, 2017 and July 1, 2018. The Department last implemented a three-phase water rate adjustment in January 2012.

The Department's rate consultant recommended that the Board adopt an annual 10% rate increase in Fiscal Year 2015-16 and in each of the four subsequent Fiscal Years in order to provide sufficient revenues to finance the Water Facilities Master Plan (the "Master Plan"). See "THE WATER ENTERPRISE – Capital Improvement Plan." Proceedings for the rate increases were delayed, and the Board approved the recommended rate increases on September 20, 2016, with rates substantially impacting Fiscal Years 2016-17 and thereafter. For planning purposes, the Department began with the six year study to commence in Fiscal Year 2015-16.

The table below summarizes water rate revenues and total operating revenues under the current rate schedule, not including the rates to be effective on October 1, 2016. Shown in this table are Fiscal Year 2013-14 actual revenues, Fiscal Year 2014-15 actual revenues, and projected revenues for Fiscal Year 2015-16. The decline in total revenues projected for Fiscal Year 2015-16 is attributed to conservation. The majority of rate revenues are labeled as "Water Sales – Regular" which consists of the Minimum Monthly Charge and the Commodity Charge. The revenues from the Replenishment Fee, Conservation Charge, and Energy Surcharge are also shown in the table below. The Department receives smaller amounts of revenue from fire service charges, sales to other municipalities, and from sales through the Encanto Booster Station. [Not included in the table below are acquisition fees and capacity fees for charges on new, additional, or larger connections to the Water Enterprise.]

Table 6
City of San Bernardino Municipal Water Department
Rate Revenues and Total Operating Revenues Under Current Rates

Type of Rate Revenue	Historical Fiscal Year 2013-14	Historical Fiscal Year 2014-15	Projected Fiscal Year 2015-16
Water Sales – Regular[1]	$27,447,084	$24,781,411	$22,650,953
Replenishment Fee	1,620,107	1,387,111	1,196,485
Conservation Charge	1,045,397	977,477	1,220,005
Energy Surcharge (Elevation Charge)	2,667,657	2,384,548	2,057,953
Water Sales – Fire Service	462,929	464,684	477,579
Water Sales – Municipal	887,935	800,542	580,410
Geothermal Heat Sales	140,176	113,940	103,532
Water Sales – Other[2]	512,967	421,026	500,000
Total Rate Revenue	$34,784,254	$31,330,739	$28,786,918
Other Charges for Services[3]	1,184,536	1,004,071	962,082
Other Operating Revenues[4]	703,113	786,318	561,800
Total Operating Revenues	$36,671,903	$33,121,128	$30,310,800

[1] Includes water rate revenues, conservation surcharges and penalties, if any.
[2] Includes charges for unmetered water sales and related surcharges.
[3] Includes other fees not related to the sale of water, including customer fees such as return check fees, lock boxes and the like.
[4] Includes other revenues not directly related to water sales and service, including administrative services fees generated from contract billing services, plan check fees, backflow administration and hydrogeneration.
Source: The Department.

Fiscal Year 2014-15 and projected Fiscal Year 2015-16 water revenues are less than previous amounts because water consumption patterns are different from those of Fiscal Year 2013-14 as a result of conservation. The average consumption per single-family residential connection decreased from 21 hundred cubic feet ("hcf")/month in 2013 to 16 hcf/month in 2015. Such results were considered as part of the Department's recent rate study, and among recent and current rate adjustments is a gradual increase in fixed rate components. As described herein, total operating revenues of the Water Enterprise consist of rate revenues, other charges for service, and other operating revenues. The Department's revenue base includes certain operating revenues that are not rate related, and collections of charges for services include amounts that are not based only on consumption rates.

The following is a summary of the Department's water rate structure:

Water Sales – Regular (Commodity Charge): This charge recovers water production and treatment costs, as well as associated variable costs of the Department. This rate is charged per hcf of water sold. All users are assessed a minimum monthly charge to recover fixed costs, such as meter replacement, customer service, mailing costs, bill payment and debt service.

Replenishment Fee: This charge recovers the cost of water purchased to replenish the local basin and may be adjusted up or down, depending upon the amount of replenishment required. This rate is charged per hcf of water sold.

Conservation Charge and Tiers: To encourage conservation, customer accounts placing a greater demand on the Water Enterprise are assessed a higher cost. Initially, customers using in excess of their class average by service size listed below pay a higher rate for water usage that falls in the second tier. To encourage greater conservation over a longer period of time, each tier and charge are adjusted annually.

This rate is charged per hcf only on that usage above the level specified. Revenues recovered from these charges fund conservation programs sponsored by the Department.

Energy Surcharge: This charge recovers electrical costs to transport water through the system and is specific to each zone. The electric cost incurred at plant facilities within each elevation level is distributed across water usage within that zone. This rate is charged per hcf of water sold.

Unmetered Charge: A "jumper" may be substituted for a water meter during single or multi-family housing construction at a charge of $50 per month for a maximum of 120 calendar days or until the lot landscaping begins. Thereafter, a water meter will be installed subject to all fees and charges as listed above prior to the issuance of a certificate of occupancy. Water used for tract grading and jetting of trenches is not covered in the above charge.

Surcharge - Outside City Limits: Any service installed outside the incorporated territory of the City after February 1, 1991 may be billed the meter charge and all required consumption related charges multiplied by 1.5.

Water Supply Shortage Rates: To comply with State mandates, the Department has implemented the following procedure in response to drought or water supply shortage declarations or similar service interruptions in the delivery of water to its customers. During any drought or water supply shortage condition, the Department's General Manager may declare any one of three shortage level responses with ratification by the Board within three calendar days. See "THE WATER ENTERPRISE - Recent City Actions in Response to Drought Conditions." The procedure includes account surcharges and penalties to be added to customer's water bills or as a lien on the owner's property and become payable at the same time and in the same manner as such bills or by such other method of collection and payment as established by the Department. The Board may order implementation of other water conservation measures in addition to those set forth in this subsection. The General Manager will notify the Board when the water supply shortage condition stage level should be reduced. The Board may ratify the General Manager's reduction of stage level.

The following table sets forth a schedule of current water rates charged, and to be charged, for all water furnished for domestic, commercial, industrial, and municipal water use within the City, and for any other purpose for which no rate is specified.

Table 7
City of San Bernardino Municipal Water Department
Current Water Rate Schedule

	Through 10/1/2016	Effective 10/1/2016	Effective Date 7/1/2017	Effective Date 7/1/2018
Minimum Monthly Charge				
Water Meter Size				
1/2" & 5/8"	$ 12.90	$ 16.09	$ 19.58	$ 23.39
3/4"	16.15	20.15	24.51	29.28
1"	22.60	28.19	34.30	40.98
1 1/2"	38.80	48.40	58.88	70.35
2"	58.20	72.60	88.32	105.52
3"	103.50	129.12	157.06	187.66
4"	168.20	197.36	240.07	286.83
6"	330.00	411.68	500.78	598.33
8"	524.15	653.88	795.40	950.34
10"	750.65	936.44	1,139.12	1,361.01
Commodity Charge ($/hcf)	$1.15	$1.15	$1.15	$1.15
Energy Surcharge ($/hcf)				
Zone 1	$0.11	$0.11	$0.11	$0.11
Zone 2	0.19	0.19	0.19	0.19
Zone 3	0.17	0.17	0.17	0.17
Zone 4	0.14	0.14	0.14	0.14
Zone 5	0.23	0.23	0.23	0.23
Zone 6	0.23	0.23	0.23	0.23
Replenishment Fee ($/hcf)	$0.09	$0.11	$0.14	$0.17
Conservation Charge ($/hcf exceeding cutoff)[(1)]	$0.35	$0.49	$0.49	$0.49

Source: The Department.

Example Monthly Water Bill Comparison

In 2015, the average monthly water consumption for a single-family residence in the Service Area was 16 hcf/month. The table below shows example monthly water bills for a customer with a 1/2-inch x 5/8-inch water meter served by the Department and using 16 hcf/month. Under current rates, the monthly bill is $35.59. Recently adopted increases are included in the table below. The average monthly water bill impact from the first rate increases, effective on October 1, 2016, is approximately $4 per month. Because the majority of the increase is in the Monthly Service Charge, the financial impact will be approximately $4 per month for most single-family residential customers, regardless of water consumption. Financial impacts will be higher than $4 per month for customers with higher water use (over 32 hcf/month) that pay the Conservation Charge.

The following table shows that the Department's monthly water bill for the average residential customer is lower than certain neighboring agencies, even after the approved water rate increases of 9.5%, 9.5% and 9.5%, respectively, effective October 1, 2016, July 1, 2017 and July 1, 2018. It is important to

note that most of the neighboring water systems have either adopted rate increases that will take effect in the future, or are currently reviewing their water rates.

Table 8
City of San Bernardino Municipal Water Department
Monthly Single-Family Residential Bill Comparison[(1)]

Utility	Monthly Bill	Consumption hcf/month	Notes
The Department	$35.59	16	Average of six elevation charge zones
	39.11	16	As above, effective 10/1/16
	43.07	16	As above, effective 7/1/17
	47.36	16	As above, effective 7/1/18
Fontana Water Company	65.33	16	Not including any potential drought surcharges
Cucamonga Valley Water District	54.93	16	Includes Stage 6 Drought Surcharge; increases to $66.28 by 7/1/18
East Valley Water District	53.53	16	Increased to $59.49 effective 7/1/16 (indoor allocation ~10 hcf/month)
Rialto	50.78	16	Increases to $51.55 on 1/1/17
Colton	42.46	16	
Redlands	36.06	16	Increases to $44.25 by 7/1/18
Riverside	33.24	16	Average of summer and winter rates; currently reviewing water rates

(1) For the Department, the monthly bill is on a customer with a 5/8-inch water meter using 16 hcf/month, paying the average of the six elevation charges. For other jurisdictions, the monthly charge for a 3/4-inch water meter was used if no monthly charge for a 5/8-inch water meter exists or, as is the case of EVWD, single-family residential customers typically have 3/4-inch meters. Note that Fontana Water Company's monthly bill does not include any potential drought surcharges, but Cucamonga Valley Water District's (CVWD) monthly bill includes the Stage 6 Drought Surcharge. If this drought stage declaration is lifted by CVWD, the monthly bill will decrease from what is shown in this table.

Source: The Department.

As a further comparison, in 2013, the average consumption for a single-family residence was 21 hcf/month. The current monthly water bill for a customer using 21 hcf/month is $42.69.

Comparisons with other jurisdictions can be useful, but they do not in themselves explain why utility rates are set at the levels they are. Each utility is unique and has its own set of circumstances that influence rate setting. In particular, the following are not apparent from a monthly bill comparison: (i) age of infrastructure and needed capital investments in order to maintain service and comply with regulatory mandates; (ii) the condition of the infrastructure and the extent to which a utility chooses to invest in repairs and replacements to its infrastructure; (iii) whether a utility is currently deferring capital investment and whether large capital expenditures loom in the future; (iv) how efficient a utility is in providing service; and (v) whether rate increases are currently deferred or anticipated.

Billing and Collection Procedures

Water rates and service charges to City utility customers are collected on a combined municipal utility bill that also includes sewer charges and storm drain fees. Bills are distributed on a bi-monthly basis for most customers and on a monthly basis for higher consumption residential, commercial and industrial customers. Accounts are deemed delinquent and eligible for disconnect at 45 days following the billing cycle. The Department operates to minimize and prevent delinquencies in customer payment of accounts. Current Department procedures include a required minimum of a 2-month average bill security deposit for customers who do not pass a set credit check, a reassessment of deposit and an

additional deposit (equivalent to a 3-month average bill, or the maximum allowed by law, whichever is greater) upon disconnection of service for non-payment, limited time given for payment extensions, the grant of extensions to Customer of Record only, scheduling delinquent accounts for disconnection as soon as the account is eligible for disconnection, and placing property liens on owner accounts unpaid balances, or upon receiving a notice of foreclosure. In the case of closed accounts, current Department procedures include sending accounts to a collection agency promptly after 60 days in order to procure payment on unpaid balances and, in the more extreme cases, by utilizing the California Interagency Intercept Collection (IIC) Program facilitated by the Franchise Tax Board that intercepts (offsets) income tax refunds when individuals have delinquent debts owed to government agencies and California colleges. Failure to receive a bill does not relieve a consumer of liability for payment. Unpaid bills shall be considered a debt to the City. Any person, firm or corporation failing or refusing to pay said indebtedness shall be liable to an action on the part of the City, for the collection of all unpaid charges.

The following table sets forth information related to accounts receivable and number of shut-offs.

Table 9
City of San Bernardino Municipal Water Department
Water Customer Accounts Receivable and Shut-Offs By Fiscal Year
Fiscal Years 2010-11 through 2014-15
(Unaudited)

	2010-11	2011-12	2012-13	2013-14	2014-15
Number of Accounts	43,338	43,411	43,582	43,764	44,582
Water Revenue[(1)]	$33,027,707	$37,106,217	$37,868,846	$36,671,903	$33,121,128
Accounts Receivable[(2)]	$5,681,248	$6,612,142	$7,041,416	$7,627,361	$6,365,070
Accounts Receivable Over 120 Days[(2)]	$226,648	$217,147	$194,994	$156,940	$148,998
% of Total Water Revenues[(3)]	0.6%	0.5%	0.5%	0.4%	0.4%
Number of Shut-Offs[(4)]	4,505	4,802	4,834	4,241	4,141

(1) Audited. As described herein, total operating revenues of the Water Enterprise consist of rate revenues, other charges for service, and other operating revenues.
(2) Amounts are as of June 30 and represent the receivable portion of billed customer accounts as of the end of each Fiscal Year.
(3) Percentage of Accounts Receivable over 120 days as compared to Total Water Revenues.
(4) Shut-Offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year.
Sources: The Department's Comprehensive Annual Financial Reports for the indicated Fiscal Years 2010-11 through 2014-15 with respect to "Water Revenue." The Department, for all other line items.

Basis of Budget and Accounting

The Department reports its activities as enterprise funds, which are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Department is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. Operating revenues and expenses are recognized on the accrual basis. Operating revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred, regardless of when the related revenues are received.

The Department's Water Utility Enterprise Fund (the Water Fund herein) is used to account for the operations of the Water Enterprise and related revenues and expenses. The budget process generally follows this outline.

July-August	Planning: Evaluate previous budget year processes; Discuss improvements; Plan for necessary process revisions;
September-December	Preparation: Create calendar with budget process deadlines; Create salary assumptions memo including CPI, CalPERS, and estimated merit increases; Update section organization charts and personnel worksheets with current personnel; Populate prior year actual expenses, current budget, and projected expenses;
January-February	Focus: Distribute budget packets; Staff to update current year projections and proposed budget amounts; Review proposed capital projects;
March-May	Assembly and Workshops: Return completed worksheets by calendar deadlines; Compile and audit submitted budget information; Division director's review; Make adjustments and recommendations; General Manager review of completed budget with staff;
June	Final Step: Presentation to the Board; Discussion, adoption, and execution of approved budget.

The Department has an established policy to allow for amendments to its operating and capital improvement budgets to accommodate the acceptance of federal, state, or local grants, revisions to currently funded programs or other revisions as approved by the General Manager and/or the Board.

Capital improvement amendments for projects previously approved by the Board may be approved by the General Manager provided they do not increase the overall capital budget for the Water Enterprise. In the event the priority of an optional project rises to a level requiring funding, the General Manager has authority to reallocate its funds from another project within the same funding group.

Table 12 sets forth a summary statement of the amended Water Fund budgets for Water Fund Budget Fiscal Years 2014-15 through 2016-17, actual results for Fiscal Year 2014-15 and projected results for Fiscal Year 2015-16. The Department's Water Fund budget for Fiscal Year 2016-17 was adopted on June 21, 2016.

Investment of Funds

In order to provide for the safety of the liquid assets within the Water Fund, the Department has established a bank account and investment portfolio within the City treasury as required by the City Charter. Representatives of the City Treasurer's office and the Department are signatories to these accounts. The City Charter specifically grants to the Board the power to control and order the expenditure of these funds and limits the withdrawal of these funds for the payment of demands authenticated by the Board. See Note 3 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

As provided in the Installment Purchase Agreement, all moneys held by the City in the Water Fund shall be invested in Qualified Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided therein. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – INSTALLMENT PURCHASE AGREEMENT."

Reserve Policy; Water Fund

The Department's financial plan for the Water Enterprise includes the establishment of reserve funds in accordance with the Department's adopted Reserve Policy. Reserve funds are established to ensure financial stability and to have sufficient funding available to meet the operating, capital and debt service cost obligations of the Water Fund. With respect to the Water Fund, the Department has committed to the following funds in its Reserve Policy, adopted by the Board in February 2013.

- *Operating Reserve*: The purpose of this reserve is to ensure adequate cash flow is available to meet day-to-day expenses. Funding is derived from Current Revenues and budget transfers. The target balance is 45 days of the operating expenses budgeted for the Water Fund. As of June 30, 2016, $3,932,274 was on deposit in this reserve, which is approximately 12.3% of budgeted operating expenses under the Department's Water Fund budget for Fiscal Year 2016-17.

- *Rate Stabilization Reserve*: The purpose of this reserve is to offset revenue risk associated with low service demand years. Should revenues not be sufficient to fund expenses, this reserve normalizes revenues without the need to immediately increase rates. Should Current Revenues exceed expenses, this reserve is replenished. Staff will identify cost reduction areas to reduce expenses before use of this reserve. Funding is derived from Current Revenues or transfers from other reserves of the Water Fund as authorized by the Board. The minimum target balance for this reserve is 20% of budgeted water sales. As of June 30, 2016, $5,516,992 was on deposit in this reserve. Upon the delivery of the 2016 Bonds, the City will transfer such amount to the Water Rate Stabilization Fund established under the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Water Rate Stabilization Fund."

- *Emergency Replacement Reserve:* The purpose of this reserve is to minimize the impact of unforeseen capital asset and operating expenses. Use of these funds is limited to significant capital asset acquisitions, repairs and improvements, and emergency operating costs. The target balance for this reserve is 2% of the total recorded value of capital assets of the Water Enterprise as of the previous Fiscal Year. The Board will have authority over the use of these funds. In the event of an emergency, the General Manager will have authority to access this reserve but is required to report the emergency expenditures to the Board at the next regularly scheduled meeting of the Board following the emergency event. As of June 30, 2016, $2,140,985 was on deposit in this reserve.

- *Capital Replacement Reserve*: The purpose of this reserve is to provide funding in support of the capital program for the Water Enterprise. Funding originates from Current Revenues, acquisition fees, capacity fees, and excess revenues in years of above normal water use, provided other reserve funds are not impaired. The target balance of this reserve is assessed on an annual basis as part of the budgeting process to adjust for emerging capital needs. The use of these funds is approved as part of the annual budgeting process. The Board may also authorize transfers and use of these funds on an as-needed basis. As of June 30, 2016, $9,407,997 was on deposit in this this reserve. The Adopted Fiscal Year 2016-17 Budget includes the expenditure of $4,829,506 and targets $13,987,120 for deposit in this reserve.

From time to time, the Department may have other externally restricted reserves, such as the Common Reserve Account for the 2016 Bonds, funded according to the agreements imposing said

restrictions. No amounts set aside for these restricted reserves shall be available for designation to other reserves, and amounts shall be used only in accordance with their permitted use.

Capital Improvement Plan

The Department completed the City of San Bernardino Water Facilities Master Plan (the "Master Plan") to develop the Water Enterprise CIP which will serve as the basis for a long term financial plan. The last Water Enterprise Master Plan was completed in June 2015, approved administratively as part of the Board's budget determinations and serves as the current planning document for the Department. The next Enterprise Master Plan will be completed in 2020.

The Water Enterprise CIP is established to address current and future system needs in a cost effective manner. Components of the current Water Enterprise Master Plan have been adopted into the current Water Enterprise CIP. The Department continues to concentrate on retrofitting and upgrading existing facilities to current design standards and Uniform Building Codes, as well as replace aging pipelines, wells and plant facilities. To finance the Master Plan, the Department's independent water rate consultant recommended that the Board adopt an annual 10% rate increase in Fiscal Year 2015-16 and in each of the four subsequent Fiscal Years. Proceedings for the rate increases were delayed, and the Board approved the recommended rate increases on September 20, 2016, with rates substantially impacting Fiscal Years 2016-17 and thereafter.

The following table shows categories of projects with the estimated cost of expenditures contained in the Water Enterprise CIP for the period of Fiscal Years 2016-17 through 2020-21. Final Water Enterprise CIP project costs will be refined as the Water Enterprise CIP progresses. The budget for each project and program is established and approved by the Board. See "Basis of Budget and Accounting" above.

Table 10
City of San Bernardino Municipal Water Department
Projected Water Enterprise Capital Improvements[(1)]

Capital Expenditure Category	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Total
Replace/Rehab. Assets	$ 6,006,000	$ 5,792,000	$ 9,629,000	$ 6,017,000	$ 2,271,000	$29,715,000
New System Assets	651,000	412,000	4,305,000	429,000	6,541,000	12,338,000
Generators	306,000	313,000	319,000	326,000	--	1,264,000
Rolling Stock	148,000	344,000	--	--	--	492,000
Pipeline Construction Crew	511,000	521,000	532,000	543,000	555,000	2,662,000
Capital Outlay	1,428,000	1,458,000	1,488,000	1,519,000	1,552,000	7,445,000
Total	$9,050,000	$8,840,000	$16,273,000	$8,834,000	$10,919,000	$53,916,000

(1) Excludes projects expected to be funded with proceeds of the 2016 Bonds (see "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS") and projects and amounts to be funded by non-Department agencies or developers. Capital Expenditures projected include inflation adjusted dollars at an inflation rate of 2.1% per year.
Source: The Department.

The majority of projected capital expenditures are either the replacement or rehabilitation of existing assets, or construction of new system assets. The Department also plans to replace eight of its portable generators by Fiscal Year 2019-20. Rolling stock expenditures for vehicles are also projected, as is the implementation of a pipeline construction crew to complete pipeline construction projects in-house.

Not included in the Water Enterprise CIP projections are Department projects that are funded by outside agencies or that are funded by developers, since these capital projects are not expected to affect water rates.

Anticipated Additional Obligations; Financing Plan for the Water Enterprise CIP

The Water Enterprise CIP includes the costs described in Table 10 above. The Department expects to cover the substantial portion of the current Water Enterprise CIP with pay-go funding. Additional obligations to finance Water Enterprise CIP expenditures are expected to include federal and State grants, and additional loans from CIEDB, the SWRCB, and other direct loans, the payments with respect to which are expected to be on parity in right of payment to the City's obligation to make 2016 Purchase Payments. Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with the City's obligation to make 2016 Purchase Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS – Issuance of Additional Obligations Under the Installment Purchase Agreement."

[The Department currently anticipates that debt proceeds would fund approximately __% of the estimated capital project costs through Fiscal Year 2020-21. The remaining portion of the current Sewer Enterprise CIP is expected to be funded with federal and State grants (approximately ___%) and pay-go funding (approximately ___%). Pursuant to the Installment Purchase Agreement, the City may incur additional Obligations, payments with respect to which will be on parity with the City's obligation to make 2016 Purchase Payments, subject to satisfaction of the conditions specified in the Installment Purchase Agreement.]

Environmental Compliance

The projects contained in the Water Enterprise CIP are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) ("CEQA"). Under CEQA, a project which may have a significant effect on the environment and which is to be carried out or approved by a public agency must comply with a comprehensive environmental review process.

As part of its regular planning and budgetary process, the City prepares separate environmental documents for each Water Enterprise CIP project and evaluates the project under the City's environmental impact review procedures, which were developed in compliance with federal and State laws and local regulations. The Department performs and completes CEQA review and analysis for Water Enterprise CIP projects as and when required.

The Water Enterprise CIP involves replacement, upgrading and increasing capacity of existing facilities. There are no current or anticipated environmental considerations that would adversely affect the completion of the Water Enterprise CIP within the contemplated budget or current timeline.

Historic Operating Results

The Water Enterprise's principal source of revenues is water rates and service charges to City residents and non-residential customers as shown below. Operating revenues of the Water Enterprise consist of rate revenues, other charges for service, and other operating revenues. The following table sets forth the Water Fund's statements of revenues, expenses, and changes in fund net position for Fiscal Years 2011-12 through 2014-15, excerpted from the Department's audited financial statements, and Fiscal Year 2015-16, unaudited. The Department's revenue base includes certain operating revenues that are not rate related, and collections of charges for services include amounts that are not based only on water rates.

Table 11
City of San Bernardino Municipal Water Department
Statements of Revenues, Expenses, and Changes in Fund Net Position
For the Water Fund
Fiscal Years 2011-12 through 2014-15 Audited and 2015-16 Unaudited

	2011-12	2012-13	2013-14	2014-15	2015-16	
OPERATING REVENUES:						
Charges for Services[1][2]	$ 34,562,985	$ 35,427,095	$ 35,968,790	$ 32,334,810	$ 29,749,000	
Other Operating Revenues[2]	2,543,232	2,441,751	703,113	786,318	561,800	
TOTAL OPERATING REVENUES	**37,106,217**	**37,868,846**	**36,671,903**	**33,121,128**	**30,310,800**	
OPERATING EXPENSES:						
Administration and Customer Service	8,610,535	8,982,227	6,485,280	6,575,895	6,385,136	
Utility Administration	621,410	586,381	622,403	653,209	592,527	
Water Conservation					249,383	
Plant Operations	8,663,046	7,089,520	6,960,724	7,813,911	7,364,053	
Maintenance	1,628,764	1,888,236	1,837,556	1,988,719	1,913,763	
Environmental Control	--	--	--	--	--	
Distribution	4,296,461	3,983,818	4,434,581	4,653,106	4,533,345	
Engineering and Water Quality Control	2,492,056	2,813,459	2,426,717	2,439,170	2,288,361	
General, Administration and Overhead	7,072,885	6,581,180	7,302,717	6,015,448	6,747,124	
Depreciation and Amortization	5,770,673	5,505,403	5,971,638	5,365,124	5,639,112	
TOTAL OPERATING EXPENSES	**39,155,830**	**37,430,224**	**36,041,616**	**35,504,582**	**35,712,804**	
OPERATING INCOME (LOSS)	(2,049,613)	438,622	630,287	(2,383,454)	(5,402,004)	(3)
NONOPERATING REVENUES (EXPENSES):						
Investment Income	219,027	(79,281)	93,428	54,786	43,497	
Rental Income	133,400	122,826	160,089	181,809	147,103	
Noncapital Grant Funds[4]	1,838,223	3,110,201	2,030,066	2,089,637	2,115,315	
Gain (Loss) on Asset Disposition	(268,953)	(261,946)	4,446	--	40,000	
Interest Expense and Fiscal Charges	(526,915)	(610,384)	(261,836)	(169,119)	(170,000)	
Other	1,041,667	211,032	478,512	545,840	440,000	
TOTAL NON OPERATING REVENUES (EXPENSES)	**2,436,449**	**2,492,448**	**2,504,705**	**2,702,953**	**2,615,915**	
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	386,836	2,931,070	3,134,992	319,499	(2,786,089)	(2) 3
CAPITAL CONTRIBUTIONS:						
Acquisition Fees[5]	1,067,580	1,228,400	1,069,145	1,631,678	361,030	
Capacity Fees[5]	1,180,163	1,531,623	5,191,617	2,187,090	2,273,727	
EPA Grants	136,967	661,498	260,839	86,336	10,000	
Other Capital Restricted Fees	--	--	--	--	--	
TOTAL CAPITAL CONTRIBUTIONS	**2,384,710**	**3,421,521**	**6,521,601**	**3,905,104**	**2,644,757**	
CHANGE IN NET POSITION	2,771,546	6,352,591	9,656,593	4,224,603	(141,332)	
Net Position, Beginning of year	154,850,957	161,762,619	168,892,031	175,525,354	151,810,301	
Prior Period Adjustment (See Note 15)[6]	(4,140,116)	(776,821)	(3,023,270)	(27,939,656)	--	
Net Position, End of Year	**$161,762,619**	**$168,892,031**	**$175,525,354**	**$151,810,301**	**$151,668,979**	

(1) Water rate revenues.
(2) Fees and charges for water sales and service.
(3) The 2014-15 and projected Fiscal Year 2015-16 revenues are less than previous amounts because water consumption patterns have changed as a result of conservation. Such results were considered as part of the Department's recent rate study, and among current rate adjustments is a gradual increase in fixed rate components.
(4) Represents the application of funds the use of which is governed by the Consent Decree. The use of funds is restricted, and such funds are not included in Net Revenues. Such Noncapital Grant Funds are excluded from Revenues because they represent reimbursements related to Consent Decree.
(5) Acquisition Fees and Capacity Fees are charges on new, additional, or larger connections to the Water Enterprise.
(6) During the year the Department implemented GASB 68 resulting in recording a net pension liability and deferred outflow of resources as a prior period adjustment. See Note 15 in Appendix B.

Source: The Department's Comprehensive Annual Financial Reports for Fiscal Years 2011-12 through 2014-15. The Department for Fiscal Year 2015-16 (unaudited). For Fiscal Year 2014-15 see APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015." This statement is a summary statement only. The complete Comprehensive Annual Financial Report of the Department, including the Notes to the Financial Statements therein, is an integral part of this statement.

Accompanying the Independent Auditor's Report in Appendix B is the Departments' Management Discussion and Analysis, which is not audited, but is supplementary information required by the Government Accounting Standards Board. The Management Discussion and Analysis presents a summary and overview of the Department's financial condition. Such Management Discussion and Analysis should be reviewed in conjunction with the information presented below to obtain an understanding of the Department's financial condition. See, also, "Management's Discussion and Analysis" below.

Table 12 below shows the Water Fund budgets for Fiscal Years 2014-15 through 2016-17, actual results for Fiscal Year 2014-15 and projected results for Fiscal Year 2015-16. In each year shown, the original budget was developed before the Department would appreciate the full impact of the water conservation mandates. In each year, the Department controlled spending and delayed some hiring because of expected drops in revenue.

Table 12
City of San Bernardino Municipal Water Department
Water Fund Budget Fiscal Years 2014-15 through 2016-17,
Actual Results for Fiscal Year 2014-15 and Projected Results for Fiscal Year 2015-16

	2014-15 Budget (Amended)	2014-15 Actual	2015-16 Budget (Amended)	2015-16 Projected Actual	2016-17 Budget (Original)
OPERATING REVENUES:					
Charges for Services[1][3]	$32,900,000	$32,334,810	$32,046,200	$29,749,000	$31,652,459
Other Operating Revenues[2]	1,973,000	786,318	1,981,950	561,800	1,991,080
TOTAL OPERATING REVENUES	**34,873,000**	**33,121,128**	**34,028,150**	**30,310,800**	**33,643,539**
OPERATING EXPENSES:					
Administration and Customer Service	7,348,533	6,575,895	7,860,765	6,385,136	7,523,459
Utility Administration	634,800	653,209	608,904	592,527	588,558
Water Conservation	191,000	--	290,898	249,383	294,326
Plant Operations	6,162,300	7,813,911	7,150,959	7,364,053	7,979,386
Maintenance	2,601,620	1,988,719	2,427,567	1,913,763	2,421,233
Environmental Control	--	--	--	--	--
Distribution	4,818,000	4,653,106	4,998,992	4,533,345	4,918,019
Engineering and Water Quality Control	2,707,368	2,439,170	2,651,524	2,288,361	2,544,128
General, Administration and Overhead	7,867,700	6,015,448	6,155,500	6,747,124	6,671,200
Depreciation and Amortization	5,800,000	5,365,124	5,800,000	5,639,112	5,800,000
TOTAL OPERATING EXPENSES	**38,131,321**	**35,504,582**	**37,945,109**	**35,712,804**	**38,740,309**
OPERATING INCOME (LOSS)	(3,258,321)	(2,383,454)	(1,481,959)	(5,402,004)	(5,096,770)
NONOPERATING REVENUES (EXPENSES):					
Investment Income	44,000	54,786	44,000	43,497	44,000
Rental Income	150,000	181,809	150,000	147,103	150,000
Noncapital Grant Funds[4]	1,500,000	2,089,637	1,500,000	2,115,315	1,500,000
Gain (Loss) on Asset Disposition	--	--	--	40,000	--
Interest Expense and Fiscal Charges	(691,282)	(169,119)	(645,434)	(170,000)	(598,272)
Other	240,000	545,840	190,000	440,000	190,000
TOTAL NON OPERATING REVENUES (EXPENSES)	**1,242,718**	**2,702,953**	**1,238,566**	**2,615,915**	**1,285,728**
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,015,603)	319,499	(243,393)	(2,786,089)	(3,811,042)
CAPITAL CONTRIBUTIONS:					
Acquisition Fees[5]	1,200,000	1,631,678	1,200,000	1,631,678	600,000
Capacity Fees[5]	500,000	2,187,090	500,000	2,187,090	500,000
EPA Grants	3,218,000	86,336	3,073,700	10,000	4,187,700
TOTAL CAPITAL CONTRIBUTIONS	**4,918,000**	**3,905,104**	**4,773,700**	**2,644,757**	**5,287,700**
CHANGE IN NET POSITION	2,902,397	4,224,603	4,530,307	(141,332)	1,476,658
Net Position, Beginning of year	147,585,698	147,585,698	151,810,301	151,810,301	156,340,608
Net Position, End of Year	**$150,488,095**	**$151,810,301**	**$156,340,608**	**$151,668,979**	**$157,817,266**

(1) Water rate revenues.
(2) Fees and charges for water sales and service.
(3) The 2014-15 and projected Fiscal Year 2015-16 revenues are less than previous amounts because water consumption patterns have changed as a result of conservation. Such results were considered as part of the Department's recent rate study, and among current rate adjustments is a gradual increase in fixed rate components.
(4) Represents the application of funds the use of which is governed by the Consent Decree, not included in Revenues. Such Noncapital Grant Funds are excluded from Revenues because they represent reimbursements related to Consent Decree.
(5) Acquisition Fees and Capacity Fees are charges on new, additional, or larger connections to the Water Enterprise.
Source: The Department.

The following table shows the operating revenues and expenses and debt service coverage of the Water Fund for Fiscal Years 2011-12 through 2014-15.

Table 13
City of San Bernardino Municipal Water Department
Calculation of Historic Debt Service Coverage – Water Fund
Fiscal Years 2011-12 through 2014-15
(Unaudited)

Fiscal Year Ended June 30	Total Operating Revenue[1]	Net Operating Expenses (Excluding Depreciation and Amortization)	Net Operating Income (Loss)	Net Non-Operating Income/ (Expense) [2]	Amount Available for Debt Service	Debt Service[3]			Coverage Ratio
						Principal	Interest	Total Debt Service	
2012	$37,106,217	$33,385,157	$3,721,060	$2,436,449	$6,157,509	$ 974,027	$505,819	$1,479,846	4.16
2013	37,868,846	31,924,821	5,944,025	2,492,448	8,436,473	1,227,491	547,616	1,775,107	4.75
2014	36,671,903	30,069,978	6,601,925	2,504,705	9,106,630	1,658,265	660,854	2,319,119	3.93
2015	33,121,128	30,139,458	2,981,670	2,702,953	5,684,623	1,683,818	187,153	1,870,971	3.04

(1) The Department's revenue base includes certain operating revenues that are not rate related, and collections of charges for services include amounts that are not based only on water rates.
(2) Consists principally of rental income and interest revenue.
(3) Includes the CIEDB Debt to be refunded and the Valley District Note.
Source: Statistical Section (Unaudited) of the Department's Comprehensive Annual Financial Reports for Fiscal Years 2011-12 through 2014-15.

Financial Projections

Table 14 below sets forth the Department's projected Revenues, Maintenance and Operation Costs, Net Revenues, debt service and debt service coverage of the Water Enterprise for the Fiscal Years 2016-17 through 2020-21 and includes the approved water rate increases of 9.5%, 9.5% and 9.5%, respectively, effective October 1, 2016, July 1, 2017 and July 1, 2018. The projections are based on the assumptions described in the footnotes to the table.

The financial forecast represents the Department's estimate of projected financial results based upon its judgment of the probable occurrence of future events. The assumptions set forth in the previous paragraphs and in the footnotes to Table 14 are material in the development of the Department's financial projections, and variations in the assumptions may produce substantially different financial results. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material.

The Department has determined the following factors to be relevant to its projections and assumptions with respect to water rates and revenue:

- *State drought regulations*. State emergency drought regulations are continually being reviewed and adjusted. Future adjustments in the regulations may affect water consumption. See "THE WATER ENTERPRISE - Recent City Actions in Response to Drought Conditions."

- *Water consumption patterns*. Financial projections are based on 2015 water consumption patterns. Changes in water consumption patterns will affect revenues. If water use increases in the future, water revenues may be higher than what is projected.

- *Customer growth*. Financial projections assume 1.0% annual customer growth through Fiscal Year 2020-21. Customer growth increases the size of the customer base and growth rates exceeding 1.0% per year will result in higher connection fee revenue and rate revenues. Conversely, customer growth less than 1.0% per year could result in lower revenues than projected in this report.

- *Changes in regional water supply availability and pricing*. The Replenishment Fee projection incorporates anticipated increases in the cost of supplemental water purchases and assumes that supplemental water deliveries are available.

- *Capital project cost certainty*. The Water Enterprise CIP contains estimates of future project costs. The actual costs will not be known until the projects are designed, bid, and built.

- *Inflation rates*. The projected rates are based on a 2.1% annual inflation rate. Changes in inflation rates will have financial implications.

- *Interest rates*. Interest rates that differ from assumptions will have financial implications. The interest rate assumption in these projections is 1% based on recent historical and projected performance.

Table 14
City of San Bernardino Municipal Water Department
Projected Net Revenues and Debt Service Coverage
Fiscal Years 2016-17 through 2020-21

DESCRIPTION	Fiscal Year 2016-17 Projected	Fiscal Year 2017-18 Projected	Fiscal Year 2018-19 Projected	Fiscal Year 2019-20 Projected	Fiscal Year 2020-21 Projected
Enterprise Revenues[1]					
Operating Revenues[2]	$32,584,110	$36,676,068	$37,042,829	$38,894,970	$40,839,719
Interest Income on Operating Funds	44,000	45,000	50,000	50,000	50,000
Other Non-Operating Revenues	340,000	350,000	350,000	350,000	350,000
Capacity Charge Revenue[3]	1,100,000	1,800,000	2,000,000	2,000,000	2,000,000
Total Enterprise Revenues	$34,068,110	$38,871,068	$39,442,829	$41,294,970	$43,239,719
Total Operation and Maintenance Costs[4]	$31,601,566	$30,718,135	$32,248,834	$33,687,522	$34,451,888
Net Revenues	$2,466,544	$8,152,933	$7,193,995	$7,607,448	$8,787,831
Debt Service[5]	$600,000	$3,000,000	$3,000,000	$3,000,000	$3,000,000
Debt Service Coverage[5]	4.11x	2.72x	2.40x	2.54x	2.93x

(1) Revenues include: operating revenues, investment income, rental income, "other non-operating revenue", and capacity charges and does not include Noncapital Grant Funds for the Consent Decree.
(2) Assumes the approved water rate increases of 9.5%, 9.5% and 9.5%, respectively, effective October 1, 2016, July 1, 2017 and July 1, 2018.
(3) Acquisition Fees and Capacity Fees.
(4) Calculated in accordance with the Installment Purchase Agreement. Operation and Maintenance Costs exclude depreciation and amortization and amounts paid from any proceeds of the Consent Decree. Water Enterprise Expenses otherwise include the Operating and Maintenance costs described herein. The Department expects for the next three years to make similar contributions to fund the ARC as described below under the caption "Other Post-Employment Healthcare Benefits."
(5) Assumes debt service on the 2016 Bonds. Preliminary, subject to change.
Source: The Department.

Management's Discussion and Analysis

Throughout the current multi-year drought, the Department has been actively pursuing water conservation goals and has met all material goals and restrictions advanced by the State. As a result of these restrictions, water consumption in Fiscal Year 2014-15 decreased 11% from the prior year with an attendant decline in revenues. The current conservation goal is 15%. See "THE WATER ENTERPRISE - Recent City Actions in Response to Drought Conditions." The Department completed a water rate study, and on September 20, 2016 the Board approved water rate increases of 9.5%, 9.5% and 9.5%, respectively, effective October 1, 2016, July 1, 2017 and July 1, 2018, with rates substantially impacting Fiscal Years 2016-17 and thereafter. The Department last implemented a three-phase water rate adjustment in January 2012.

Operating revenues projected for Fiscal Year 2015-16 are anticipated to be less than projected in the Fiscal Year 2015-16 adopted budget, in response to the decrease of revenue due to conservation efforts. Budgetary information shown in this Official Statement was developed before the Department would appreciate the full impact of the water conservation mandates. In each year, the Department controlled spending and delayed some hiring because of expected drops in revenue. The Fiscal Year 2015-16 revenue estimates include adjustments for the approved rate increase as well as an expected decrease in consumption due to drought-related conservation measures. Operating expenses for Fiscal Year 2015-16 reflect a 3% decrease from the prior year expenses.

During the past three years, the expenses of the Water Enterprise related to the cost of water production have been reduced, despite an increase in customers over the same time frame. Production increased from 2011 to 2012, but decreased each year from 2012 to 2014. In 2012, total production was 50,843 acre feet but fell to 33,505 per acre feet in 2015. Production through June of 2016 is 15,800 acre feet.

The Service Area's local economy has been affected by the recent recession, both to a greater extent and for a longer period than surrounding cities. This has affected the Department as increased residential and commercial vacancies have led to a changes in the customer base. However, as the local real estate and employment markets improve, this customer base should begin to recover. The City's unemployment rate is currently 6.6%, down from 7.8% in the prior year. Local economists also project continued improvement in the labor market and are forecasting that the region's unemployment rate will drop to 6.1% by the end of 2020. The economic outlook for the Department looks promising, as the economy is improving regionally which will translate into improved economic conditions for Department customers within the Service Area.

Outstanding Indebtedness

As of the date of issuance of the 2016 Bonds, the only long-term indebtedness secured by Net Revenues will be the 2016 Bonds. The Department's outstanding debt payable from revenues of the Water Fund as of August 1, 2016 consists of the three California Infrastructure and Economic Development Bank ("CIEDB") Notes to be prepaid in full with a portion of the net proceeds of the 2016 Bonds and a $246,699 loan repayment due to the Valley District. The Note, which is payable from Net Revenues, matures in July 2018 with final aggregate principal and interest payments of $247,937. These obligations are summarized in the table below:

Table 15
City of San Bernardino Municipal Water Department
Water Fund Long-Term Outstanding Debt

Year of Issuance/Description	Use of Proceeds
$4,007,580 outstanding amount 2002 CIEDB Note(1)	Funding for transmission mains, booster Stations and a reservoir.
$5,880,483 outstanding amount 2007 CIEDB Note(1)	Funding for booster stations and transmission mains in the Verdemont area.
$8,281,110 outstanding amount 2012 CIEDB Note(1)	Funding for the construction of the 12 million gallon Ogden Reservoir and pipeline improvements.
$246,699 outstanding amount 2012 Valley District Note(2)	Funding for the purchase of real property.

(1) To be prepaid in full with a portion of the net proceeds of the 2016 Bonds. Amounts shown do not reflect such prepayment. See "PLAN OF FINANCE."
(2) The Note matures in July 2018 with final aggregate principal and interest payments of $247,937.
Source: The Department.

See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

The City has no general obligation bonds outstanding with respect to the Water Fund, no plans for such indebtedness, and no plans to obtain authorization from the voters to issue such indebtedness.

Employees' Retirement Benefits

General. The City contributes to the State of California Public Employees' Retirement System ("CalPERS"), which acts as a common investment and administrative agent for cities in the State. CalPERS provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and the terms of current memoranda or agreements with City employee associations. Copies of CalPERS annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA, 95814 or on their website: www.calpers.ca.gov. The information on such website is not incorporated herein by such reference or otherwise.

The Department is part of the City's CalPERS Miscellaneous Plan, therefore all related information included in this Official Statement and in Note 7 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015" refers to the City as a whole unless specifically indicated otherwise. The Department is obligated to contribute amounts necessary to provide for normal and unfunded liability allocated to the Water Enterprise's portion of the City's required contribution to the Miscellaneous Plan as determined by CalPERS actuaries.

The defined pension benefit is payable monthly for life, in an amount that varies.

Two types of contributions for covered employees under the CalPERS Miscellaneous Plan. The first contribution represents the amount the City is required to make (the employer rate). The second represents an amount, which is made by the employee (the member rate). The employer rate is an actuarially established rate, is set by CalPERS, and changes from year to year. The Department has partnered with its employees to manage the costs of pensions, and Department employees have for several years by agreement contributed to the member rate.

The Governor, in September 2012, signed Assembly Bill No. 340 ("AB 340") and Assembly Bill No. 197 ("AB 197"), which enacted the California Public Employees' Pension Reform Act of 2013 ("PEPRA"). AB 340 (1) increases the retirement age for new State, school, and city and local agency employees depending on job function, (ii) caps the annual CalPERS pension benefit payout, (iii) addresses numerous abuses of the system, and (iv) requires State, school, and certain city and local agency employees to pay at least half of the costs of their CalPERS pension benefits. PEPRA applies to all public employers except the University of California, charter cities and charter counties (except to the extent they contract with CalPERS). Among other things, AB 340 also enacted pension spiking reform for new and existing employees, required three-year averaging of final compensation for new employees, and provided employers with new authority to negotiate cost-sharing agreements with current employees. AB 340 also contained limitations on the use of retired annuitants, requiring that an annuitant have a six-month break in service prior to returning to work.

CalPERS predicts that the impact of AB 340 on employers, including the City, and employees will vary, based on each employer's current level of benefits. To the extent that the new formulas lower retirement benefits, employer contribution rates could decrease over time as current employees retire and employees subject to the new formulas make up a larger percentage of the workforce. This change would, in some circumstances, result in a lower retirement benefit for employees than they currently earn. Additionally, CalPERS has noted that changes arising from AB 340 could ultimately have an adverse impact on public sector recruitment in areas that have historically experienced recruitment challenges due to higher pay for similar jobs in the private sector.

The legislation created mandatory benefits tiers for new employees who have not worked for another CalPERS agency hired beginning January 1, 2013 ranging from 2.0% at age 50 to a maximum of 2.7% at age 57 for police safety and fire safety employees and 1.1% at age 50 to a maximum of 2.4% at age 62 for miscellaneous employees.

The City has implemented the PEPRA provisions. Employees pay their costs (the member rate above) of CalPERS pension benefits, as they have since 2010. The Department is currently working with its employees to partner further in cost sharing.

The latest CalPERS actuarial valuation of the City's Miscellaneous Plan is dated October 2015 with respect to the fiscal year ended June 30, 2014 (the "2014 CalPERS Report"). The Department's membership consists of the following as of June 30, 2013:

Retirees and beneficiaries receiving benefits	123
Active plan members	246
Total plan members	369

See Note 7 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

All Water Enterprise employees are members of the City's Miscellaneous Plan. The Water Fund is allocated its portion of the City's required contribution to the Miscellaneous Plan as determined by CalPERS actuaries. The Department contributed 100% of its allocated required contributions of $1,880,584, $1,514,676 and $1,710,424 to CalPERS for the fiscal years ended June 30, 2013, 2014, and 2015, respectively. The Department budgeted to make contributions of $2,258,917 for Fiscal Year 2015-16 and $2,447,481 for Fiscal Year 2016-17. See Note 7 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for information about the City's Miscellaneous Plan, its liabilities and funding.

The following table sets forth the schedule of funding progress for the City's Miscellaneous Plan as of valuations completed for June 30, 2009 through 2014.

Table 16
City of San Bernardino
Miscellaneous Plan Schedule of Funding Progress
Valuations Completed for June 30, 2009 through 2014
(Unaudited)

Valuation Date (June 30)	Actuarial Value of Assets (A)	Market Value of Assets (B)	Actuarial Accrued Liability (AAL) (C)	Funded Ratio (Market)	Unfunded Actuarial Accrued Liability (UAAL) (C) – (A)	AAL Less Market Value of Assets (C) – (B)	Covered Payroll
2009	$391,359,614	$246,644,984	$144,714,630	63.0%	($246,644,984)	($101,930,354)	$51,175,225
2010	406,903,699	274,500,317	132,403,382	67.5	(274,500,317)	(142,096,935)	50,283,620
2011	427,257,567	324,463,658	102,793,909	75.9	(324,463,658)	(221,669,749)	49,852,713
2012	446,677,440	316,290,288	130,387,152	70.8	(316,290,288)	(185,903,136)	47,801,727
2013	462,716,487	346,176,839	116,539,648	74.8	(346,176,839)	(229,637,191)	39,974,288
2014	501,077,609	391,353,584	109,724,025	78.1	(391,353,584)	(281,629,559)	41,170,684

Source: 2014 CalPERS Report.

At its April 17, 2013, meeting, CalPERS' Board of Administration (the "Board of Administration") approved a recommendation to change the CalPERS amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experience gains and losses paid for over a rolling 30-year period. After this policy change, CalPERS commenced an amortization and smoothing policy that pays for all gains and losses amortized over a 20-year period with a five-year ramp-up and five-year ramp-down period. The new amortization and smoothing policy was used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the Board of Administration approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. The Department has liabilities in connection with the City's Miscellaneous Plan only. As a result of these changes, rates are expected to increase beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in Fiscal Year 2020-21.

On November 18, 2015, the Board of Administration adopted a funding risk mitigation policy intended to incrementally lower its discount rate — its assumed rate of investment return —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. The policy establishes a mechanism to reduce the 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 discount rate, currently 7.5%, by at least four percentage points. CalPERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through CalPERS' web site at the following website address: https://www.calpers.ca.gov/page/newsroomicalpers-news/2015/adopts-funding-risk-mitigation-policy.
The reference to this website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City, the Department or the Authority and is not incorporated in this Official Statement by reference.

The table below provides a recent history of the employer contribution rates for the Miscellaneous Plan, as determined by the 2014 CalPERS Report. It does not account for prepayments or benefit changes made in the middle of the year.

Table 17
City of San Bernardino
Miscellaneous Plan Historic Contribution Rates
Fiscal Years 2011-12 Through 2016-17

Fiscal Year	Employer Normal Cost	Unfunded Rate	Total Employer Contribution Rate
2011-12	10.180%	7.068%	17.248%
2012-13	9.979	7.376	17.355
2013-14	10.608	7.578	18.186
2014-15	10.284	9.885	20.169
2015-16	10.201	14.008	24.209
2016-17	10.335	15.709	26.044

Source: 2014 CalPERS Report.

Current projections are for a total employer contribution rate of 28.4% in Fiscal Year 2017-18 increasing to 34.4% in Fiscal Year 2021-22. The estimated rate for 2017-18 is based on a projection of the most recent information available, including an estimated 2.4% investment return for Fiscal Year 2014-15. The Department expects that its employer contributions will increase materially in the future. These projected costs are included in the projections set forth in Table 14.

The projected employer contribution rates (before cost sharing) assume CalPERS earns 2.4% for fiscal year 2014-15 and 7.50% every fiscal year thereafter, and assuming that all other actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected contribution rates do not reflect that the plan's normal cost will decline over time as new employees are hired into PEPRA and other lower cost benefit tiers.

Other Post-Employment Healthcare Benefits

General. The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to all qualifying Department retirees and their spouses in accordance with current memoranda of understanding with employee associations. Department employees are eligible for retiree health benefits if they retire from the Department on or after age 50 with at least 10, 12 or 15 years of service and are eligible for a PERS pension. The latest actuarial valuation of the plan occurred June 30, 2014.

The contribution requirements of plan members and the Department are established and may be amended by the Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as may be determined annually by the Board. The Department has established an irrevocable trust to which pre-funding contributions are made. The Department pays up to the entire cost of health benefits for eligible retirees and their spouses, subject to the City's vesting schedule. OPEB is currently limited to Department employees only, and references to liabilities and contributions in this Official Statement and the Department's financial statements relate only to the Department.

The Department's OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Department's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Department's net OPEB obligation:

Actual required contribution (ARC)	$ 2,707,000
Interest on new OPEB obligation	22,032
Amortization of net OPEB obligation	(30,000)
Annual OPEB cost (expense)	2,699,032
Contributions made	2,256,321
Increase in net OPEB obligation	442,711
Net OPEB obligation - beginning of year	352,510
Net OPEB obligation - end of year	795,221

The Department's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2014-15 and the two preceding years were as follows:

Table 18
City of San Bernardino Municipal Water Department
Annual OPEB Cost Contributed
Fiscal Years 2012-13 through 2014-15

Year Ended	Annual OPEB Cost	Paid Contribution	Percentage of Annual OPEB Cost Contributed	OPEB Obligation
6/30/2013	$2,361,000	$ 573,621	24%	$1,787,379
6/30/2014	2,438,000	3,872,869	159	352,510
6/30/2015	2,699,032	2,256,321	84	795,221

Source: The Department.

See Note 8 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

The Department contributed 100% of its allocated required contributions of $1,573,000, $1,542,000, $1,494,000, and $1,546,000 to the Department's OPEB Trust for the fiscal years ended June 30, 2013, 2014, 2015, and 2016, respectively. The Department budgeted to make contributions of $1,484,000 for Fiscal Year 2016-17. For Fiscal Year 2014-15, the Department has paid OPEB annual costs of $2,256,321, and allocated remaining costs to the trust.

As of June 30, 2014, the most recent actuarial valuation date, the plan was 38.2% funded. The actuarial accrued liability for benefits was $35,012,000, the actuarial value of assets was $13,380,000 and the unfunded actuarial accrued liability ("UAAL") was $21,632,000. The covered payroll (annual payroll of active employees covered by the plan) was $15,531,000 and the ratio of the UAAL to the covered payroll was 139.3%.

In the June 30, 2014, actuarial valuation, projected OPEB costs for the Water Enterprise are $1,540,710, $1,592,580, and $1,643,880 for the fiscal years ended June 30, 2015, 2016, and 2017, respectively. These projected costs are included in the projections set forth in Table 14.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a rate of return of 6.25% and annual healthcare cost trend rates of 7.5% initially, reduced by Increments to an ultimate rate of 5% in 2021. Both rates included a 3% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015, was 19 years.

Table 19
City of San Bernardino Municipal Water Department
OPEB Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
6/30/2010	$ --	$28,676,000	$28,676,000	0.0%	$12,619,000	227.2%
6/30/2012	8,556,000	28,831,000	20,275,000	29.7	14,765,000	137.3
6/30/2014	13,380,000	35,012,000	21,632,000	38.2	15,531,000	139.3

Source: The Department.

See Note 8 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015" for additional information.

Insurance for the Water Enterprise

As provided in the Installment Purchase Agreement, the Department is required to procure and maintain or cause to be procured and maintained insurance on the Water Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water Enterprise) as are usually covered in connection with facilities similar to the Water Enterprise, so long as such insurance is available from reputable insurance companies and obtainable at a reasonable cost. The Department is further required to procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water Enterprise.

The Department maintains casualty insurance on many of the principal assets of the Water Enterprise, including, treatment plants, pump stations, reservoirs, administration buildings, garages, warehouses, concession buildings, and labs. The Department does not currently maintain property insurance for the pipelines of the Water Enterprise because such insurance is not available at commercially reasonable rates, but is insured under its liability policy for damage to property as a result of a pipe break.

The Department currently maintains earthquake insurance on buildings, plant facilities and reservoirs of the Water Enterprise; however, the Department is not obligated under the Installment Purchase Agreement to maintain earthquake insurance on the Water Enterprise, and may elect to discontinue such coverage at its discretion.

Claims and expenses attributable to the Water Enterprise are recorded in the Water Fund. In most cases, significant losses are covered by insurance for major events except workers' compensation, for which the Department retains risk of loss in conjunction with the City's risk management program for workers compensation. Settlement amounts have not exceeded insurance coverage for the current year or the prior three years. Insurance coverage has been increased over the past several years.

The following approximate aggregate liabilities of the Water Fund for the year ended June 30, 2016 was $1,464,420. See Note 11 in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

WATER ENTERPRISE REGULATORY REQUIREMENTS

General

Public water supply systems in the State such as the Water Enterprise are primarily regulated by the Division of Drinking Water under the SWRCB (the "DDW") and, in some limited instances, by the EPA, and the California Regional Water Quality Control Boards. Drinking water delivered to retail customers must comply with federal and state statutory and regulatory water quality standards designed to protect public health and safety.

As part of routine operations and maintenance activities, the Department transfers treated water between storage facilities and discharges water to the environment. These transfers and discharges are regulated under the Federal Clean Water Act through general and facility-specific National Pollutant Discharge Elimination System ("NPDES") permits and water supply permits issued by the SWRCB. Such permits contain numerical limitations, monitoring, reporting, and notification requirements for water discharges from the facilities and pipelines of the Water Enterprise.

The City is currently operating and maintaining the water treatment and transmission facilities in substantial compliance with the NPDES and water supply permit requirements.

Federal Requirements

The City's Enterprise operations are subject to the provisions of the Federal Safe Drinking Water Act (as amended, the "Safe Drinking Water Act"), which sets forth requirements relating to the protection of drinking water and its sources, including rivers, lakes, reservoirs, springs, and ground water wells, against both naturally-occurring and man-made contaminants that may be found in drinking water. The Safe Drinking Water Act is administered by the EPA, with direct oversight by the DDW and includes, among other things, primary standards for 104 chemical, microbiological, radiological, and physical contaminants in drinking water and requirements for the preparation of consumer confidence reports,

water system operator certifications, water distributions system monitoring, treatment plant monitoring and drinking water source assessments. As part of these requirements, the Department performs required sampling at scheduled intervals under EPA's Lead and Copper Rule to ensure the City's potable water meets all lead and copper standards. All analyses continue to show that the City meets all applicable federal (and State) requirements for drinking water.

The Safe Drinking Water Act also requires that every five years the EPA establish a list of contaminants that are known or anticipated to occur in public water systems and may require future regulation under the Safe Drinking Water Act. From this contaminant candidate list, the EPA identifies contaminants that are priorities for additional research and data gathering, which information is then used to determine whether or not a regulation is appropriate. This process is repeated for each list every five years. The EPA completed its latest review in 2009 and no additional primary standards were added to the regulations. The EPA is currently evaluating the risks from several additional compounds and organisms including: microbial contaminants; the byproducts of drinking water disinfection; fire retardants; radon; water systems that do not currently disinfect their water but get it from a potentially vulnerable ground water source; and issues related to water treatment and distribution system operational practices impacting distribution system water storage tanks' water quality. The City currently complies with all applicable standards and regulations of the Safe Drinking Water Act.

The EPA also establishes Secondary Drinking Water Regulations, which are non-enforceable guidelines for contaminants that may cause negative aesthetic (such as taste or odor) or cosmetic effects (such as tooth discoloration). Water systems are not required to adopt these secondary standards, but states may choose to adopt and enforce them. The State has adopted the secondary standards and the City currently meets all such standards.

State Regulations

As an operator of a large municipal water system, the City is responsible for complying with various State requirements, including CEQA, with respect to the operational requirements, design and construction standards for dams and reservoirs, distribution systems and pipelines, requirements for control of cryptosporidium and other water safety issues and training, and other requirements for certification of water treatment and distribution operators. Failure to meet these standards may subject the City to civil or criminal sanctions.

The DDW is the regulatory agency responsible for ensuring that water systems meet the federal regulations outlined above, as well as additional or stricter State regulations.

The City is currently in substantial compliance with all applicable State regulations.

Proposed Regulations

In December 2006, the EPA promulgated the Stage 2 Disinfectants and Disinfection Byproducts Rule ("Stage 2 DBPR") and the Long Term 2 Enhanced Surface Water Treatment Rule ("LT2"), which built upon prior rules to address protection of public water systems against microbial contaminants, especially cryptosporidium, and at the same time, to reduce potential health risks of disinfection byproducts. The Stage 2 DBPR requires operators of public water systems to determine if they exceed permitted disinfection byproduct concentration levels and, if so, identify actions that may be taken to mitigate future high disinfection byproduct levels.

The City submitted for, and was granted, a waiver in September of 2006 from the initial phase of the Stage 2 DBPR initial distribution system evaluation ("IDSE") based on two years of data collected

that were below half the maximum contaminant level ("MCL") for certifications for certain disinfection byproducts which occur as part of the water treatment process. The MCL is set by the EPA for drinking water quality. An MCL is the legal threshold limit on the amount of a substance that is allowed in public water systems under the Safe Drinking Water Act. In 2011, the City submitted to the DDW its final monitoring and compliance plan per the rule. The DDW accepted and approved the plan in 2012. The Department was completed all necessary requirements of the Stage 2 DBPR and expects to remain in substantial compliance based on monitoring to date.

Other new regulations, including regulations that are in effect but whose compliance are not yet mandated and regulations that are currently proposed, will continue to impact the operation of the Water Enterprise and its associated costs. Also, the costs of proposed new regulations, including rules and regulations regarding 1,2,3-TCP (a persistent pollutant in groundwater), radon, groundwater and filter backwash, are currently unknown. See "RISK FACTORS – Statutory and Regulatory Compliance."

Permits and Licenses

The Department holds a Water Supply Permit from the DDW for operation of the Water Enterprise (the "Water Supply Permit"). The City is required to apply for an amendment to its Water Supply Permit as changes occur within the Water Enterprise, including the capacity and process improvements at the water treatment plants. The Department works closely with the DDW during the design, construction and subsequent operations of all improvements that result in amendments to the Water Supply Permit to ensure amendment approval. Various other permits and licenses are required to operate the water treatment plants, water impounding system, water quality lab and distribution system. Such permit requirements address issues such as surface water treatment, disinfection and disinfection byproducts rules, regulations governing groundwater to address waterborne disease and microbial contamination, and rules on the monitoring, reporting and treatment requirements of public water systems associated with lead and copper. The Department does not anticipate any problems with continued operation of the Water Enterprise under existing and planned future permits and licenses.

Dam Licensing and Safety Issues

In 1929, the California Legislature enacted legislation providing for supervision over non-federal dams in the State. The statutes place the supervision of the safety of non-federal dams and reservoirs under the jurisdiction of the California Department of Water Resources' Division of Dam Safety ("DSOD"). Dams under jurisdiction are artificial barriers, together with appurtenant work, including outlet towers, which are twenty-five feet or more in height or have an impounding capacity of fifty AF or more. Any artificial barrier not in excess of six feet in height, regardless of storage, or that has a capacity not in excess of fifteen AF, regardless of height, is not considered jurisdictional. The Department was one covered storage reservoir, the Perris Hill Reservoir, under the jurisdiction of the DSOD.

The DSOD reviews plans and specifications for the construction of new dams or for the enlargement, alteration, repair or removal of existing dams, under applications, and must grant written approval before the owner can proceed with construction. The DSOD routinely inspects operating dams to assure that they are adequately maintained. The DSOD also conducts investigations of selected dams and directs the owners to additional investigations and detailed safety evaluations when necessary. The DSOD may impose capacity restrictions on dams that may restrict reservoir capacity.

THE AUTHORITY

The Authority was formed pursuant to the JPA Act and the JPA Agreement for the purpose of exercising to powers common to the members and exercising the additional powers granted to the

Authority by the JPA Act and any other applicable provisions of State law. Under the JPA Agreement, the Authority may issue bonds, notes or any other evidence of indebtedness, for any purpose or activity permitted under the JPA Act or any other applicable law.

None of the Authority, any Authority member or any person executing the 2016 Bonds is liable personally on the 2016 Bonds or subject to any personal liability or accountability by reason of their issuance. The 2016 Bonds are limited obligations of the Authority, payable solely from and secured by the pledge of the Project Revenues and other funds provided for in the Indenture with respect to such 2016 Bonds. Neither the Authority, its members, the State, nor any of its political subdivisions will be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the 2016 Bonds, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. The 2016 Bonds are not a pledge of the faith and credit of the Authority, its members, the State, or any of its political subdivisions, nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

The Authority will not be required to advance any moneys derived from any source other than the Project Revenues and certain other moneys and securities held by the Trustee as provided in the Indenture, whether for the payment of the principal of or interest on the 2016 Bonds or for any other purpose of the Indenture.

The Authority may sell and deliver obligations other than the 2016 Bonds. These obligations will be secured by instruments separate and apart from the Installment Purchase Agreement and the Indenture, and the holders of such other obligations of the Authority will have no claim on the security for the 2016 Bonds. Likewise, the Owners of the 2016 Bonds will have no claim on the security for such other obligations that may be issued by the Authority.

Neither the Authority nor its independent contractors has furnished, reviewed, investigated or verified the information contained in this Official Statement other than the information contained in this section and the section entitled "ABSENCE OF LITIGATION – The Authority." The Authority does not and will not in the future monitor the financial condition of the City or the Department or otherwise monitor payment of the 2016 Bonds or compliance with the documents relating thereto. Any commitment or obligation for continuing disclosure with respect to the 2016 Bonds or the City or the Department has been undertaken by the Department, on behalf of the City. See "CONTINUING DISCLOSURE" herein.

RISK FACTORS

Investment in the 2016 Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the 2016 Bonds for investment. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the 2016 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

Special Obligations

The 2016 Bonds are special obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from and secured by a pledge, charge and lien upon the Project Revenues, which consist of 2016 Purchase Payments to be made by the Department on behalf of the City under the Installment Purchase Agreement, and certain other moneys and securities held by the Trustee as provided

in the Indenture. The full faith and credit of the Authority and the City is not pledged for the payment of the principal of or interest on the 2016 Bonds. The 2016 Bonds are not payable from and secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or the City or any of its income, receipts, or revenues except the Project Revenues and such other funds as provided in the Indenture. The Authority has no other source of revenues from which to pay debt service on the 2016 Bonds. The Authority has no taxing power.

The obligation of the City to pay the 2016 Purchase Payments securing the 2016 Bonds is a special obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net Revenues under the Installment Purchase Agreement. The obligation of the City to make the 2016 Purchase Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The City is obligated under the Installment Purchase Agreement to make the 2016 Purchase Payments solely from Net Revenues payable under the Installment Purchase Agreement.

Water Enterprise Demand

There can be no assurance that the local demand for the services provided by the Water Enterprise will be maintained at levels described in this Official Statement under the heading "THE WATER ENTERPRISE." Any factor which results in a decline in the level of demand for water or other adverse changes in demographics within the boundaries of the City could cause the demand for water services to decline, from time to time, or over the term of the 2016 Bonds. 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 Installment Purchase Agreement. A significant decline in demand might create a situation in which the City could not increase Water Enterprise rates and charges sufficiently to offset the decrease in customers or usage. This would reduce the City's ability to make the 2016 Purchase Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2016 Bonds as and when due.

Throughout the current multi-year drought, the Department has been actively pursuing water conservation goals and has met all material goals and restrictions advanced by the State. As a result of these restrictions, water consumption in Fiscal Year 2014-15 decreased 11% from the prior year with an attendant decline in revenues. The current conservation goal is 15%. See "THE WATER ENTERPRISE - Recent City Actions in Response to Drought Conditions."

Further, among other factors affecting demand, water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the City's water sales. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of operating revenues that the Department receives. There can be no assurance that an entity with regulatory authority over the Water Enterprise will not adopt further restrictions on operation of the Water Enterprise.

Water Enterprise Expenses and Collections

The operation and maintenance expenditures related to the Water Enterprise are expected to increase in the next five years. See "THE WATER ENTERPRISE – Financial Projections." However, there can be no assurance that the projected future Operation and Maintenance Costs of the Water Enterprise will actually be as projected by the Department and described in this Official Statement.

Changes in technology, demographic changes, lifestyle changes and new regulatory requirements, could reduce Net Revenues and increases in the cost of energy or other expenses would reduce Net Revenues, and each could require substantial increases in rates or charges in order to comply with the rate covenant for the Water Enterprise under the Installment Purchase Agreement. Also, any such rate increases could increase the likelihood of nonpayment by purchasers of water from the City and could also decrease demand from such purchasers and may impact the City's ability to make the 2016 Purchase Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2016 Bonds as and when due.

Constitutional Limit on Fees and Charges

If a portion of the Water Enterprise rates or connection charges were determined by a court to exceed the reasonable costs of providing service, any fee which the City charges may be considered to be a "special tax," which under Article XIIIA of the California Constitution must be authorized by a two-thirds vote of the affected electorate. This limitation is applicable to the rates for service provided by the Water Enterprise. The reasonable cost of service provided by the Water Enterprise has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements, including debt service. In addition, the California courts have determined that fees such as connection fees (capacity charges) will not be special taxes if they approximate the reasonable cost of constructing enterprise improvements contemplated by the local agency imposing the fee. Such court determinations have been codified in the California Government Code (Section 66000 *et seq*.).

The City believes that the rates and use charges imposed by the Department with respect to the Water Enterprise do not exceed the costs it reasonably bears in providing such services.

Under Article XIIIB 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 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIIIB, if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

See, also "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES."

Rate-Setting Process Under Proposition 218

As described in this Official Statement, the City will covenant in the Installment Purchase Agreement to fix, prescribe and collect rates, fees, charges consistent with its rate covenant under the Installment Purchase Agreement. The City may make adjustments from time to time in such rates, fees, charges and connection fees and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates, fees, charges and connection fees will at all times be sufficient to meet the requirements of such covenant. However, Proposition 218, which added Articles XIIIC and XIIID to the State Constitution, affects the City's ability to impose future rate increases and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. If future proposed rate increases cannot be imposed as a result of majority protest or initiative, the Water Enterprise might thereafter be unable to generate Net Revenues in the amounts required by the

Installment Purchase Agreement to pay the 2016 Purchase Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2016 Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

Limitations on Remedies

The enforceability of the rights and remedies of the Owners and the obligations of the City may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or state government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

The Indenture provides that if any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding, as provided, and upon being indemnified to the Trustee's satisfaction, shall, upon written notice to the Authority and the City, pursue any available remedy at law or in equity to enforce the payment of the principal of and interest and premium (if any) on the Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture; provided, that, such remedies shall not include any remedy of acceleration. Any remedies available to the Owners of the 2016 Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Holders of 2016 Bonds do not, and will not have a right to the remedy of acceleration under the Indenture or the Installment Purchase Agreement.

If the City fails to comply with its covenants under the Installment Purchase Agreement to pay the 2016 Purchase Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of 2016 Bonds.

Effect of City of San Bernardino Bankruptcy Case

On August 1, 2012, the City filed a petition for relief under chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), Case No. 6:12-bk-28006 MJ (the "Bankruptcy Case"). For the reasons described below, the City believes that the Bankruptcy Case will be concluded in a manner that will not adversely affect the issuance or timely repayment of or security for the 2016 Bonds, but no assurances can be given regarding such outcome.

The City filed its initial chapter 9 plan of adjustment and disclosure statement in the Bankruptcy Case on May 29, 2015, and a first amended chapter 9 plan of adjustment and disclosure statement on November 25, 2015. On March 30, 2016, the City filed its second amended chapter 9 plan of adjustment (the "Plan") and disclosure statement. On May 27, 2016, the City files its third amended chapter 9 plan

and on July 7, 2016 the Court approved the form of disclosure statement, and set October 14, 2016, for the hearing on confirmation of the Plan.

The City's obligation to make 2016 Purchase Payments under the Installment Purchase Agreement is payable from and secured by a pledge of and lien on Net Revenues from its ownership and operation of the Water Enterprise. The City believes that the Net Revenues are "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined by the Bankruptcy Code to include, among other revenue, receipts derived from the ownership, operation, or disposition of projects or systems of the debtor that are primarily used or intended to be used primarily to provide utility or other services. Although the filing of the Bankruptcy Case operated as an automatic stay against any action to recover a claim against or obtain money or other property from or enforce a lien against the City, under the Bankruptcy Code the automatic stay does not extend to application of pledged "special revenues" in excess of necessary operating expenses of the project or system from which they are derived Although the pledge of and lien on Net Revenues constitutes a consensual lien, rather than a statutory lien, a consensual lien on "special revenues" remains effective after commencement of a chapter 9 case, as would a statutory lien.

The City notes that many issues under chapter 9 of the Bankruptcy Code, including issues relevant to the impairment of obligations payable from and secured by "special revenues," have not yet been the subject of reported appellate decisions, and certain commentators and parties in other cases have taken positions that could result in impairment of such obligations and liens were such positions adopted by the courts. Nevertheless, for the reasons discussed above and below, the City believes that its pledge of and lien on Net Revenues as security for payment of the 2016 Purchase Payments (and therefore the 2016 Bonds) will be recognized, given effect, and enforced throughout and after conclusion of the Bankruptcy Case.

As stated, the protection afforded by the Bankruptcy Code to pledges of and liens on "special revenues" after the commencement of a case extends only to "special revenues" that are not needed to pay necessary operating expenses of the project or system from which they were derived. It is not clear precisely which expenses would constitute necessary operating expenses, and the definitions of Operation and Maintenance Costs and Net Revenues in the transaction documents would not be controlling. Consequently, a court could reduce Net Revenues available to pay Owners of the 2016 Bonds during the pendency of the Bankruptcy Case, or any subsequent chapter 9 case initiated by the City, if it concludes that expenses not deducted by the Installment Purchase Agreement to calculate Net Revenues nevertheless are necessary operating expenses.

Further, the City did not seek, and thus did not receive, an order from the Bankruptcy Court approving the pledge of and lien on Net Revenues for the 2016 Purchase Payments or the City's entry into the Installment Purchase Agreement. Under the Bankruptcy Code, the Bankruptcy Court may avoid a transfer of property (including the pledge of and lien on Net Revenues granted to secure payment of the 2016 Purchase Payments) by the City during the pendency of the Bankruptcy Case, unless the transfer is authorized under the Bankruptcy Code or by the Bankruptcy Court. In addition, while "special revenues" are exempt from an automatic stay, they are not exempt from a possible stay for cause with City consent, if a creditor challenges the pledge of and lien on Net Revenues granted to secure the 2016 Purchase Payments, either as a whole or in part to the extent they exceed debt service requirements on the CIEDB Debt. The City has no intention to consent to such a stay. In addition, the City believes that the pledge and lien granted by it to secure payment of the 2016 Purchase Payments are authorized under the Bankruptcy Code, because chapter 9 provides that a bankruptcy court may not interfere with the political or governmental powers of a political subdivision such as the City (unless the City approves a plan of adjustment to that effect or consents to such action), and nothing in the Bankruptcy Code prohibits the City from granting such pledge and lien. There is no binding judicial precedent that addresses the

relevant Bankruptcy Code provisions, so the Bankruptcy Court could reach a different conclusion. If the pledge and lien are not authorized under the Bankruptcy Code, then the Bankruptcy Court would be authorized to avoid or subordinate the pledge and lien (either in whole or in part to the extent that they encumber more Net Revenues than were required to pay the CIEDB Debt). Nonetheless, the City believes that the Bankruptcy Court would not avoid the pledge and lien, even if it were authorized to do so, for the same reasons that it believes the Bankruptcy Court would not approve a Plan that does not give full effect to the pledge and lien, as described below. Since the inception of the Bankruptcy Case, no creditor of the City has asserted that the Bankruptcy Court consider a claim against any enterprise fund of the City, such as the Water Fund. Throughout the case the City has timely paid regularly scheduled principal and interest on its secured bond obligations and only deferred payments on its pension obligation bonds.

The City could propose and the Bankruptcy Court could approve a revised Plan that alters the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Installment Purchase Agreement, if the Bankruptcy Court concludes (a "fairness conclusion") that the alterations are fair, equitable, not unfairly discriminatory and are part of a plan that is in the best interests of creditors and otherwise complies with the Bankruptcy Code. The City has no intention to propose such a Plan or consent to a stay of its application of Net Revenues to pay 2016 Purchase Payments (although it may not be legally barred from doing so). Even if it did consent to such a stay or propose such a Plan, the City believes that neither the stay nor the fairness conclusion required to approve a Plan would be warranted under prevailing conditions, because (1) under California law, the City may not apply revenues from ownership and operation of the Water Enterprise for any purpose other than operation, maintenance, and improvement of the Water Enterprise, including debt service on indebtedness incurred for that purpose, (2) the Bankruptcy Code does not impair the power of a state to control a municipality in the state in the exercise of a political or governmental power, including expenditures made in the exercise of that power, and accordingly the City believes that it has no legal power to propose a Plan that would divert revenue from the Water Enterprise to pay obligations of the City that are not expenses of the Water Fund, and (3) revenues for the Water Fund have been and are projected to be sufficient to pay all expenses of the Water Fund, including the 2016 Purchase Payments. There can be no assurance that the Owners of the 2016 Bonds would be successful in opposing such a Plan or imposition of a stay, should the City seek to propose such a Plan or impose such a stay.

The City's bankruptcy, and the economic and political factors leading to it, have resulted in significant adverse impacts to the City, including a severe reduction in some City services. The City's Recovery Plan, which is being implemented concurrently with its chapter 9 plan, lays out a plan to improve services funded by the General Fund and to increase General Fund revenues. To this point, the City has successfully annexed into the County Fire District effective July 1, 2016 and has contracted refuse service to a private company effective in May 1, 2016 representing annual savings to the General Fund of roughly $12 million. While the City has reached agreements with all of its major creditors, the failure of the City to confirm the Plan and otherwise successfully emerge from the Bankruptcy Case could negatively impact the City's ability to fully implement its Recovery Plan.

Whatever the outcome of the present Bankruptcy Case, there can be no assurance that the City will not seek relief as a debtor in another chapter 9 bankruptcy case during the term of the 2016 Bonds. If the City again files a petition for relief under chapter 9 in the future, as in the City's current bankruptcy proceeding, the City may be able to alter the priority, interest rate, principal amount, payment terms, collateral maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of bonds and bond related agreements, if the bankruptcy court concludes under then prevailing conditions that the alterations are fair, equitable, not unfairly discriminatory and are part of a plan that is in the best interests of creditors and otherwise complies with the Bankruptcy Code. There

may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the 2016 Bonds.

Natural Disasters

The financial stability of the Water Enterprise can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such improvements. The City, like many California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity, wildfires and other natural disasters represents a potential risk for damage to buildings, roads, bridges and property within the City. Although the City has implemented disaster preparedness plans and made improvements to the Water Enterprise in connection with such natural disasters, there can be no assurance that these or any additional measures will be adequate in the event that a natural disaster occurs, nor that costs of preparedness measures will be as currently anticipated. In fact, a portion of the proceeds of the 2016 Bonds for seismic retrofitting of the Department's multiple reinforced concrete and welded steel water storage tanks. Further, damage to components of the Water Enterprise could cause a material increase in costs for repairs or a corresponding material adverse impact on Net Revenues. As provided in the Installment Purchase Agreement, the Department is required to procure and maintain or cause to be procured and maintained insurance on the Water Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Water Enterprise) as are usually covered in connection with facilities similar to the Water Enterprise, so long as such insurance is available from reputable insurance companies and obtainable at a reasonable cost. The Department is further required to procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water Enterprise. The Department maintains casualty insurance on many of the assets of the Water Enterprise, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, and labs. The Department does not currently maintain property insurance for the pipelines of the Water Enterprise because such insurance is not available at commercially reasonable rates, but is insured under its liability policy for damage to property as a result of a pipe break. The Department currently maintains earthquake insurance on buildings, plant facilities and reservoirs of the Water Enterprise, however, the Department is not obligated under the Installment Purchase Agreement to maintain earthquake insurance on the Water Enterprise, and may elect to discontinue such coverage at its discretion.

Earthquake. Many California communities, including the City and the Service Area, are subject to periodic earthquake activity. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. The City is surrounded by earthquake faults. According to the Safety Element of the City's General Plan, the City is located between several active fault zones including: the San Andreas Fault, the San Jacinto Fault, the Glen Helen Fault, and the Loma Linda Fault. If an earthquake were to substantially damage or destroy taxable property within the City, the assessed valuation of such property would be reduced. Although the City believes that no active or inactive fault lines pass through, or near, the City, if there were to be an occurrence of severe seismic activity in the City, there could be an impact on the cost or the ability to provide water services until repairs could be made, possibly diminishing Net Revenues. Earthquakes or other natural disasters could interrupt operation of the Water Enterprise and thereby interrupt the ability of the City to realize Net Revenues sufficient to pay the 2016 Purchase Payments securing the payment of principal of and interest on the 2016 Bonds. The Water Enterprise has not experienced any significant losses of facilities or services as a result of earthquakes.

In anticipation of such potential disasters, the City designs and constructs all facilities of the Water Enterprise to the seismic codes in effect at the time of design of the project. Building codes require that some of these factors be taken into account, to a limited extent, in the design of improvements, including the Water Enterprise. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the City. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur and may result in damage to improvements of varying seriousness, such that the damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the actual value of public and private improvements within the City in general may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

Groundwater in the Bunker Hill Basin generally flows in a southwesterly direction from the San Bernardino Mountains to the San Jacinto Fault. The San Jacinto Fault acts as a barrier, or underground dam, causing the groundwater behind the fault to rise toward land surface in the form of high groundwater. In addition to the rising water associated with the groundwater barrier, this area of the basin also experiences a "pressure effect" caused by the higher water surface elevation along the foothills. This high groundwater area is located within the City and is commonly referred to as the "Pressure Zone" or the "Area of Historic High Groundwater" (the "AHHG"). In the past, water levels in the AHHG have risen high enough to cause artesian conditions (groundwater pooling above land surface). Groundwater levels which are this shallow frequently cause basements to flood, adversely affect the load-bearing capacity of streets, disrupt underground utilities and may cause "liquefaction" during an earthquake. Liquefaction occurs when saturated, sandy soil turns into a "quicksand" state during an earthquake. When liquefaction occurs, the ground no longer provides support to underground utilities or overlying structures, allowing them to sink or to float. In some cases, the foundational supports have been compromised, resulting in buildings toppling over. Liquefaction can be mitigated by removing the water from the soil or by changing the soil characteristics through grouting or other methods. The Department can make no predictions or offer any assurances with respect to such potential damages. Necessary repairs, or any portion thereof, could be charged to the Department as Operation and Maintenance Costs, senior in right of payment to 2016 Purchase Payments, rather than allocated as eligible expenditures of the City's General Fund or Road Fund.

Wildfires. The City is susceptible to wildland fires due to the steep terrain and highly flammable chaparral vegetation of the foothills of the San Bernardino Mountains and high winds that correspond with seasonal dry periods. The characteristics of the San Bernardino Mountains and winds in the area result in large uncontrollable fires on a recurring basis. Major fires have endangered the City on numerous occasions and in several instances, have spread into the City causing extensive damage, most recently in 2003 with the Old Waterman Canyon fire, the largest fire in recent history, which destroyed approximately 330 residential properties, and the Panorama fire in 1980, which destroyed 345 structures and killed four people. Many of the areas burned during the Panorama fire were again burned in 2003.

The danger from wildland fires in foothill locations is increased by the number of structures and encroachment of new development in the hillside areas. Specific concerns include the density of development, spacing of structures, brush clearance, building materials, access to buildings by fire equipment, adequacy of evacuation routes, property maintenance, and water availability. The capacity of the water systems to provide sufficient water to fight fires is also a significant issue. Other areas in

southern California are burned off periodically by way of controlled burns to remove older vegetation. The controlled burn process is used very carefully in the San Bernardino Mountains because of the unpredictability and force of the winds in the area that could make controlled burns a potential hazard.

Water conveyance facilities generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above ground facilities within the Water Enterprise are designed to be tolerant to damage by wildfires through the use of fire resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's fire department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Water Enterprise. The Department watches for wildfires that may threaten the facilities of the Water Enterprise and operations and maintenance crews are dispatched to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's fire department and law enforcement officers to monitor and protect facilities of the Water Enterprise to ensure continuous operation.

Wind. According to the Safety Element of the City's General Plan, the City is subject to extremely high winds, which have resulted in significant property damage. For example, portions of roofs and block walls have been broken and blown away and public utility structures such as power lines and traffic signals have been damaged. The most significant wind problems occur at the canyon mouths and valleys extending downslope from the San Bernardino Mountains. The highest velocities are associated with downslope canyon and Santa Ana winds (90-100 mph). Santa Ana wind conditions are a reversal of the prevailing southwesterly winds and usually occur on a region-wide basis during late summer and early fall. Santa Ana winds are dry, warm winds that flow from the higher desert elevations in the north through the mountain passes and canyons. Of the major fires in the San Bernardino Mountains, all have occurred during periods of high winds. The high wind velocity and property damage potential have resulted in the northern half of the City adjacent to the mountains being classified by the City as a "High Wind Area." In this area of the City, stringent conditions for the construction of buildings and public facilities are applied.

Drought Risks. The ability of the Department to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment. If the water supply or availability for sale decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, water sales will diminish and Net Revenues available to pay the 2016 Purchase Payments may be adversely affected.

Statutory and Regulatory Compliance

The Water Enterprise is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, state and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The City's failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water Enterprise or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Enterprise. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Department to generate Net Revenues sufficient to pay the debt service on account of any obligation on a parity with the 2016 Purchase

Payments including, without limitation, the 2016 Purchase Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2016 Bonds. See "WATER ENTERPRISE REGULATORY REQUIREMENTS."

Dam Safety

The DSOD supervises the safety of the storage reservoirs in the State. The Department has one covered storage reservoir, the Perris Hill Reservoir, under the jurisdiction of the DSOD. DSOD may impose operating restrictions on dams and reservoirs that adversely affect the operation of the Water Enterprise. See "WATER ENTERPRISE REGULATORY REQUIREMENTS – Permits and Licenses."

Future Legislation

The City is subject to various laws, rules and regulations adopted by the local, State and federal governments and their agencies. The City is unable to predict the adoption or amendment of any such laws, rules or regulations, or their effect on the operations of the Water Enterprise or financial condition of the Water Fund.

Potential Impact of Climatic Change

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

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

However, other than the general trends listed above, there is no clear scientific consensus on exactly how global warming will quantitatively affect water supplies with respect to the Water Enterprise.

Uncertainties of Projections, Forecasts and Assumptions

Compliance with certain of the covenants contained in the Installment Purchase Agreement and the Indenture is based upon assumptions and projections including, but not limited to, those described under "THE WATER ENTERPRISE – Financial Projections." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections. See also "INTRODUCTION – Forward-Looking Statements."

Absence of Secondary Market for the 2016 Bonds

There can be no guarantee that there will ever be a secondary market for purchase or sale of the 2016 Bonds or, if a secondary market exists, that the 2016 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Loss of Tax Exemption on 2016 Bonds

As discussed under the caption "TAX MATTERS," interest on the 2016 Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the 2016 Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Installment Purchase Agreement.

Economic, Political, Social, and Environmental Conditions

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

Article XIIIA

Article XIIIA of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIIIA must be authorized by a two-thirds vote of the electorate. Under Article XIIID, fees and charges for water, sewer, and refuse collection services are subject to majority protest, but are not subject to the two-third vote requirement of Article XIIIA. The reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined to date that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee.

Article XIIIB

Article XIIIB of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fees, and charges collected by the City are used to pay the costs of maintaining and operating the Water Enterprise and payments due on the 2016 Bonds, and including the funding of the Common Reserve Account at the Reserve Requirement, the City believes as of the date hereof that such moneys should not be subject to the annual appropriations limit of Article XIIIB.

Article XIIIC

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees, and charges.

Section 1 of Article XIIIC requires majority voter approval for the imposition, extension, or increase of general taxes and Section 2 thereof requires two-thirds voter approval for the imposition, extension, or increase of special taxes. These voter approval requirements of Article XIIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend, or increase any such taxes in the future to meet increased expenditure requirements.

As concerns the Department, the City has not enacted, imposed, extended, or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees, and charges, regardless of the date such taxes,

assessments, fees, or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees, and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments, or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID ("SB 919"). Such terms are, however, defined in Article XIIID, discussed below. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "*Bighorn Decision*") that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIIC.

In the *Bighorn Decision*, the Supreme Court did state that nothing in Section 3 of Article XIIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge that was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* 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 and wastewater 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. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 5, 1996 (the date of adoption of Proposition 218), assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's water service fees and charges, which are the source of Net Revenues to make the 2016 Purchase Payments and, in turn, payments of the principal of and interest on the 2016 Bonds, and other Outstanding Obligations.

Notwithstanding the fact that water service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIIC, the City will covenant to levy and charge rates that meet the requirements of the Installment Purchase Agreement in accordance with applicable law. Under the Installment Purchase Agreement, the City will covenant to impose rates and charges at specified levels. No assurance can be provided that the City will be able to meet such covenant if any proposed increased service charges cannot be imposed as a result of a majority protest under Proposition 218.

Article XIIID

Article XIIID defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment, imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public

service having a direct relationship to a property ownership." As discussed above, in the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

[While the City Attorney currently believes, based upon the judicial precedent in place during the period of these prior rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can provide any assurances as to the outcome of a challenge to the prior increases in the City's water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIIID if one were brought.]

In addition, Article XIIID also includes a number of limitations applicable to existing, new, or increased fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. The City and the City Attorney believe that as of the date of this Official Statement that current water fees and charges that are subject to Proposition 218 materially comply with the provisions thereof.

Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIIID in connection with such proposed increase.

[As of the date of this Official Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit transfers to the Water Rate Stabilization Fund or maintenance of uncommitted cash reserves.] See "THE WATER ENTERPRISE – Financial Projections."

[The City and the City Attorney believe that current water capacity fees are not subject to Proposition 218. Furthermore, as of the date of this Official Statement, the City and the City Attorney are unaware of any legal challenges to this position.]

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not

possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

Proposition 26

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIID of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval.

The City believes that Proposition 26 does not apply to its water rates, fees and charges because such rates, fees and charges are within various exceptions to Proposition 26.

Initiative, Referendum and Charter Amendments

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIIIA, Article XIIIB and Articles XIIIC and XIIID and Proposition 26 were adopted pursuant to the State's constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City's ability to collect taxes, assessments or fees and charges, which could have an effect on the Water Fund. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Water Enterprise.

TAX MATTERS

Tax Exemption

The Tax Code imposes certain requirements that must be met subsequent to the issuance and delivery of the 2016 Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Tax Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the 2016 Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the 2016 Bonds. Each of the Authority and the City will covenant to maintain the exclusion of the interest on the 2016 Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the 2016 Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the 2016 Bonds is excluded pursuant to section 103(a) of the Tax Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel,

under existing statutes, regulations, rulings and court decisions, the 2016 Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Tax Code and, therefore, interest on the 2016 Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Tax Code. Receipt or accrual of interest on 2016 Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Tax Code will be computed.

Pursuant to the Installment Purchase Agreement and the Indenture and in the Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986, to be delivered by the Authority and the City in connection with the issuance of the 2016 Bonds, each of the Authority and the City will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the 2016 Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the Authority and the City with such covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the 2016 Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the 2016 Bonds, or the interest thereon, if any action is taken with respect to the 2016 Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the 2016 Bonds may affect the tax status of interest on the 2016 Bonds or the tax consequences of the ownership of the 2016 Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and the City described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2016 Bonds is commenced, under current procedures the Service is likely to treat the Authority as the "taxpayer," and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2016 Bonds, the Authority may have different or conflicting interests from the owners. Public awareness of any future audit of the 2016 Bonds could adversely affect the value and liquidity of the 2016 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exemption of interest on the 2016 Bonds from personal income taxation by the State of California or of the exclusion of the interest on the 2016 Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the 2016 Bonds. Prospective purchasers of the 2016 Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the 2016 Bonds is included in Appendix D hereto.

Tax Accounting Treatment of Bond Premium

To the extent that a purchaser of a 2016 Bond acquires that 2016 Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Tax Code), such excess will constitute "bond premium" under the Tax Code. Section 171 of the Tax Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its 2016 Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the 2016 Bond to the owner.

Persons considering the purchase of 2016 Bonds with initial bond premium should consult with their own tax advisors with respect to the determination of amortizable bond premium on such 2016 Bonds for federal income tax purposes and with respect to the state and local tax consequence of owning and disposing of such 2016 Bonds.

Other Tax Consequences

Although interest on the 2016 Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the 2016 Bonds. The nature and extent of these other tax consequences will depend upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the 2016 Bonds should be aware that (i) section 265 of the Tax Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 2016 Bonds and the Tax Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the 2016 Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Tax Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 2016 Bonds, (iii) interest on the 2016 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Tax Code, (iv) passive investment income, including interest on the 2016 Bonds, may be subject to federal income taxation under section 1375 of the Tax Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Tax Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the 2016 Bonds and (vi) under section 32(i) of the Tax Code, receipt of investment income, including interest on the 2016 Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequences.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the 2016 Bonds or to any decision to purchase, hold or sell 2016 Bonds and the Authority will not provide any such information. The Authority shall have no

liability to the Owners of the 2016 Bonds or any other person with respect to Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as amended (the "Rule").

Pursuant to the Continuing Disclosure Agreement of the City (the "Continuing Disclosure Agreement"), the Department, on behalf of the City, has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in the manner prescribed by the SEC certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Agreement). The form of the Continuing Disclosure Agreement is attached hereto as APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT. The annual report is to be filed by the Department not later than the date in each year that is the first day of the month following the eighth month after the end of the Department's Fiscal Year (which currently would be June 30), commencing with the report for the 2015-16 Fiscal Year (the "Annual Report"), and is to include audited financial statements of the Department, including the financial results of the Water Fund, or audited financial statements of the City, including the financial results of the Water Fund. The covenants of the City acting by and through the Department, in the Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with the Rule. A failure by the Department, on behalf of the City, to comply with any of the covenants therein is not an event of default under the Indenture or the Installment Purchase Agreement.

The City and its related entities have each entered into a number of continuing disclosure agreements in connection with bonds previously issued by the City and its related entities. One of the bond issues relates to a debt secured by revenues of the City's sewer utility (the "1998 Sewer Certificates of Participation"), which is operated by the Department. During the past five years, the City and its related entities failed to comply with the majority of their obligations under such continuing disclosure undertakings. These failures are attributable in part to the City's bankruptcy (See the caption "RISK FACTORS – Effect of City of San Bernardino Bankruptcy Case") and, accordingly, the City until recently had not prepared audited financial statements since Fiscal Year 2012-13. The audited financial statements for the Fiscal Year 2013-14 were released on June 9, 2016 with the auditors including a going concern qualification in such audit. [The audited financial statements for the Fiscal Year 2014-2015 are expected to be released by the end of September.] The missing or late continuing disclosure filings of the City and its related entities are described below:

- The City and its related entities filed the City's audited financial statements late for the Fiscal Years 2010-11, 2011-12 and 2012-13, including in certain cases more than 340 days late for Fiscal Year 2010-11, more than 540 days late for Fiscal Year 2011-12 and more than 730 days late for Fiscal Year 2012-13.

- The City and its related entities have consistently filed incomplete annual operating data and has consistently failed to provide such operating data on a timely basis.

- The City and its related entities have failed to report unscheduled debt service reserve draws and other events of default on a timely basis.

- The City and its related entities have failed to report ratings changes applicable to insurers and underlying bond ratings on a timely basis.

- The City and its related entities have failed to report the City's bankruptcy filing. See the caption "RISK FACTORS – Effect of City of San Bernardino Bankruptcy Case."

- With regards to the 1998 Sewer Certificates of Participation, the City filed the audited financial statements for the sewer utility more than 100 days late for Fiscal Year 2011-12 and more than

150 days late for Fiscal Year 2013-14. If the City had included the balance in the reserve account for the 1998 Sewer Certificates of Participation, the City would have filed its annual operating data for the 1998 Sewer Certificates of Participation on time for the last five years with the exception of the annual operating data for the Fiscal Year 2011-12. The reserve fund balance information was corrected for the annual operating reports for the last five years in a corrective filing on January 4, 2016. Under the continuing disclosure undertaking for the 1998 Sewer Certificates of Participation, the audited financial statements and annual operating data for the sewer utility was due within 210 days after the end of each Fiscal Year. The audited financial statements and annual operating data are due under the Continuing Disclosure Agreement within eight months (approximately 240 days) after the end of each Fiscal Year.

As described in the Continuing Disclosure Agreement, the Department will undertake compliance of the City's obligations under the Continuing Disclosure Agreement. Unlike the delay in release of the City's financial statements described above, the Department has produced audited financial statements of the Department, including the financial results of the Water Fund, during the pendency of the City's bankruptcy proceedings. For example, Department released to the public its audited financial statements on January 27, 2016 for the Fiscal Year 2014-15, March 5, 2015 for the Fiscal Year 2013-14, February 26, 2014 for the Fiscal Year 2012-13, April 12, 2013 for the Fiscal Year 2011-12 and January 10, 2012 for the Fiscal Year 2010-11. Management of the Department expects that it can produce and file with the Municipal Securities Rulemaking Board the audited financial statements for the Water Fund and the other required information by the required date under the Continuing Disclosure Agreement.

In addition, the Department has engaged Urban Futures, Inc. to act as Dissemination Agent under the Continuing Disclosure Agreement. As part of its services as Dissemination Agent, Urban Futures has agreed to develop and maintain a database to monitor, track and review reporting and filing requirements as outlined in the Continuing Disclosure Agreement.

Furthermore, the Board adopted disclosure policies and procedures for the Department in October 2016 designed to ensure timely and complete compliance with the Department's undertakings under the Rule. The Department's Director of Finance, together with the Dissemination Agent, Urban Futures, Inc., have initially assumed primary responsibility for compliance. The City's Finance Director, the Department's Director of Finance and two other staff members participated in a continuing disclosure training on August 8, 2016.

ABSENSE OF LITIGATION

The Authority

To the knowledge of the Authority, there is no material litigation pending or threatened against the Authority concerning the validity of the 2016 Bonds or any proceedings of the Authority taken with respect to the issuance thereof.

The City and the Water Enterprise

As of the date of this Official Statement, there is no litigation pending against the City or the Department or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution, or delivery of the 2016 Bonds or the Installment Purchase Agreement or in any way contesting or affecting the validity of the 2016 Bonds or the Installment Purchase Agreement or the authorizations or any proceedings of the City or the Department taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2016 Bonds or the Installment Purchase Agreement or the use of the proceeds of the 2016 Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the 2016 Bonds, the corporate existence of the City or the Department, or the title of the executive officers thereof to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the Department. The Office of the City Attorney has prepared the following summary, as of the date of this Official Statement, of certain claims and lawsuits for which the estimated loss to the City as of such date exceeds $1 million pending against the Water Fund for construction claims and certain other alleged liabilities arising during the ordinary course of operations of the Water Enterprise:

[In the ordinary course of operations, the Department is subject to claims and litigation from outside parties. After consultation with legal counsel, the Department believes the ultimate outcome of such matters, if any, will not materially affect the operations of the Water Enterprise or the financial condition of the Water Fund.]

CERTAIN LEGAL MATTERS

The validity of the 2016 Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX D hereto. Certain legal matters will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, San Francisco, California, for the City by the City Attorney, and for the City by Orrick, Herrington & Sutcliffe LLP as Disclosure Counsel. Orrick, Herrington & Sutcliffe LLP is also serving as counsel to the Underwriter. Except for the City Attorney, such counsel will receive compensation contingent upon the sale and delivery of the 2016 Bonds.

MUNICIPAL ADVISOR

Urban Futures, Inc., Orange, California (the "Municipal Advisor") has assisted the City in matters relating to the planning, structuring, and sale of the 2016 Bonds and the preparation of this Official Statement, and has provided general financial advisory services to the City with respect to the sale of the 2016 Bonds. The Municipal Advisor provides financial advisory services only and does not engage in the underwriting, marketing, or trading of municipal securities or other negotiable instruments. The payment of fees of the Municipal Advisor is contingent upon the closing of the 2016 Bond transaction.

RATINGS

S&P Global Ratings ("S&P") is expected to assign the 2016 Bonds its municipal bond rating of "___" (_____ outlook) with the understanding that the Policy insuring the payment when due of the principal of and interest on the 2016 Bonds will be issued by _____ concurrently with the delivery of the 2016 Bonds. S&P has assigned to the 2016 Bonds an underlying municipal bond rating of "___." Such ratings reflect only the views of such rating agencies, and an explanation of the significance of the ratings may be obtained by contacting them at: Standard & Poor's, 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the 2016 Bonds. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such organizations, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2016 Bonds.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings

may have an adverse effect on the market price of the 2016 Bonds. None of the Department, the City or the Authority undertakes any obligation to oppose any downward revision, suspension or withdrawal.

UNDERWRITING

The 2016 Bonds are being purchased by Raymond James & Associates, Inc. (the "Underwriter") pursuant to a Bond Purchase Agreement, dated _____ __, 2016 (the "Purchase Agreement"), by and among the Authority, the City and the Underwriter. The Underwriter has agreed, subject to certain conditions, to purchase the 2016 Bonds at a purchase price of $_____ (equal to the original principal amount thereof, plus a net original issue premium of $_____, less an Underwriter's discount of $_____). The Underwriter is committed to purchase all of the 2016 Bonds if any are purchased.

In connection with this offering, the Underwriter may overallot or effect transactions that stabilize or maintain the market price of the 2016 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2016 Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering price stated on the inside cover page hereof and said public offering price may be changed from time to time by the Underwriter.

FINANCIAL STATEMENTS

The Department prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities, which are audited by an independent certified public accountant. The Department's most recent financial statements, for the Fiscal Year ended June 30, 2015, were audited by Davis Farr LLP, certified public accountants (the "Independent Auditor"), as stated in their report. The Department's basic financial statements contained in the Department's CAFRs include the financial statements of the Water Fund. The Department's CAFR's also include information relating to the Sewer Fund. The 2016 Bonds are not secured by any amounts from the Sewer Fund. The most recent audited financial statements of the Department with an unqualified auditor's opinion is included as Appendix B hereto. See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

Accompanying the Independent Auditor's Report in Appendix B is the Departments' Management Discussion and Analysis, which is not audited, but is supplementary information required by the Government Accounting Standards Board.

Investors are encouraged to read the entire Official Statement including such financial statements in order to obtain information essential to the making of an informed investment decision.

The Independent Auditor did not review this Official Statement. The City did not request the consent of the independent auditors to append the Department's financial statements to this Official Statement. Accordingly, the independent auditors did not perform any procedures relating to any of the information in this Official Statement.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture and the Installment Purchase Agreement may be obtained from the Trustee at U.S. Bank National Association, 700 South

Flower Street, Suite 500, Los Angeles, California 90017. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority, the City or the Department and the purchasers or Owners of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations, or any other affairs of the City, the Department, the Water Enterprise, or the Authority since the date hereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

This Official Statement has been duly approved, executed and delivered by the Authority and the City.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

By:_____
Chairperson, Board of Commissioners

CITY OF SAN BERNARDINO

By:_____
Stacey R. Aldstadt – General Manager
Municipal Water Department

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE CITY OF SAN BERNARDINO AND SAN BERNARDINO COUNTY

The information in this Appendix A is descriptive of the City of San Bernardino (the "City") and San Bernardino County (the "County"). The following information concerning the City and the County is included only for the purpose of supplying general information regarding the community. The 2016 Bonds are not a debt of the County and the County has not participated in the preparation of this Appendix A. The information in this Appendix A is subject to change without notice, and neither delivery of this Official Statement nor any sale thereafter of the 2016 Bonds shall under any circumstances imply that there has not been any change in the affairs of the City, the County or the Department or in any other information contained herein since the date of the Official Statement. The 2016 Bonds are payable solely from the sources described herein (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS"). No taxing power of the City, the County, the State of California (the "State"), nor any political subdivision of the State, is pledged to the payment of the 2016 Bonds.

General

The County is located in Southern California and was established by an act of the State Legislature on May 23, 1853, forming the County from the eastern part of Los Angeles County. The County encompasses an area of over 22,000 square miles, making it geographically the largest county in the nation and includes twenty-four incorporated communities. The County is bordered on the west by Los Angeles and Kern County, on the north by Inyo County and on the south by the Riverside County.

The City is the county-seat of the County. Incorporated in 1857, it is one of the largest cities in the Inland Empire. The economy of the City is largely shaped by the logistics and transportation industries, government and the United States military.

The City encompasses approximately 59.6 square miles in the San Bernardino foothills and the eastern portion of San Bernardino Valley, approximately 60 miles east of the City of Los Angeles. The January 1, 2016 population of the City was estimated by the California Department of Finance to be 215,491.

The City operates under and is governed by the laws of the State and its City Charter as periodically amended since the original City Charter was adopted by the electorate in 1905. The most recent City Charter was passed in 2004. An amended City Charter will be on the ballot on November 8, 2016. Its impact on the Department is substantially limited to a realignment under which the Department would assume responsibility for all sewer operations, including collections. The City currently has a full-time, elected Mayor, a City Manager, an elected City Attorney, City Clerk and City Treasurer, and seven elected Councilmembers. The Mayor and Common Council of the City is the governing body of the City. Charter amendments subject to voter approval would provide that the City Clerk, City Attorney and City Treasurer would no longer be elected, rather designated by appointment. The Mayor and the Common Council would be elected by plurality and provisions for run-off elections would be eliminated. Department heads, boards, commissions, committees would be appointed by the Common Council and Mayor, rather than by the Mayor alone.

Population

The following table shows the population estimates of the City, County and State from 2007 through 2016.

POPULATION ESTIMATES
City of San Bernardino, San Bernardino County and State of California
2007 through 2016

	City of San Bernardino		San Bernardino County		State of California	
Year[1]	Population	% Change	Population	% Change	Population	% Change
2007	206,904	1.8%	1,989,690	1.5%	36,399,676	0.8%
2008	207,748	0.4	2,009,594	1.0	36,704,375	0.8
2009	208,318	0.3	2,019,432	0.5	36,966,713	0.7
2010	209,656	0.6	2,033,141	0.7	37,223,900	0.7
2011	210,842	0.6	2,054,735	1.1	37,536,835	0.9
2012	211,727	0.4	2,070,374	0.8	37,881,357	0.9
2013	212,286	0.3	2,086,559	0.8	38,239,207	1.0
2014	212,675	0.2	2,100,700	0.7	38,567,459	0.9
2015	213,861	0.6	2,121,088	1.0	38,907,642	0.9
2016	215,491	0.8	2,139,570	0.9	39,255,883	0.9

(1) As of January 1.
Source: 2007-10, 2011-16 (2000 and 2010 DRU Benchmark): California Department of Finance for January 1.

Personal Income

The following table shows of per capita personal income for the County, the State and the United States from 2005 through 2014.

PER CAPITA PERSONAL INCOME[1]
San Bernardino County,
State of California, and United States
2005 through 2014

Year	County of San Bernardino	California	United States
2005	$27,579	$39,046	$35,904
2006	28,489	41,693	38,144
2007	29,352	43,182	39,821
2008	30,017	43,786	41,082
2009	29,144	41,588	39,376
2010	29,314	42,411	40,277
2011	30,491	44,852	42,453
2012	31,064	47,614	44,266
2013	31,683	48,125	44,438
2014	32,892	49,985	46,049

(1) Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Building Activity

The annual building permit valuations and number of permits for new dwelling units issued from 2011 through 2015 for the County and the City are shown in the following tables.

BUILDING PERMITS AND VALUATIONS
San Bernardino County
(Dollars in Thousands)
2011 through 2015

	2011	2012	2013	2014	2015
Valuation ($000's)					
Residential	$341,317	$ 480,704	$ 666,166	$ 708,471	$1,056,572
Non-Residential	361,662	562,616	768,169	958,267	1,146,723
Total	$702,979	$1,043,320	$1,434,335	$1,666,738	$2,203,295
Units					
Single Family	1,075	1,214	1,874	1,937	2,753
Multiple Family	409	596	1,439	1,266	1,159
Total	1,484	1,810	3,313	3,203	3,912

Note: Totals may not add to sum because of rounding.
Source: Construction Industry Research Board.

BUILDING PERMITS AND VALUATIONS
City of San Bernardino
(Dollars in Thousands)
2011 through 2015

	2011	2012	2013	2014	2015
Valuation ($000's)					
Residential	$ 6,688	$ 7,249	$ 12,061	$ 36,608	$ 36,100
Non-Residential	48,151	87,364	156,460	112,312	138,704
Total	$54,839	$94,613	$168,521	$148,920	$174,804
Units					
Single Family	24	18	38	62	38
Multiple Family	0	0	0	50	47
Total	24	18	38	112	85

Note: Totals may not add to sum because of rounding.
Source: Construction Industry Research Board.

Employment

The following table summarizes the labor force, employment and unemployment figures for the City, County and State from 2011 through 2015.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT RATE
City of San Bernardino, San Bernardino County and State of California
2011 through 2015[(1)]

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate (%)
2011	City of San Bernardino	84,900	69,800	15,100	17.8%
	San Bernardino County	857,800	743,300	114,500	13.4
	State of California	18,417,900	16,249,600	2,168,300	11.8
2012	City of San Bernardino	84,800	71,300	13,500	15.9%
	San Bernardino County	862,200	759,800	102,500	11.9
	State of California	18,519,000	16,589,700	1,929,300	10.4
2013	City of San Bernardino	84,500	73,000	11,500	13.6%
	San Bernardino County	865,100	778,100	87,000	10.1
	State of California	18,596,800	16,933,300	1,663,500	8.9
2014	City of San Bernardino	83,600	75,100	8,500	10.2%
	San Bernardino County	911,400	838,200	73,200	8.0
	State of California	18,811,400	17,397,100	1,414,300	7.5
2015	City of San Bernardino	83,800	76,900	6,900	8.2%
	San Bernardino County	926,600	866,800	59,800	6.5
	State of California	18,981,800	17,798,600	1,183,200	6.2

(1) Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.
Source: U.S. Department of Labor - Bureau of Labor Statistics, California Employment Development Department. March 2015 Benchmark.

Industry

The following table summarizes the average annual industry employment in the County from 2011 through 2015.

LABOR FORCE AND INDUSTRY EMPLOYMENT ANNUAL AVERAGES
San Bernardino County
2011 through 2015

	2011	2012	2013	2014	2015
Farm	2,500	2,400	2,400	2,600	2,000
Mining and Logging	600	800	900	1,000	1,000
Construction	25,000	26,800	27,400	30,100	32,500
Manufacturing	46,500	47,300	48,300	51,200	54,300
Wholesale Trade	29,400	31,600	34,000	35,900	38,100
Retail Trade	76,900	81,000	82,800	83,900	84,900
Transportation, Warehousing and Utilities	47,600	52,000	53,500	58,800	63,500
Information	4,500	5,300	5,300	5,000	4,900
Financial Activities	20,900	21,000	21,300	21,800	22,400
Professional and Business Services	73,700	73,500	74,900	78,400	82,300
Educational and Health Services	91,100	94,700	102,100	105,300	109,600
Leisure and Hospitality	55,100	57,100	60,900	64,300	68,200
Other Services	20,300	20,900	20,900	21,500	22,400
Government	113,300	112,500	114,000	116,100	119,500
Total All Industries	607,400	626,900	648,700	675,900	705,600

Note: Items may not add to total due to independent rounding.
Source: California Employment Development Department, Labor Market Information Division. March 2015 Benchmark.

Largest Employers

The following table lists the largest employers in the County as of June 30, 2013 *(due to the unavailability of fiscal year 2015 and 2014 data).*

LARGEST EMPLOYERS
San Bernardino County
As of June 30, 2013

	Employer	Description	Number of Employees[1]	% of Total County Employees
1.	San Bernardino County	County Government	19,000	2.00%
2.	Stater Bros. Market	Grocery retail and headquarters	18,221	1.92
3.	U.S. Army, Fort Irwin & Nat. Training Ctr.	Military	13,805	1.45
4.	Loma Linda University	University and research	13,805	1.45
5.	U.S. Marine Corp Air Ground Combat Center	Military	12,486	1.31
6.	United Parcel Service Inc.	Freight company distribution center	8,600	0.91
7.	San Bernardino City Unified School District	Primary & secondary education	8,574	0.90
8.	Ontario International Airport	Public airport	7,695	0.81
9.	Loma Linda University Medical Center	Hospital and healthcare	6,147	0.65
10.	Kaiser Permanente	Hospital and healthcare	6,000	0.63

(1) Due to the unavailability of fiscal year 2015 and 2014 data, fiscal year 2013 data was used instead.
Source: San Bernardino County 'Comprehensive Annual Financial Report' for the year ending June 30, 2015.

The following table lists the largest employers in the City as of June 30, 2015.

LARGEST EMPLOYERS
City of San Bernardino
As of June 30, 2015

	Employer	Number of Employees[1]
1.	Stater Brothers	18,000
2.	County of San Bernardino	17,395
3.	San Bernardino City Unified School District	12,629
4.	California State University, San Bernardino	3,012
5.	Saint Bernardine Medical Center	1,400
6.	Community Hospital of San Bernardino	1,200
7.	City of San Bernardino	1,067
8.	San Bernardino Community College District	862
9.	The Sun Newspaper	526
10.	Blood Bank of San Bernardino	340

Source: San Bernardino City Economic and Development Department.

Commercial Activity

Summaries of annual taxable sale date for the County and the City for years 2010 through 2014 are shown in the following tables.

TAXABLE SALES
San Bernardino County
2010 through 2014
(Dollars in Thousands)

Year	Retain and Food Permits	Retain and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2010	34,068	$17,308,880	47,562	$24,687,862
2011	34,140	18,736,053	47,791	27,322,980
2012	35,095	19,980,937	48,936	29,531,921
2013	32,986	21,173,875	46,632	31,177,823
2014	34,455	22,240,376	48,349	33,055,967

Note: In 2009, retail permits expanded to include permits for food services.
Source: "Taxable Sales in California (Sales & Use Tax)" - California State Board of Equalization.

TAXABLE SALES
City of San Bernardino
2010 through 2014
(Dollars in Thousands)

Year	Retail and Food Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2010	5,082	$1,757,939	6,232	$2,091,723
2011	4,996	1,923,398	6,156	2,284,943
2012	5,098	2,049,832	6,258	2,422,215
2013	4,401	2,171,867	5,498	2,568,376
2014	4,673	2,273,215	5,808	2,737,021

Note: In 2009, retail permits expanded to include permits for food services.
Source: "Taxable Sales in California (Sales & Use Tax)" - California State Board of Equalization.

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE DEPARTMENT FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The Comprehensive Annual Financial Report attached as Appendix B includes information relating to the Sewer Utility Enterprise Fund. The 2016 Bonds are payable solely from the sources described herein (see "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS") and are not secured by any amounts from the Sewer Utility Enterprise Fund.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[TO COME]

APPENDIX D

FORM OF BOND COUNSEL OPINION

As a condition to the delivery of the 2016 Bonds, Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to the Authority, is expected to render its final approving opinion with respect to the 2016 Bonds in substantially the following form:

[Closing Date]

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this "Disclosure Agreement"), dated as of November 1, 2016, is by and between CITY OF SAN BERNARDINO, a municipal corporation and Charter City organized and existing under the laws of the State of California (the "City"), acting by and through the CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT (the "Department"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as Trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the California Municipal Finance Authority (the "Authority") has issued the California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) (the "2016 Bonds"), in the aggregate principal amount of $_____, pursuant to the Indenture, dated as of November 1, 2016 (the "Indenture"), by and between the Authority and the Trustee; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the City, acting by and through the Department, and the Trustee for the benefit of the owners and Beneficial Owners of the 2016 Bonds and in order to assist the underwriters of the 2016 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

WHEREAS, the Department has been created by the City Charter of the City to act on behalf of the City with regard to the Water Enterprise and accordingly, the Department has agreed to undertake compliance with all of the obligations required under this Disclosure Agreement on behalf of the City;

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Disclosure Agreement have the meanings herein specified. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture.

"Annual Report" means any Annual Report provided by the Department, on behalf of the City, pursuant to, and as described in, Sections 2 and 3 hereof.

"Annual Report Date" means the date in each year that is the first day of the month following the eighth month after the end of the Department's fiscal year, which date, as of the date of this Disclosure Agreement, is March 1.

"Audited Financial Statements" means audited financial statements of the Department, including the financial results of the Water Fund, or audited financial statements of the City including the financial results of the Water Fund.

"Beneficial Owner" means any person that has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any 2016 Bonds (including persons holding 2016 Bonds through nominees, depositories or other intermediaries).

"City" means the City of San Bernardino, California, a charter city and municipal corporation organized and existing under the laws of the State.

"Department" means the City of San Bernardino Municipal Water Department.

"Disclosure Representative" means the Director of Finance, or his or her designee, or such other person as the Department, on behalf of the City, shall designate in writing to the Trustee from time to time.

"Dissemination Agent" means Urban Futures, Inc., or any successor Dissemination Agent designated in writing by the Department, on behalf of the City, and which has filed with the Trustee a written acceptance of such designation.

"Indenture" means the Indenture, dated as of November 1, 2016, by and between the Authority and U.S. Bank National Association, as originally executed and as it may be amended or supplemented from time to time in accordance with its terms.

"Listed Events" means any of the events listed in subsection (a) or subsection (b) of Section 4 hereof.

"MSRB" means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" means the Official Statement, dated _____ __, 2016, relating to the 2016 Bonds.

"Participating Underwriter" means Raymond James & Associates, Inc. and any other original underwriter of the 2016 Bonds required to comply with the Rule in connection with the offering of the 2016 Bonds.

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

"Trustee" means U.S. Bank National Association, as Trustee under the Indenture, or any successor thereto as Trustee thereunder, substituted in its place as provided therein.

Section 2. Provision of Annual Reports. (a) The Department, on behalf of the City, shall, or shall cause the Dissemination Agent to, provide to the MSRB an Annual Report that is consistent with the requirements of Section 3 hereof, by not later than the Annual Report Date, commencing with the Annual Report for the 2015-16 Fiscal Year. The Annual Report may include by reference other information as provided in Section 3 hereof; provided, however, that the Audited Financial Statements, if any, may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Department's fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the Department, on behalf of the City, shall provide

the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Department to determine if the Department is in compliance with the first sentence of this subsection (b).

(c) The Dissemination Agent shall:

(i) provide each Annual Report received by it to the MSRB, as provided herein, within one business day of receipt thereof from the Department; and

(ii) file a report with the Department and (if the Dissemination Agent is not the Trustee) the Trustee certifying that such Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

(d) If by ten business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Department and the Dissemination Agent to determine if the Department is in compliance with the first sentence of this subsection (b).

(e) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A.

Section 3. <u>Content of Annual Reports</u>. The Annual Report shall contain or incorporate by reference the following:

(a) The Audited Financial Statements for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB. If the Audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the Audited Financial Statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless contained in the Audited Financial Statements, the following information:

(i) An update of the information contained in Table 3 in the Official Statement for the most recently completed fiscal year.

(ii) An update of the information contained in Table 4 in the Official Statement for the most recently completed fiscal year.

(iii) An update of the information contained in Table 5 in the Official Statement for the most recently completed fiscal year.

(iv) An update of the information contained in Table 6 in the Official Statement, for the most recently completed fiscal year.

(v) An update of the information contained in Table 7 in the Official Statement, for the most recently completed fiscal year.

(vi) An update of the information contained in Table 9 in the Official Statement, for the most recently completed fiscal year.

(vii) An update of the information contained in Table 11 in the Official Statement, for the most recently completed fiscal year.

(viii) An update of the information contained in Table 14 in the Official Statement to reflect historical debt service coverage for the most recently completed fiscal year (an update of the projections is not required).

(ix) The principal amount of 2016 Bonds Outstanding as of the December 31 next preceding the Annual Report Date.

(x) The balance in the Common Reserve Account, and a statement of the Reserve Requirement, as of the December 31 next preceding the Annual Report Date.

(c) In addition to any of the information expressly required to be provided under the preceding paragraphs (a) and (b), the Department, on behalf of the City, shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that have been made available to the public on the MSRB's website. The Department, on behalf of the City, shall clearly identify each such other document so included by reference.

Section 4. **Reporting of Significant Events.** (a) Pursuant to the provisions of this Section, the Department, on behalf of the City, shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2016 Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

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

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

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

(v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).

(vi) Tender offers.

(vii) Defeasances.

(viii) Rating changes.

(ix) Bankruptcy, insolvency, receivership or similar event of the City.

For purposes of the event identified in paragraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) Pursuant to the provisions of this Section, the Department, on behalf of the City, shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2016 Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) Unless described in paragraph (v) of subsection (a) of this Section, material notices or determinations by the Internal Revenue Service with respect to the tax status of the 2016 Bonds or other material events affecting the tax status of the 2016 Bonds.

(ii) Modifications to rights of holders of the 2016 Bonds.

(iii) Optional, unscheduled or contingent 2016 Bond calls.

(iv) Release, substitution, or sale of property securing repayment of the 2016 Bonds.

(v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(vii) Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative and inform such person of the event.

(d) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in subsection (b) of this Section, the Department shall determine if such event would be material under applicable Federal securities law.

(e) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in subsection (a) of this Section, or determines that knowledge of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities law, the Department, on behalf of the City, shall, or shall cause the Dissemination Agent to, file a notice of the occurrence of such Listed Event with the MSRB, within ten business days of such occurrence.

(f) Notwithstanding the foregoing, notice of Listed Events described in paragraph (vii) of subsection (a) of this Section and (iii) of subsection (a) of this Section need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected 2016 Bonds pursuant to the Indenture.

Section 5. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Department's and the City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2016 Bonds. If such termination occurs prior to the final maturity of the 2016 Bonds, the Department, on behalf of the City, shall give, or cause to be given, notice of such termination in a filing with the MSRB.

Section 7. Dissemination Agent. The Department, on behalf of the City, may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the Department. The initial Dissemination Agent shall be Urban Futures, Inc. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Department, on behalf of the City, and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Department, on behalf of the City, so long as such amendment does not adversely affect the rights or materially increase the obligations of the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) or (b) of Section 4 hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the 2016 Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2016 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the 2016 Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of Owners or Beneficial Owners of the 2016 Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Department, on behalf of the City, shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Department, on behalf of the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice

of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Department, on behalf of the City, from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Agreement, in addition to that which is required by this Disclosure Agreement. If the Department, on behalf of the City, chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Agreement, the Department, on behalf of the City, shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

Section 10. Default. In the event of a failure of the Department, on behalf of the City, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate principal amount of Outstanding 2016 Bonds, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any Owner or Beneficial Owner of the 2016 Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department, on behalf of the City, the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Department, on behalf of the City, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement To the extent permitted by law, the Department, on behalf of the City, agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, and which are not due to its negligence or its willful misconduct. The obligations of the Department, on behalf of the City, under this Section shall survive resignation or removal of the Dissemination Agent and the termination of this Disclosure Agreement.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Department, the City, the Trustee, the Dissemination Agent, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the 2016 Bonds, and shall create no rights in any other person or entity.

Section 13. **Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

CITY OF SAN BERNARDINO, acting by and through the City of San Bernardino Municipal Water Department

By: _____
Director of Finance

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____
Authorized Signatory

ACCEPTED AND AGREED TO:

URBAN FUTURES, INC., as Dissemination Agent

By: _____
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	California Municipal Finance Authority
Name of Issue:	California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project)
Obligated Person:	City of San Bernardino Municipal Water Department, on behalf of the City of San Bernardino
Date of Issuance:	_____ __, 2016

NOTICE IS HEREBY GIVEN that the City of San Bernardino, a municipal corporation and Charter City organized and existing under the laws of the State of California (the "City"), acting by and through the City of San Bernardino Municipal Water Department (the "Department"), has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of November 1, 2016, by and between the City, acting by and through the Department, and U.S. Bank National Association, as Trustee. [The Department anticipates that such Annual Report will be filed by _____.]

Dated: _____

U.S. BANK NATIONAL ASSOCIATION, as Trustee, on behalf of the City of San Bernardino Municipal Water Department

cc: California Municipal Finance Authority

APPENDIX F

INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the 2016 Bonds.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2016 Bonds. The 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each maturity of the 2016 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com, provided that nothing contained in such website is incorporated into this Official Statement.

Purchases of 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2016 Bonds, except in the event that use of the book-entry system for the 2016 Bonds is discontinued.

To facilitate subsequent transfers, all 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Installment Purchase Agreement. For example, Beneficial Owners of 2016 Bonds may wish to ascertain that the nominee holding the 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2016 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2016 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

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

APPENDIX G

FORM OF MUNICIPAL BOND INSURANCE POLICY

[TO COME]

DRAFT OF
08/12/16

INSTALLMENT PURCHASE AGREEMENT

by and between

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

and

CITY OF SAN BERNARDINO

Dated as of October 1, 2016

relating to
$_____
CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
WATER FACILITIES PROJECT)

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of October 1, 2016, by and between CALIFORNIA MUNICIPAL FINANCE AUTHORITY, a joint exercise of powers authority formed and existing under the laws of the State of California (the "Authority"), and CITY OF SAN BERNARDINO, a municipal corporation and Charter City organized and existing under the laws of the State of California (the "City").

W I T N E S S E T H :

WHEREAS, the Authority is authorized to assist the City in the financing and refinancing of costs related to capital improvements; and

WHEREAS, the City has the power to purchase real and personal property; and

WHEREAS, the City owns and operates a water utility (the "Enterprise"); and

WHEREAS, the Authority has authorized the issuance of its Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) (the "2016 Bonds") to assist the City in providing funds to finance the acquisition and construction of additional capital assets of the Enterprise, to finance capitalized interest with respect to the 2016 Bonds, to fund a reserve account to secure the 2016 Bonds and to pay related costs of issuance; and

WHEREAS, the Authority will purchase certain components of the Water Utility described in Exhibit A (the "Components") with the proceeds of the 2016 Bonds, and the City will purchase the Components back from the Authority by making 2016 Purchase Payments equal in time and amount to the debt service on the 2016 Bonds; and

WHEREAS, the Authority will transfer in trust and assign to the Trustee substantially all of its right, title and interest in and to this Agreement, including the 2016 Purchase Payments and all rights to enforce the payment of the 2016 Purchase Payments under this Agreement; and

WHEREAS, 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 delivery of this Agreement do 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 Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES 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

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report 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. All capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Indenture.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Accreted Value. The term "Accreted Value" means, with respect to any Capital Appreciation Bonds or Capital Appreciation Certificates, as of the date of calculation, the initial amount thereof plus the interest accrued thereon to such date of calculation, compounded from the date of initial delivery at the approximate interest rate thereof of each February 1 and August 1, as determined in accordance with the table of accreted values for any Capital Appreciation Bonds or Capital Appreciation Certificates prepared by the City at the time of sale thereof, assuming in any year that such Accreted Value increases in equal daily amounts on the basis of a year of three hundred sixty (360) days composed of twelve (12) months of thirty (30) days each.

Act. The term "Act" means Article 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State, as in existence on the Delivery Date or as thereafter amended from time to time.

Additional Obligations. The term "Additional Obligations" shall have the meaning ascribed thereto in Section 7.01 hereof.

Additional Purchase Payments. The term "Additional Purchase Payments" means the payments so designated and required to be made by the City pursuant to Section 4.03 hereof.

Adjustment. The term "Adjustment" means:

(i) adjustments to Net Revenues due to changes in fees, charges or taxes which have been adopted prior to the date of issuance of the Bonds or date of the Contract, as the case may be;

(ii) adjustments to Net Revenues due to customers added to the Water Utility prior to the date of issuance of the Bonds or date of the Contract, as the case may be;

(iii) additions to Net Revenues that are expected to result from the connection of existing residences or businesses to the Water Utility within one year following completion of any project to be funded from the proceeds resulting from such Contract or Bonds; and

(iv) the estimated change in Net Revenues which will result from services provided under any long-term guaranteed contract for service entered into prior to the date of issuance of the Bonds or date of the Contract, as the case may be.

Agreement. The term "Agreement" means this Installment Purchase Agreement, dated as of October 1, 2106, by and between the City and the Authority, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Authority. The term "Authority" means the California Municipal Finance Authority, and any successors.

Authorized Authority Representative. The term "Authorized Authority Representative" means the Executive Director of the Authority or any other person or persons designated by the Executive Director or Board of Directors of the Authority and authorized to act on behalf of the Authority by a Written Request signed by the Executive Director of the Authority or by a certified resolution adopted by the Board and delivered to the Trustee.

Authorized City Representative. The term "Authorized City Representative" means the General Manager of the Department, the Deputy General Manager of the Department, the Finance Director of the Department and any other person or persons designated by the General Manager or Board of Water Commissioners of the Department and authorized to act on behalf of the City by a Written Request signed by the General Manager or by a certified resolution adopted by the Board of Water Commissioners and delivered to the Trustee.

Authorized Denominations. The term "Authorized Denominations" has the same meaning as set forth in the Indenture.

Bonds. The term "Bonds" means all revenue bonds or notes or other obligations of the City authorized, executed, issued and delivered by the City, or any revenue bonds or notes or other obligations payable from revenues generated by any Contract, in each case the payments of which are on a parity with the 2016 Purchase Payments and which are secured by a parity pledge of and lien on the Net Revenues.

Business Day. The term "Business Day" means a day other than a Saturday or Sunday or a day on which (i) banks located in the city in which the principal corporate trust office of the Trustee is located are required or authorized to remain closed, and (ii) on which The New York Stock Exchange is closed.

Capital Appreciation Bonds. The term "Capital Appreciation Bonds" means any Bonds described as such when issued.

Capital Appreciation Certificates. The term "Capital Appreciation Certificates" means any certificates of participation in Installment Payments described as such when executed and delivered.

Certificates. The term "Certificates" means any certificates of participation representing interests in payments to be made by the City executed and delivered by a trustee under and pursuant to a trust agreement.

Certification of the City. The term "Certification of the City" means a written statement signed by the General Manager of the Department or any designee thereof certifying the accuracy of the statements contained therein.

Charter. The term "Charter" means the Charter of the City.

City. The term "City" means the City of San Bernardino, California, a charter city and municipal corporation organized and existing under the laws of the State, and includes where applicable the Department.

Code. The term "Code" means the Internal Revenue Code of 1986 and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

Consent Decree. The term "Consent Decree" means the consent decree issued in 2005 by the U.S. District Court for the Central District of California in City of San Bernardino v. United States of America.

Continuing Disclosure Agreement. The term "Continuing Disclosure Agreement" means the Continuing Disclosure Agreement between the City and the Trustee dated the date of issuance of the 2016 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Contracts. The term "Contracts" means this Agreement and any amendments and supplements hereto, and all contracts of the City authorized and executed by the City, the Installment Payments under which are payable on a parity with the 2016 Purchase Payments and which are secured by a parity pledge and lien on the Net Revenues, but excluding contracts entered into for operation and maintenance of the Enterprise.

Current Revenues. The term "Current Revenues" means all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Enterprise, including, without limiting the generality of the foregoing, (i) all income, rents, rates, fees, charges (including standby, capacity and connection charges) or other moneys derived by the City from the furnishing and supplying of water or other services, facilities and commodities or byproducts sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Enterprise, and including, without limitation, all earnings and income derived from the investment of all such money and derived from the investment of all money in the Water Fund and investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Enterprise by or pursuant to law; (ii) the proceeds derived by the City directly or indirectly from the lease of a part of the Enterprise; (iii) any amount received from the levy or collection of taxes which are solely available and are earmarked for the support of the operation of the Enterprise; and (iv) all proceeds of insurance covering business interruption loss relating to the Enterprise. Notwithstanding the foregoing, Current Revenues shall not include: (a) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; (b) any advances or contributions in aid of construction; (c) amounts paid to developers, or to reimburse developers, for capital

improvements to the Enterprise, including, but not limited to, water meter sets, grid system revenue, water well taxes and water frontage fees; and (d) the proceeds of borrowings.

Date of Operation. The term "Date of Operation" means, with respect to any incomplete component of the Project, the estimated date by which such component will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the City.

Debt Service. The term "Debt Service" means, for any Fiscal Year, the sum of (1) the interest paid or payable during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds), (2) those portions of the principal amount of all outstanding serial Bonds maturing in such Fiscal Year, and (3) those portions of the principal amount of all outstanding term Bonds required to be prepaid or paid in such Fiscal Year; provided, that (a) if any of such Bonds are Capital Appreciation Bonds or if the Installment Payments due under any of such Contracts are evidenced by Capital Appreciation Certificates, then the Accreted Value amount shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond or Capital Appreciation Certificate, (b) if any of such Bonds or if the Installment Payments due under any such Contracts bear interest payable pursuant to a variable interest rate formula, the interest rate on such Bonds or such Contracts for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the current SIFMA Index Rate plus 2.0%, and (c) if 20% or more of the original principal of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts is not due until the final stated maturity of such Bonds or the Installment Payments due under such Contracts, such principal may, at the option of the City, be treated as if it were due based upon a level amortization of such principal over the term of such Bonds or Installment Payments, provided that the full amount of such principal shall be included in the calculation of Debt Service in the event the date of calculation is within 12 months of the actual maturity date of such Bonds or Installment Payment due under such Contract.

Defeasance Securities. The term "Defeasance Securities" means

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

2. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

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

4. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded

bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

5. Obligations issued by federal agencies including, but not limited to, the following agencies, which are backed by the full faith and credit of the U.S.:

a. U.S. Export-Import Bank (Eximbank)

Direct obligations or fully guaranteed certificates of beneficial ownership

b. Farmers Home Administration (FmHA)

Certificates of beneficial ownership

c. Federal Financing Bank

d. General Services Administration

Participation certificates

e. U.S. Maritime Administration

Guaranteed Title XI financing

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

Project Notes

Local Authority Bonds

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

Delivery Date. The term "Delivery Date" means October __, 2016.

Department. The term "Department" means the City of San Bernardino Municipal Water Department.

Enterprise. The term "Enterprise" means the entire water utility (including all buildings, systems, plants, works, facilities, properties and improvements owned, controlled or operated by the City, used for or useful in the collection, storage, treatment or provision of potable water) of the City as such utility now exists, together with all improvements and extensions to said system later constructed or acquired, and including buildings and facilities for administration and/or customer service used jointly with the City's sewer utility.

Event of Default. The term "Event of Default" means an event described in Section 8.01.

Fiscal Year. The term "Fiscal Year" means the period beginning on July 1 of each year and ending on the last day of June of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the City.

Indenture. The term "Indenture" means the Indenture of Trust, dated as of October 1, 2016, by and between the Authority and the Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

Independent Certified Public Accountant. The term "Independent Certified Public Accountant" means any firm of certified public accountants appointed by the City, each of whom is independent of the City and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Financial Consultant. The term "Independent Financial Consultant" means financial consultant or firm of such consultants appointed by the City, and who, or each of whom:

(1) is in fact independent and not under domination of the City or the Authority;

(2) does not have any substantial interest, direct or indirect, with the City or the Authority; and

(3) is not connected with the City or the Authority as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Interest Components. The term "Interest Components" means the 2016 Purchase Payments other than Principal Components.

Installment Payment Date; 2016 Purchase Payment Date. The term "Installment Payment Date" means each date on which Installment Payments are scheduled to be paid by the City under and pursuant to any Contract. The term "2016 Purchase Payment Date" means the fifth Business Day prior to each Interest Payment Date.

Installment Payments, 2016 Purchase Payments. The term "Installment Payments" means the installment payments, lease payments or other payments of interest and principal scheduled to be paid by the City under and pursuant to the Contracts. The term "2016 Purchase Payments" means the Installment Payments scheduled to be paid by the City under and pursuant to this Agreement.

Interest Payment Date. The term "Interest Payment Date" means February 1 and August 1 of each year, commencing February 1, 2017.

Maximum Annual Debt Service. The term "Maximum Annual Debt Service" means, at any point in time, the maximum amount of Debt Service in the then current or any future Fiscal Year, as calculated by the City.

Net Revenues. The term "Net Revenues" means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Operation and Maintenance Costs. The term "Operation and Maintenance Costs" means costs spent or incurred for maintenance and operation of the Enterprise calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including administrative costs of the City that are charged directly or apportioned to the Enterprise, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System or any other pension system or plan, payments for post-retirement healthcare benefits, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the City or charges (other than Debt Service payments) required to be paid by it to comply with the terms of the 2016 Bonds or of this Agreement or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature, and (ii) operation and maintenance costs reimbursed by funds attributable to the Consent Decree.

Pending Bankruptcy Case. The term "Pending Bankruptcy Case" means the City's bankruptcy case under Chapter 9 of the U.S. Bankruptcy Code pending as of the Delivery Date (Case No. 6:12-bk-28006-MJ).

Policy Costs. The term "Policy Costs" means repayments of any draw under Reserve Account Credit Facility and any expenses related thereto and any accrued interest.

Prepayment Date. The term "Prepayment Date" means the date designated by the City for the prepayment of all or any portion of the 2016 Purchase Payments in accordance with Section 4.04 hereof.

Prepayment Price. The term "Prepayment Price" means the price payable by the City to prepay 2016 Purchase Payments, equal to the amount of Outstanding Principal Components to be prepaid, plus any premium with respect thereto in the amount of the premium payable upon the Authority's optional redemption of the corresponding 2016 Bonds, plus the amount of related Interest Components to the Prepayment Date.

Principal Components. The term "Principal Components" means that portion of the 2016 Purchase Payments designated as principal components in Exhibit B hereto.

Project; 2016 Water Project. The term "Project" means any additions, betterments, extensions or improvements to the Enterprise designated by the City as a Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds. The term "2016 Water Project" means the capital improvements described in Exhibit A attached hereto.

Purchase Price. The term "Purchase Price" means the principal amount plus interest thereon owed by the City to the Authority under the terms hereof as provided in Section 4.01.

Rate Stabilization Fund. The term "Rate Stabilization Fund" means the fund by that name established pursuant to Section 5.04 hereof.

Reserve Account Credit Facility. The term "Reserve Account Credit Facility" has the same meaning as set forth in the Indenture.

Reserve Account. The term "Reserve Account" has the same meaning as set forth in the Indenture.

Reserve Fund. The term "Reserve Fund" means the fund by that name established pursuant to Section 4.04 of the Indenture.

Revenues. The term "Revenues" means Current Revenues plus deposits to the Water Fund from amounts on deposit in the Rate Stabilization Fund, but only as and to the extent specified in Section 5.04, less amounts transferred to the Rate Stabilization Fund (other than the initial deposit therein).

Reserve Requirement. The term "Reserve Requirement" shall have the meaning ascribed thereto in the Indenture.

SIFMA Index Rate. The term "SIFMA Index Rate" means the SIFMA Municipal Swap Index calculated and published by Bloomberg as of the date of any calculation of Debt Service (or, if the SIFMA Municipal Swap Index ceases to be published, any comparable nationally recognized tax-exempt debt index specified by the City).

Special Facility. The term "Special Facility" means any existing or planned facility, structure, equipment or other property, real or personal, which is designated as a Special Facility pursuant to Section 7.02 hereof.

Special Facility Obligations. The term "Special Facility Obligations" means any revenue bonds, notes, bond anticipation notes, commercial paper or other evidences of indebtedness for borrowed money issued or incurred by the City to finance a Special Facility, the principal of, premium, if any, and interest on which are payable from and secured by Special Facility Revenues derived from such Special Facility, and not from or by Net Revenues.

Special Facility Revenues. The term "Special Facility Revenues" means the revenues earned by the City from or with respect to a Special Facility and which are designated as such by the City, including but not limited to contractual payments to the City under a loan agreement, lease agreement or other written agreement with respect to the Special Facility by and between the City and the person, firm, corporation or other entity, either public or private, as shall operate, occupy or otherwise use the Special Facility.

Tax Certificate. The term "Tax Certificate" means the *Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986* relating to the 2016 Bonds, executed and delivered by the Authority and the City on the Delivery Date, as amended and supplemented from time to time.

Trustee. The term "Trustee" means U.S. Bank National Association, acting in its capacity as Trustee under and pursuant to the Indenture, and its successors and assigns.

Unassigned Rights. The term "Unassigned Rights" means the rights of the Authority under Sections 4.03, 6.10, 10.06, 10.07, 10.13 and 10.14 of this Agreement.

Water Fund. The term "Water Fund" means the fund by that name established pursuant to Sections 143 and 146 of the Charter.

Written Request. The term "Written Request" means a written instrument signed by an Authorized City Representative or an Authorized Authority Representative, as the case may be.

ARTICLE II

REPRESENTATIONS AND WARRANTIES: OPINIONS OF COUNSEL

SECTION 2.01. Representations by the City. The City makes the following representations:

(a) The City is a municipal corporation and charter city duly organized and existing under and pursuant to the laws of the State of California.

(b) The City has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Agreement, and the City has complied with the provisions of the law in all matters relating to such transactions.

(c) By proper action, the City has duly authorized the execution, delivery and performance of this Agreement.

(d) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the City is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the City.

(e) The City will not take or, to the extent within its power, permit any action to be taken which results in the interest paid for the installment purchase of the 2016 Water Project under the terms of this Agreement being included in the gross income of the Authority or its assigns for purposes of federal or State of California income taxation.

(f) The City has determined that it is necessary and proper for City uses and purposes that the City acquire the 2016 Water Project in the manner provided for in this Agreement, in order to provide essential services and facilities to persons residing in the City.

SECTION 2.02. Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

(a) The Authority is a joint exercise of powers authority duly organized pursuant to the Act, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement and by proper action has duly authorized the execution, delivery and performance of this Agreement.

(b) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Authority is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Authority.

ARTICLE III

THE 2016 WATER PROJECT

SECTION 3.01. Purchase and Sale of 2016 Water Project. The Authority hereby agrees to purchase the 2016 Water Project from the City for $_____ and to sell the 2016 Water Project to the City for the Purchase Price. The City hereby agrees to sell the 2016 Water Project to the Authority for $_____ and to purchase the 2016 Water Project from the Authority for the Purchase Price.

SECTION 3.02. Changes to the 2016 Water Project. The City may substitute other improvements for those listed as components of the 2016 Water Project in Exhibit A hereto, but only if the City first files with the Authority and the Trustee a Certification of the City:

(a) identifying such other improvements and the improvements to City facilities they will replace in the 2016 Water Project; and

(b) stating that the estimated costs of construction, acquisition and installation of the substituted improvements are not less than such costs for the improvements previously planned, and that the weighted average useful life of the components of the 2016 Water Project after such substitution is not less than such useful life prior to such substitution.

ARTICLE IV

2016 PURCHASE PAYMENTS

SECTION 4.01. Purchase Price.

(a) The Purchase Price to be paid by the City hereunder to the Authority is the sum of the principal amount of the City's obligations hereunder plus the interest to accrue on the unpaid

balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Section 4.04.

(b) The principal amount of the payments to be made by the City hereunder on each 2016 Purchase Payment Date is set forth in Exhibit B hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.02 and Exhibit B hereto, and shall be paid by the City as and constitute interest paid on the principal amount of the City's obligations hereunder.

SECTION 4.02. 2016 Purchase Payments. The City shall, subject to any rights of prepayment provided in Section 4.04, pay the Authority the Purchase Price in installment payments of interest and principal in the amounts and on the 2016 Purchase Payment Dates as set forth in Exhibit B hereto.

Each 2016 Purchase Payment shall be paid to the Authority in lawful money of the United States of America. In the event the City fails to make any of the payments required to be made by it under this Section, such payment shall continue as an obligation of the City until such amount shall have been fully paid; and the City agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the 2016 Purchase Payments if paid in accordance with their terms.

The obligation of the City to make the 2016 Purchase Payments is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the City will not discontinue or suspend any 2016 Purchase Payments required to be made by it under this Section when due, whether or not the 2016 Water Project or any part thereof is operating or operable, 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 or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

Notwithstanding anything herein to the contrary, the parties hereto acknowledge that pursuant to the Indenture the Authority has assigned to the Trustee, as security for the 2016 Bonds, all 2016 Purchase Payments received and receivable from the City. The City hereby consents to such assignment and agrees that all 2016 Purchase Payments shall be made directly to the Trustee.

SECTION 4.03. Additional Purchase Payments. (a) In addition to 2016 Purchase Payments, the City shall also pay to the Authority, the Trustee, any provider of a Reserve Account Credit Facility or the United States Treasury Department, as the case may be, "Additional Purchase Payments," as follows:

(i) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated hereby (including taxes, service charges, and assessments and other governmental charges lawfully assessed or levied by any public agency or

governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the City shall have the right to protest in good faith any such taxes or assessments and to require the Authority or the Trustee, at the City's expense, to protest and contest any such taxes or assessments levied upon them and the City shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest could, in the reasonable opinion of the Authority, adversely affect the rights or interests of the Authority or the Trustee;

(ii) Any taxes which may be imposed on the sale, resale, use, possession or ownership of the Enterprise pursuant to this Agreement;

(iii) All reasonable fees, charges and expenses of the Trustee, as and when the same become due and payable;

(iv) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under this Agreement or the Indenture;

(v) The reasonable costs and expenses of the Authority as provided herein in connection with this Agreement, the 2016 Bonds or the Indenture, including any and all expenses incurred in connection with the issuance, sale and delivery of any such 2016 Bonds or in connection with any litigation which may at any time be instituted involving this Agreement, the 2016 Bonds or the Indenture or any of the other documents contemplated thereby;

(vi) Any Policy Costs as and when the same become due and payable, to the Trustee or to the provider of the related Reserve Account Credit Facility pursuant to the terms thereof; and

(vii) Any amount required to be paid to the United States Treasury Department pursuant to Section 6.05 hereof.

(b) Such Additional Purchase Payments to the Authority or the Trustee shall be billed to the City by the Authority or the Trustee, as the case may be, from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority or the Trustee, for one or more of the above items. After such a demand, amounts so billed shall be paid by the City within 30 days after receipt of the bill by the City.

SECTION 4.04. Prepayment of 2016 Purchase Payments. 2016 Purchase Payments are subject to prepayment as provided in this Section 4.04. All prepayments of 2016 Purchase Payments shall be made in funds immediately available on the Prepayment Date.

(a) Optional Prepayment. Prior to August 1, 20__, the City shall not have the option to prepay remaining Principal Components of 2016 Purchase Payments. From and after

August 1, 20__, the City shall have the option to prepay remaining Principal Components of 2016 Purchase Payments in whole or in part (in an amount equal to Authorized Denominations), in any order of maturity, to the extent the Authority has the ability to effect an optional redemption of the 2016 Bonds. Such prepayment shall be effected by depositing with the Trustee the Prepayment Price with respect thereto on or before the Prepayment Date. The City shall give the Trustee written notice of its intention to exercise its option to prepay not more than 90 and not less than 45 days in advance of the date of such prepayment.

(b) Effect of Prepayment. In the event that the City prepays the 2016 Purchase Payments in whole, the amount paid shall be applied to the redemption in full of the principal and interest with respect to the 2016 Bonds in accordance with the Indenture. In the event that the City prepays the 2016 Purchase Payments in part, such prepayment shall be applied to the prepayment of the 2016 Purchase Payments as follows: (i) the City shall designate which Principal Components are being prepaid, and to what extent, and the Principal Component of each remaining 2016 Purchase Payment shall be reduced accordingly, in each case in the amount equal to Authorized Denominations in excess thereof corresponding to the principal amount of 2016 Bonds redeemed pursuant to Section 2.02 of the Indenture; and (ii) the Interest Component of each remaining 2016 Purchase Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the 2016 Bonds thereby redeemed pursuant to the Indenture. Upon any prepayment of 2016 Purchase Payments in part, the City shall provide the Authority with an amended Exhibit B hereto.

ARTICLE V

SECURITY

SECTION 5.01. Pledge of Net Revenues. The City hereby irrevocably pledges all Net Revenues to the payment of the 2016 Purchase Payments and Additional Purchase Payments as provided herein. This pledge together with the City's obligation to pay any Bonds or Contracts shall constitute a first lien on Net Revenues and, subject to application of amounts on deposit therein as permitted herein, the other funds and accounts created hereunder for the payment of the 2016 Purchase Payments and all other Contracts and Bonds in accordance with the terms hereof and of the Indenture.

SECTION 5.02. Allocation of Revenues. In order to carry out and effectuate the pledge and lien contained herein, the City agrees and covenants that all Revenues shall be received by the City in trust hereunder and shall be deposited when and as received in the Water Fund, which fund has been established under the Charter and which fund the City agrees and covenants to maintain and to hold separate and apart from other funds so long as any Installment Payments, Bonds or Contracts remain unpaid. Moneys in the Water Fund shall be used and applied by the City as provided in this Agreement.

The City shall, from the moneys in the Water Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as they become due and payable. All remaining moneys in the Water Fund shall be set aside by the City at the following times for the transfer to the following respective special funds in the

following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(a) Purchase Payment Fund. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in Section 10.03 of the Indenture, the City shall, from the moneys in the Water Fund, transfer to the Trustee for deposit in the Purchase Payment Fund the 2016 Purchase Payment due and payable on that 2016 Purchase Payment Date. The City shall also, from the moneys in the Water Fund, transfer to the Trustee and any other trustee or payee with respect to Bonds and Contracts, for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

No deposit need be made in the Purchase Payment Fund if the amount in the Purchase Payment Fund is at least equal to the amount of the 2016 Purchase Payment due and payable on said 2016 Purchase Payment Date.

All money in the Purchase Payment Fund shall be used and withdrawn by the Trustee in accordance with the Indenture.

(b) Reserve Fund. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in Section 10.03 of the Indenture, the City shall, from the remaining moneys in the Water Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the Trustee as provided in Sections 4.03 and 4.04 of the Indenture for deposit in the Reserve Fund and such other reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts other than this Agreement, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Requirement and/or such other reserve funds or accounts to an amount equal to the amount required to be maintained therein; provided, however, that the City may meet the Reserve Requirement by obtaining a Reserve Account Credit Facility pursuant to Section 4.04 of the Indenture.

No transfer of moneys for deposit to the Reserve Fund in connection with the 2016 Purchase Payments need be made if the amount contained therein is at least equal to the Reserve Requirement.

(c) Additional Purchase Payments. On or before each 2016 Purchase Payment Date until the 2016 Bonds have been paid or provision for their payment has been made as provided in Section 10.03 of the Indenture, the City shall, from the remaining moneys in the Water Fund, thereafter, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable payee as provided in Section 4.03 of this Agreement and any similar provisions established in connection with Bonds or Contracts other than this Agreement, that sum, if any, necessary to pay all Additional Purchase Payments then due and payable and any corresponding payments then due and payable under any Bond or Contract other than this Agreement.

(d) Surplus. Moneys on deposit in the Water Fund on each 2016 Purchase Payment Date not necessary to make any of the payments required above, may be expended by the City for any Enterprise purpose permitted by law. Moneys on deposit in the Water Fund on any date other than a 2016 Purchase Payment Date may be expended by the City on such date for any Enterprise purpose permitted by law, provided that the amount needed to pay (i) the 2016 Purchase Payment due on the next succeeding 2016 Purchase Payment Date, (ii) any Installment Payments due on the next succeeding Installment Payment Date and (iii) (without duplication) the debt service on any outstanding Bonds due in the succeeding six-month period, in each case shall have been set aside and deposited in the Purchase Payment Fund or any similar fund or account relating to any outstanding Bond or Contract, as the case may be.

SECTION 5.03. Investments. All moneys held by the City in the Water Fund shall be invested in Qualified Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

SECTION 5.04. Rate Stabilization Fund. The City shall maintain and hold a separate fund known as the "Rate Stabilization Fund," which fund is hereby established. From time to time the City may deposit in the Rate Stabilization Fund from Current Revenues such amounts as the City shall determine, provided that deposits for each Fiscal Year may be made until (but not after) two hundred seventy (270) days following the end of such Fiscal Year. The City may withdraw amounts from the Rate Stabilization Fund for transfer to the Water Fund in accordance with Section 5.04 hereof, for inclusion in Revenues for any Fiscal Year, such withdrawals to be made until (but not after) two hundred seventy (270) days after the end of such Fiscal Year. Notwithstanding the foregoing, no deposit of Current Revenues to the Rate Stabilization Fund may be made to the extent such Current Revenues were included in the report of an Independent Certified Public Accountant or an Independent Financial Consultant submitted in accordance with Section 7.01 hereof and withdrawal of the Current Revenues to be deposited in the Rate Stabilization Fund from Revenues described in said report would cause noncompliance with Section 7.01.

ARTICLE VI

COVENANTS OF THE CITY

SECTION 6.01. Compliance with Installment Purchase Agreement and Ancillary Agreements. The City will punctually pay the 2016 Purchase Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the 2016 Water Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force major, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil

disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Indenture required to be observed and performed by it; and it is expressly understood and agreed by and between the parties to this Agreement that, subject to Section 10.06 hereof, each of the agreements, conditions, covenants and terms contained in each of this Agreement and the Indenture is an essential and material term of the purchase of and payment for the 2016 Water Project by the City pursuant to, and in accordance with, and as authorized under, the Act.

The City will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Contracts and Bonds as such may from time to time be executed or issued, as the case may be.

SECTION 6.02. Against Encumbrances; Lien on Net Revenues. The City will not make any pledge of or place any lien on Net Revenues except as provided herein. The City may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of and lien on Net Revenues on a parity as provided in Section 5.02, or subordinate in all respects to the pledge of and lien thereon provided herein.

SECTION 6.03. Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease which impairs the operation of the Enterprise or any part thereof necessary to secure adequate Revenues for the payment of the 2016 Purchase Payments, or which would otherwise impair the rights of the Authority hereunder or the operation of the Enterprise. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the City to pay the 2016 Purchase Payments and if the proceeds of such sale are deposited in the Water Fund.

Nothing herein shall restrict the ability of the City to sell any portion of the Enterprise if such portion is immediately repurchased by the City and if such arrangement cannot by its terms result in the purchaser of such portion of the Enterprise exercising any remedy which would deprive the City of or otherwise interfere with its right to own and operate such portion of the Enterprise.

SECTION 6.04. Against Competitive Facilities. To the extent that it can so legally obligate itself, the City covenants that it will not acquire, construct, 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, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the City any water system competitive with the Enterprise.

SECTION 6.05. Tax Covenants. (a) Special Definitions. When used in this Section, the following terms have the following meanings:

"*Code*" means the Internal Revenue Code of 1986.

"*Computation Date*" has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

"*Gross Proceeds*" means any proceeds as defined in section 1.148-1(b) of the Tax Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the 2016 Bonds.

"*Investment*" means (i) any security (within the meaning of section 165(g)(2)(A) or (B) of the Code), (ii) any obligation (notwithstanding that such obligation may be a tax-exempt bond), (iii) any annuity contract, (iv) when allocated to a bond other than a private activity bond, any residential rental property for family units that is not located within the jurisdiction of the issuer and that is not acquired to implement a court ordered or approved housing desegregation plan, or (v) any investment-type property (as defined in section 1.148-1(e) of the Treasury Regulations).

"*Nonpurpose Investment*" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the 2016 Bonds are invested and that is not acquired to carry out the governmental purposes of the 2016 Bonds.

"*Proceeds*," with respect to an issue of governmental obligations, has the meaning set forth in section 1.148-1(b) of the Treasury Regulations (referring to sales, investment and transferred proceeds, but not replacement proceeds, of that issue).

"*Rebate Amount*" has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

"*Treasury Regulations*" means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code.

"*Yield*" of (i) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and (ii) the 2016 Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Become Taxable. The Authority and the City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the 2016 Bonds to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority or the City receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any 2016 Bond, the Authority or the City, as the case may be, shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as would not cause any 2016 Bond to become a "private activity bond" within the meaning of section 141 of the Code and the

Treasury Regulations and rulings thereunder, the Authority and the City shall at all times prior to the payment and cancellation of the last 2016 Bond to be paid and canceled:

(i) use their best efforts to ensure that the City exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the 2016 Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(ii) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the 2016 Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the jurisdiction of the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes; and

(iii) where the 2016 Bonds are refunded, the City will apply the foregoing restrictions taking cognizance of the provisions of sections 1.141-3(g) and 1.141-4(c)(2)(ii) of the Treasury Regulations and of any subsequently adopted rules or regulations applicable to such a refunding.

(d) No Private Loan. Except as would not cause any 2016 Bond to become a "private activity bond" within the meaning of section 141 of the Code and the Treasury Regulations and rulings thereunder, the Authority and the City shall not use Gross Proceeds of any 2016 Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (a) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (b) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (c) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause any 2016 Bond to become an "arbitrage bond" within the meaning of section 148 of the Code and the Treasury Regulations and rulings thereunder, the Authority and the City shall not at any time prior to the final maturity of the 2016 Bonds directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment or class of Investments acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of such 2016 Bond within the meaning of said section 148 and related Treasury Regulations and rulings.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Treasury Regulations and rulings thereunder, the Authority and the City shall not take or omit to take any action that would cause any 2016 Bond to be "federally guaranteed" within the meaning of section 149(b) of the Code and the Treasury Regulations and rulings thereunder. Without limitation of the foregoing, the Authority and the City will not permit any portion of the debt service on the 2016 Bonds to be guaranteed (in whole or in part) by the United States, or more than 5% of the proceeds of the 2016 Bonds to be loaned to any person under which the obligation of that person to repay such loan is guaranteed (in whole or in part) by the United States, or more than 5% of the proceeds of the 2016 Bonds to be invested (directly or indirectly) in federally insured deposits or accounts. For this purpose, a guarantee or insurance by an agency or instrumentality of the United States will be treated as though made or provided by the United States.

(g) Information Report. The Authority shall timely file any information required by section 149(e) of the Code with respect to the 2016 Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Treasury Regulations and rulings thereunder in order to assure that no 2016 Bond is treated as an arbitrage bond:

(i) The Authority and the City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last 2016 Bond is discharged. However, to the extent permitted by law, the Authority or the City may commingle Gross Proceeds of the 2016 Bonds with its other money, provided that the Authority or the City, as the case may be, separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(ii) Not less frequently than each Computation Date, the Authority and the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Treasury Regulations and rulings thereunder. The Trustee may rely conclusively upon the Authority's and the City's determinations, calculations and certifications with regard to the calculation of rebate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's and the City's calculations hereunder. The Authority and the City shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the 2016 Bonds until six years after the final Computation Date.

(iii) In order to assure the excludability of the interest on the 2016 Bonds from the gross income of the owners thereof for federal income tax purposes, the Authority and the City, jointly and severally but without duplication, shall pay to the United States the amount that when added to the future value of previous rebate payments made for the 2016 Bonds equals (A) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Treasury Regulations, one hundred percent (100%) of the

Rebate Amount on such date; and (B) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the Authority or the City at the times and in the amounts as are or may be required by section 148(f) of the Code and the Treasury Regulations and rulings thereunder, and shall be accompanied by Form 8038-T prepared by the Authority or the City or such other forms and information as is or may be required by section 148(f) of the Code and the Treasury Regulations and rulings thereunder for execution and filing by the Authority or the City.

(iv) The Authority and the City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (i) and (ii) above, and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Treasury Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Treasury Regulations and rulings thereunder, the Authority shall not, at any time prior to the final maturity of the 2016 Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on the 2016 Bonds not been relevant to either party.

(j) 2016 Bonds Not Hedge Bonds.

(i) The Authority and the City each represents that neither the Refunded Bonds nor any 2016 Bonds are or will become "hedge bonds" within the meaning of section 149(g) of the Code.

(ii) Without limitation of paragraph (i) above, with respect to the 2016 Bonds (or to that portion of the 2016 Bonds that is to be applied to the refunding of the Refunded Bonds), either: (A) (I) on the date of issuance of the Refunded Bonds, the City reasonably expected that at least 85% of the spendable proceeds of the Refunded Bonds would be expended within the three-year period commencing on such date of issuance, and (II) no more than 50% of the proceeds of the Refunded Bonds were invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more; or (B) (I) the provisions of section 149(g) of the Code did not apply to the Refunded Bonds, (II) the average maturity of the refunding bonds is not later than that of the Refunded Bonds, and (III) the amount of the refunding bonds is not in excess of the amount of the Refunded Bonds.

(iii) For purposes of this paragraph (j), (A) "Refunded Bonds" shall refer to the bonds of any issue refunded or re-refunded (immediately or through multiple generations of prior issues) by the 2016 Bonds, (B) in applying paragraph (ii) above, "Refunded Bonds" shall refer only to bonds that are not refunding bonds, and (C)

in applying clause (ii)(B) above, "refunding bonds" refers to, and said clause (ii)(B) has been applied separately to, each issue being refunded or re-refunded by the 2016 Bonds (and to the portion of each issue (treating such portion as a separate issue) to the extent such issue is being refunded or re-refunded by the 2016 Bonds) that was itself a refunding issue.

(k) Use of Proceeds; Weighted Average Maturity. Each of the Authority and the City hereby represents and covenants that it will apply the proceeds of the 2016 Bonds in a manner so that the weighted average maturity of the 2016 Bonds does not exceed 120% of the average reasonably expected remaining economic life of the facilities financed or refinanced therewith (all determined in accordance with the provisions of section 147(b) of the Code).

(l) Elections. The Authority hereby directs and authorizes any Authorized Authority Representative and the City hereby directs and authorizes any Authorized City Representative to make elections permitted or required pursuant to the provisions of the Code or the Treasury Regulations, as such Authorized Authority Representative or Authorized City Representative (after consultation with Bond Counsel) deems necessary or appropriate in connection with the 2016 Bonds, in the Tax Certificate relating to the 2016 Bonds or similar or other appropriate certificate, form or document.

SECTION 6.06. Maintenance and Operation of the Enterprise. The City will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

SECTION 6.07. 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 Revenues or the funds or accounts created hereunder or under the Indenture prior or superior to the lien of the 2016 Purchase Payments or which might impair the security of the 2016 Purchase Payments.

SECTION 6.08. Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance on the Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Enterprise) as are usually covered in connection with facilities similar to the Enterprise, so long as such insurance is available from reputable insurance companies and obtainable at a reasonable cost.

(b) The City will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Enterprise.

(c) Any insurance required to be maintained by paragraph (a) above and, if the City determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained

in the amounts and manner usually maintained in connection with water systems similar to the Enterprise and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall provide that the Authority shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

SECTION 6.09. Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Enterprise, which records shall be available for inspection by the Authority and the Trustee (who shall have no duty to so inspect) at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Authority annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ended June 30, 2016) financial statements of the Water Fund of City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

SECTION 6.10. Protection of Security and Rights of the Authority. The City will preserve and protect the security hereof and the rights of the Authority to the 2016 Purchase Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

SECTION 6.11. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Enterprise, or any part thereof or upon the 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 Enterprise, or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

SECTION 6.12. Amount of Rates and Charges. The City shall fix, prescribe and collect rates, fees, charges and connection fees for water service of the Enterprise which will be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred ten percent (110%) of Debt Service for such Fiscal Year. The City may make adjustments from time to time in such rates, fees, charges and connection fees and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates, fees, charges and connection fees will at all times be sufficient to meet the requirements of this Section.

SECTION 6.13. Covenant to Budget. The City covenants that it will include in the annual budget for the Enterprise for the following Fiscal Year the Installment Payments due in that Fiscal Year. The City will furnish to the Trustee (who shall have no duty to review such budget), as assignee of Authority, copies of each final budget of the Enterprise by September 1 of each year, together with a certificate substantially in the form of Exhibit C hereto. The

covenants on the part of the City herein contained are deemed by the City to be duties imposed by law and it shall be the duty of each and every public official of the City to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Agreement agreed to be carried out and performed by the City.

SECTION 6.14. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

SECTION 6.15. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or any holder or beneficial owner of the 2016 Bonds may take such actions as described under the Continuing Disclosure Agreement to cause the City to comply with its obligations under this Section.

ARTICLE VII

ADDITIONAL BONDS AND CONTRACTS

SECTION 7.01. Additional Bonds and Contracts. The City may at any time issue any Bonds, or arrange with the Authority the issuance of any Bonds, the payments under and pursuant to which, or execute any Contract the Installment Payments under and pursuant to which, as the case may be, are payable from the Net Revenues on a parity with the payment by the City of the 2016 Installment Payments as provided herein.

For the purposes of this Section 7.01, "Additional Obligations" shall mean all additional Bonds to be issued, and/or Contracts to be executed, by the City or the Authority pursuant to this Section 7.01.

Notwithstanding anything in this Section 7.01 to the contrary, no Additional Obligations may be issued, or entered into, by the City unless (a) no Event of Default shall have occurred and be continuing, and (b) either (i) Net Revenues for the most recent audited Fiscal Year or for the unaudited twelve-month period during the eighteen months preceding the date of issuance or execution of such Additional Obligations shall have been equal to at least one hundred ten percent (110%) of the Maximum Annual Debt Service on all outstanding Bonds and Contracts and on such Additional Obligations, plus all amounts due on Policy Costs during the then current Fiscal Year, as evidenced by a Certification of the City or (ii) the estimated Revenues and Net Revenues for the first Fiscal Year in which no interest on such Additional Obligations is capitalized, as evidenced by a Certification of the City and a report prepared by an Independent Certified Public Accountant or an Independent Financial Consultant, filed with the Trustee (which calculation shall take into account only adopted rates and charges), are sufficient to satisfy the requirements of Section 6.12.

If any such Bonds are issued or any such Contracts are executed, the terms of such Bonds or Contracts shall provide that Net Revenues shall be applied among the 2016 Purchase Payments and the principal of and interest on such Bonds and the installment payments under such Contracts, ratably, according to the amounts due thereon, without discrimination or preference and without taking into account any amounts available under any debt service reserve funds.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the City to execute any Contract or to issue any Bonds, or arrange with the Authority to execute any Contract or to issue any Bonds at any time to refund any outstanding Bonds or any outstanding Contracts, provided that during the period in which Bonds or Contracts (other than the refunding or refunded Bonds and Contracts) will be outstanding, the Debt Service due in each Fiscal Year following such refunding will be less than what the Debt Service due in such Fiscal Year would have been without such refunding.

There shall be no limitations on the ability of the City to incur debt or other obligations payable from Net Revenues on a basis subordinate to the payment by the City of the 2016 Purchase Payments.

SECTION 7.02. Special Facilities and Special Facility Obligations. The City from time to time, subject to the terms and conditions of this Section 7.02, may (a) designate an existing or planned facility, structure, equipment or other property, real or personal, of the Enterprise, as a "Special Facility," (b) provide that revenues earned by the City from or with respect to such Special Facility shall constitute "Special Facility Revenues" and shall not be included as Current Revenues, and (c) issue or incur Special Facility Obligations primarily for the purpose of acquiring, constructing, renovating or improving, or providing financing to a third party to acquire, construct, renovate or improve, such Special Facility. The Special Facility Obligations shall be payable as to principal, purchase price, if any, redemption premium, if any, and interest from and secured by the Special Facility Revenues with respect thereto, and not from or by Net Revenues. The City from time to time may refinance any such Special Facility Bonds with other Special Facility Bonds.

No Special Facility Bonds shall be issued by the City unless there shall have been filed with the Trustee a Certification of the City to the effect that the estimated Special Facility Revenues with respect to the proposed Special Facility are projected to be at least sufficient to pay the principal (either at maturity or by mandatory sinking fund redemptions) or purchase price of and interest on such Special Facility Obligations as and when the same shall become due, all costs of operating and maintaining such Special Facility not paid by a party other than the City, and all sinking fund, reserve fund and other payments required with respect to such Special Facility Obligations as and when the same shall become due.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

SECTION 8.01. Events of Default. Each of the following events shall be an "Event of Default":

(a) If the City shall fail to pay in full any 2016 Purchase Payment, Additional Purchase Payment or other payment required to be paid hereunder or under any Bond or Contract at the time and in the manner specified herein;

(b) If the City shall fail to observe or perform any covenant, condition, agreement or provision in this Agreement on its part to be observed or performed, other than as referred to in Section 6.16 or subsection (a) of this Section 8.01, or shall breach any warranty by the City herein contained, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the City by the Authority or the Trustee; except that, if in the reasonable opinion of the City such failure or breach can be remedied but not within such sixty (60) day period and if the City has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, such failure or breach shall not become an Event of Default for so long as the City shall diligently proceed to remedy it in accordance with and subject to any directions or limitations of time established by the Authority or the Trustee, as the case may be;

(c) If the City files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Enterprise, excluding in each case the Pending Bankruptcy Case;

(d) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the City an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the City or of the whole or any substantial part of the Enterprise, or approving a petition filed against the City seeking reorganization of the City under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof, excluding in each case the Pending Bankruptcy Case;

(e) 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, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(f) an event of default, as defined under any Bond or Contract, shall have occurred and be continuing.

SECTION 8.02. Remedies on Default**.** If an Event of Default specified in Section 8.01 hereof shall occur, then, and in each and every case during the continuance of such Event of Default:

(1) The Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the 2016 Purchase Payments, Additional Purchase Payments and any other payments then due and thereafter to become due under this

Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in this Agreement; and

(2) The Trustee may take whatever other legal action may appear necessary or desirable to enforce its rights and the rights of the Owners of the 2016 Bonds.

SECTION 8.03. Remedies Not Exclusive; No Waiver of Rights**.** No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the Authority or the Trustee to exercise any remedy, to the extent permitted by law, reserved to it or contained in this Agreement, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given to the Authority hereunder shall also extend to the Trustee, and the Trustee may exercise any rights under this Agreement, and the Trustee and the owners of the 2016 Bonds issued under the Indenture shall be deemed third party beneficiaries of all covenants and conditions herein contained.

No delay in exercising or omitting to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Notwithstanding any other provision of this Agreement, in no event shall the remedy of acceleration be available to the Authority, the Trustee or any other person, and the Trustee is not empowered to sell the Enterprise or any portion thereon and use the proceeds of such sale to make 2016 Purchase Payments.

SECTION 8.04. Expenses on Default**.** In the event the City should default under any of the provisions of this Agreement and the Trustee should employ attorneys or incur other expenses for the collection of the payments due hereunder or the enforcement of performance or observance of any obligation on the part of the defaulting party herein contained, the City agrees that it will on demand therefor pay to the Trustee the reasonable fee of such attorneys and such other expenses so incurred by the Trustee.

SECTION 8.05. Notice of Default**.** The City agrees that, as soon as is practicable, and in any event within ten (10) days, the City will furnish the Trustee notice of any event which is an Event of Default pursuant to Section 8.01 hereof which has occurred and is continuing on the date of such notice, which notice shall set forth the nature of such event and the action which the City proposes to take with respect thereto.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

SECTION 9.01. Discharge of Obligations. When

(a) all or any portion of the 2016 Purchase Payments shall have become due and payable in accordance herewith or a written notice of the City to prepay all or any portion of the 2016 Purchase Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the 2016 Purchase Payment Dates or date (or dates) specified for prepayment, in trust and irrevocably appropriated and set aside to the payment of all or any portion of the 2016 Purchase Payments, sufficient moneys and Defeasance Securities, the principal of and interest on which when due will provide money sufficient to pay all principal, prepayment premium, if any, and interest of such 2016 Purchase Payments to their respective 2016 Purchase Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee,

then and in that event, the right, title and interest of the Authority herein and the obligations of the City hereunder shall, with respect to all or such portion of the 2016 Purchase Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Defeasance Securities applied to the payment of such 2016 Purchase Payments).

In such event, upon request of the City the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the City, after payment of all amounts due the Trustee pursuant to the Indenture, as an overpayment of 2016 Purchase Payments, all such moneys or such Defeasance Securities held by it pursuant hereto other than such moneys and such Defeasance Securities as are required for the payment or prepayment of the 2016 Purchase Payments, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the payment of the 2016 Purchase Payments and shall be applied by the Trustee to the payment of the 2016 Purchase Payments of the City.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Liability of City Limited to Net Revenues. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues and the other funds provided herein and in the Indenture for the payment of the 2016 Purchase Payments or for the performance of any agreements or covenants required to be performed by it captained herein. The City may,

however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the 2016 Purchase Payments is a special obligation of the City payable solely from Net Revenues and other funds described in this Agreement and in the Indenture, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

SECTION 10.02. Benefits of Installment Purchase Agreement Limited to Parties. Nothing contained herein, expressed or implied, is intended to give to any person other than the City, the Authority or the Trustee any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the City, the Authority or the Trustee shall be for the sole and exclusive benefit of the other party.

SECTION 10.03. Successor Is Deemed Included in all References to Predecessor. Whenever either the City or the Authority 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 or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 10.04. Waiver of Personal Liability. No councilmember, commissioner, officer or employee of the City shall be individually or personally liable for the payment of the 2016 Purchase Payments, but nothing contained herein shall relieve any director, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 10.05. 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" and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 10.06. Partial Invalidity. If any one or more, of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The City and the Authority hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the rack that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 10.07. Claims; Warranties, etc. The Authority irrevocably appoints the City as its agent and attorney-in-fact, so long as the City shall not be in default hereunder, to assert from time to time whatever claims and rights, including warranties with respect to any portion of the Enterprise, which the Authority may have against the manufacturer, supplier or contractor of such portion of the Enterprise. As between the Authority and the City, the City's sole remedy for the breach of any warranty, indemnification or representation shall be against the manufacturer, supplier or contractor of any portion of the Enterprise, and not against the Authority, nor shall such matter have any effect whatsoever on the rights of the Authority with respect to this Agreement, including the rights to receive full and timely payments hereunder. The City expressly acknowledges that neither the Authority nor the Trustee makes, or has made, any representation or warranty whatsoever as to the existence or availability of such warranties of the manufacturer, supplier or contractor with respect to any item of the Enterprise.

SECTION 10.08. Net Contract. This Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the 2016 Purchase Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

SECTION 10.09. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 10.10. Notices. All written notices to be given hereunder shall be given by 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 party in writing from time to time, namely:

If to the City:

City of San Bernardino Municipal Water Department
300 North "D" Street
San Bernardino, California 92418
Attention: General Manager

If to the Authority:

California Municipal Finance Authority
2111 Palomar Airport Road, Suite 320
Carlsbad, California 92011

SECTION 10.11. Effective Date. This Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid (or provision for the payment thereof shall have been made in accordance with Section 9.01 hereof to the written satisfaction of the Authority).

SECTION 10.12. Execution in Counterparts. This Agreement 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 10.13. Indemnification of Authority. The City hereby agrees to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder or under the Indenture; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder or under the Indenture by the Authority.

SECTION 10.14. Amendments. This Agreement may not be effectively amended, changed, modified, altered or terminated except by the written agreement of the City and the Authority and the concurring written consent of the Trustee, given in accordance with the provisions of the Indenture; provided, however, that the City may (i) amend the description of the Components in Exhibit A hereto in any manner consistent with the Tax Certificate, (ii) may amend the schedule of 2016 Purchase Payments set forth in Exhibit B hereto, pursuant to Section 4.04 hereof, and (iii) amend this Agreement in connection with the issuance or incurrence of Additional Obligations pursuant to Section 7.01 hereof, in each case without the agreement or consent of the Trustee.

SECTION 10.15. Assignment. (a) Pursuant to Section 4.01 of the Indenture, the Authority has assigned its right, title and interest in and to this Agreement (other than its Unassigned Rights) to the Trustee, for the benefit of the owners from time to time of the 2016 Bonds. The City hereby consents to such assignment.

(b) The City shall not assign its interests in this Agreement without the prior written consent of the Trustee.

SECTION 10.16. Indenture. The City acknowledges having read the Indenture, approves the Indenture and agrees to perform all duties imposed on it by the Indenture. The City further agrees that 2016 Bond proceeds shall be applied as set forth in the Indenture. Insofar as any section of the Indenture imposes duties and responsibilities on the City it is specifically incorporated herein by reference.

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

CITY OF SAN BERNARDINO

By_____
General Manager of
the Municipal Water Department

ATTEST:

_____
City Clerk

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

By_____
[Chairman]

ATTEST:

_____
Secretary

EXHIBIT A

DESCRIPTION OF THE 2016 WATER PROJECT

EXHIBIT B

PURCHASE PRICE AND SCHEDULE OF 2016 PURCHASE PAYMENTS

EXHIBIT C

CERTIFICATE OF ANNUAL BUDGET

[date]

To: U.S. Bank National Association,
as Trustee
633 West Fifth Street
Los Angeles, California 90071
Attention: Corporate Trust

The undersigned is the duly appointed [General Manager of the City of San Bernardino Municipal Water Department], and pursuant to Section 6.13 of the Installment Purchase Agreement, dated as of October 1, 2016 (the "Agreement"), between the California Municipal Finance Authority and the City of San Bernardino, and hereby certifies as follows:

1. Attached hereto is a true and correct copy of the final annual budget of the Enterprise for the _____ Fiscal Year (the "Budget").

2. The Budget includes the Installment Payments due in such Fiscal Year, which total $_____[A]_____. The Budget further includes the Net Revenues budgeted for such Fiscal Year, which total $_____[B]_____. The ratio of budgeted Net Revenues to Installment Payments for such Fiscal Year is [B]/[A].

Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

CITY OF SAN BERNARDINO

By _____
[General Manager of
Municipal Water Department]

DRAFT OF
08/11/16

INDENTURE OF TRUST

by and between the

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

Dated as of October 1, 2016

Relating to

$_____
CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
WATER FACILITIES PROJECT)

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EXHIBIT A – Form of 2016 Bond A-1
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INDENTURE OF TRUST

THIS INDENTURE OF TRUST (this "Indenture"), dated as of October 1, 2016, by and between the CALIFORNIA MUNICIPAL FINANCE AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, having a corporate trust office in Los Angeles, California (the "Trustee");

W I T N E S S E T H:

WHEREAS, the Authority is a joint powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), and is authorized pursuant to Article 4 of the Act (the "Act") to borrow money for the purpose of financing the Authority's acquisition of public capital improvements of the City of San Bernardino, California (the "City) to provide financing and refinancing for the City's public capital improvements; and

WHEREAS, the City owns and operates a municipal water utility (the "Enterprise"); and

WHEREAS, the Authority has approved the issuance of its Water Revenue Bonds, Series 2016 (City of San Bernardino Water Facilities Project) (the "2016 Bonds") to assist the City in providing funds to finance or refinance the acquisition and construction of certain capital assets of the Enterprise, to finance capitalized interest with respect to the 2016 Bonds, to fund a reserve account to secure the 2016 Bonds and to pay related costs of issuance; and

WHEREAS, the Authority will purchase components of the Enterprise from the City with proceeds of the 2016 Bonds, and the City will purchase back such components from the Authority by making 2016 Purchase Payments pursuant to the Installment Purchase Agreement; and

WHEREAS, in order to provide for the authentication and delivery of the Bonds (as hereinafter defined), to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium (if any) and interest thereon, the Authority has authorized the execution and delivery of this Indenture;

WHEREAS, the 2016 Bonds issued under this Indenture will be secured by an assignment of certain of the Authority's interests in the Installment Purchase Agreement; and

WHEREAS, the Authority has found and determined, and hereby affirms, that all acts and proceedings required by law necessary to make the Bonds, when executed by the Authority, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal special obligations of the Authority, and to constitute this Indenture as a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of and the interest and premium (if any) on all Bonds at any time issued and outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the

Owners thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

Section 1.01 Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes of this Indenture and of any Supplemental Indenture and of the Bonds and of any certificate, opinion, request or other documents herein mentioned have the meanings herein specified. In addition, all terms defined in Section 1.1 of the Installment Purchase Agreement and not otherwise defined in this Section 1.01 shall have the respective meanings given such terms in the Installment Purchase Agreement.

"Act" means Article 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State, as in existence on the Delivery Date or as thereafter amended from time to time.

"Additional Bonds" means all bonds of the Authority authorized by and at any time Outstanding pursuant hereto and executed, issued and delivered in accordance with Article III hereto.

"Additional Project" means any capital improvements to the Enterprise to be financed with the proceeds of Additional Bonds, as designated by the City in a Supplemental Indenture.

"Authority" means the California Municipal Finance Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement, dated as of January 1, 2004, and under the Act, and its successors.

"Authorized Authority Representative" means the Executive Director of the Authority or any other person or persons designated by the Executive Director or Board of Directors of the Authority and authorized to act on behalf of the Authority by a Written Request signed by the Executive Director of the Authority or by a certified resolution adopted by the Board and delivered to the Trustee.

"Authorized City Representative" means the General Manager of the Department, the Finance Director of the Department and any other person or persons designated by the General Manager or Board of Water Commissioners of the Department and authorized to act on behalf of the City by a Written Request signed by the General Manager or by a certified resolution adopted by the Board of Water Commissioners and delivered to the Trustee.

"Authorized Denominations" means, with respect to the 2016 Bonds, $5,000 and any integral multiple thereof.

"Authorized Officer of the Trustee" means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer and every officer and assistant officer of the Trustee.

"Beneficial Owner" shall have the meaning set forth in Section 2.11 hereof.

"Board" means the Board of Directors of the Authority.

"Bond Counsel" means (a) Norton Rose Fulbright US LLP or (b) any other attorney or firm of attorneys appointed by or acceptable to the City of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code.

"Bond Register" means the records of the Trustee for the registration and transfer of Bonds, as described in Section 2.07.

"Bonds" means the 2016 Bonds and all Additional Bonds.

"Business Day" means a day of the year, other than a Saturday or Sunday, on which banks in New York, New York, Los Angeles, California and San Francisco, California, are not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

"Certificate of the Authority" means a certificate in writing signed by an Authorized Authority Representative.

"City" means the City of San Bernardino, California, a charter city and municipal corporation organized and existing under the laws of the State, and includes where applicable the Department.

"Code" means the Internal Revenue Code of 1986. Any reference to a provision of the Code shall include the applicable Treasury Regulations with respect to such provision.

"Common Reserve Account" means the account of that name established in the Reserve Fund pursuant to Section 4.04 to secure the Common Reserve Series.

"Common Reserve Series" means those Series of Bonds secured by the Common Reserve Account as provided in this Indenture for the 2016 Bonds and in the Supplemental Indenture providing for each such other Series.

"Contract" means all installment sale contracts, capital leases or similar obligations of the City authorized and executed by the City under and pursuant to applicable law, the payments under and pursuant to which are payable from and secured by Net Revenues on a parity with the payments due under the Installment Purchase Agreement.

"Corporate Trust Office" or **"Trust Office"** means the principal corporate trust office of the Trustee in Los Angeles, California, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted or such other offices as may be specified to the Authority by the Trustee in writing.

"Costs of Issuance" means all costs or expenses paid or incurred in connection with the preparation, authorization, issuance, sale and delivery of the Bonds, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the Authority and the Trustee, compensation to any financial consultants or underwriters, legal fees and expenses, fees and costs for any guaranty, surety bond, letter of credit or other credit facility, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents, word processing costs, special counsel and other legal fees and expenses, accounting fees, expenses incurred by the City or the Authority in connection with qualification or registration, or determining the exemption from registration or qualification of the Bonds under the "Blue Sky" laws of any jurisdiction, and fees payable

to any other consultants or experts retained in connection with such preparation, authorization, issuance, sale and delivery, and costs of printing.

"Debt Service" shall have the meaning ascribed thereto in the Installment Purchase Agreement.

"Defeasance Securities" means:

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

B. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

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

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

E. Obligations issued by federal agencies including, but not limited to, the following agencies, which are backed by the full faith and credit of the U.S.:

1. U.S. Export-Import Bank (Eximbank)

   Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)

   Certificates of beneficial ownership

3. Federal Financing Bank

4. General Services Administration

   Participation certificates

5. U.S. Maritime Administration

   Guaranteed Title XI financing

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

   Project Notes

   Local Authority Bonds

   New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

"Delivery Date" means October __, 2016, being the date of delivery of the 2016 Bonds to the original purchasers thereof.

"Department" means the City of San Bernardino Municipal Water Department.

"Depository" means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to Section 2.11.

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

"DTC Participants" shall have the meaning set forth in Section 2.11 hereof.

"Enterprise" means the entire water utility (including all buildings, systems, plants, works, facilities or undertakings used for or useful in the collection, storage, treatment or provision of potable water) of the City as such utility now exists, together with all improvements and extensions to said system later constructed or acquired.

"Event of Default" means any of the events described in Section 8.01.

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

"Fitch" means Fitch Inc., its successors and assigns or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized securities rating agency designated by the City, with notice to the Trustee.

"Government Obligations" means direct obligations of the United States of America and securities fully and unconditionally guaranteed by the United States of America, including obligations issued or held in book-entry form on the books of the U.S. Department of the Treasury; provided, that the full faith and credit of the United States of America must be pledged to any such direct obligation or guarantee.

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

"Independent Accountant" means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the City, and who, or each of whom (a) is in fact independent and not under domination of the Authority or the City; (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and (c) is not connected with the Authority or the City as an officer or employee of the Authority or the City but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Authority, the City or the Trustee.

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

"Installment Purchase Agreement" means that certain Installment Purchase Agreement, dated as of October 1, 2016, by and between the City and the Authority, as amended or supplemented from time to time.

"Interest Component" means any Purchase Payment, or portion thereof, which is designated and paid as interest pursuant to the terms of the Installment Purchase Agreement or any Related Contract, as applicable.

"Interest Payment Date" with respect to the Installment Purchase Agreement and the 2016 Bonds, means February 1 and August 1 in each year, beginning _____ 1, 2017, and continuing thereafter so long as any 2016 Bonds remain outstanding.

"Maximum Annual Debt Service" means, at any point in time, the maximum amount of Debt Service in the then current or any future Fiscal Year, as calculated by the City.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns or, if such entity shall be dissolved or liquidated for shall no longer perform the functions of a statistical rating organization, any other nationally recognized securities rating agency designated by the City, with notice to the Trustee.

"Net Revenues" shall have the meaning ascribed thereto in the Installment Purchase Agreement.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 10.07) all Bonds theretofore executed, issued and delivered by the Authority under this Indenture except (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation, (b) Bonds paid or deemed to have been paid within the meaning of Section 10.03, and (c) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered pursuant to this Indenture or any Supplemental Indenture.

"Owner," when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Permitted Investments" means any of the following, to the extent permitted by the laws of the State:

A. 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, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. 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):

1. U.S. Export-Import Bank (Eximbank)
   Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)
   Certificates of beneficial ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration
   Participation certificates

6. Government National Mortgage Association (GNMA or "Ginnie Mae")
   GNMA - guaranteed mortgage-backed bonds
   GNMA - guaranteed pass-through obligations

7. U.S. Maritime Administration
   Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD)
   Project Notes
   Local Authority Bonds
   New Communities Debentures - U.S. government guaranteed debentures
   U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing
   notes and bonds

C. 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):

1. Federal Home Loan Bank System
   Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
   Participation Certificates
   Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")
   Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or "Sallie Mae")
   Senior debt obligations

5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System
   Consolidated systemwide bonds and notes

D. Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of "AAAm-G," "AAAm" or "AAm" or a rating by Moody's of "Aaa," "Aa1" or "Aa2," including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee or such holding company provides investment advisory or other management services.

E. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF, which may be from or with the Trustee, its parent holding company and their affiliates.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Put Agreements, with providers (or guarantors thereof) rated at the time of investment "Aa3" or better by Moody's or "AA-" or better by S&P.

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. 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.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P including the Trustee, its parent holding company and their affiliates.

K. Repurchase Agreements which satisfy the following criteria:

Repurchase Agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity 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 municipal entity in exchange for the securities at a specified date.

1. <u>Repos must be between the municipal entity and a dealer bank or securities firm</u>.

   a. <u>Primary dealers</u> on the Federal Reserve reporting dealer list which are rated "A" or better by S&P and Moody's, or

   b. <u>Banks</u> rated "A" or better by S&P or "A2" or better by Moody's.

2. <u>The written repo contract must include the following</u>:

   a. <u>Securities which are acceptable for transfer are</u>:

      (l) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC).

b. The term of the repo may be up to 365 days.

c. The term of the repo may exceed 365 days so long as the final maturity does not exceed the final maturity on the Bonds and the funds are available at par for reasons under this Indenture of Trust.

d. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

e. Valuation of Collateral

(l) The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below l04% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

L. Local Agency Investment Fund of the State of California ("LAIF"), created pursuant to Section 16429.1 of the California Government Code.

M. Investment Trust of California, doing business as Cal Trust.

"Policy Costs" means repayments of any draw under a Reserve Account Credit Facility and any expenses related thereto and any accrued interest.

"Principal Component" means any Purchase Payment, or portion thereof, which is designated and paid as principal pursuant to the terms of the Installment Purchase Agreement or any Related Contract, as applicable.

"Principal Payment Date" means, with respect to the 2016 Bonds, August 1 of each year beginning August 1, ____ and ending on August 1, ____.

"Project Costs" means the costs or expenses paid or incurred by the City in connection with the acquisition of the 2016 Project or any Additional Project.

"Project Revenues" means all amounts paid by the City pursuant to Section 4.02 of the Installment Purchase Agreement and pursuant to the corresponding provisions of any Related Contract.

"Purchase Payments" means the 2016 Purchase Payments and any payments by the City under a Related Contract designated for the payment of debt service on Additional Bonds.

"Rating Agency" means any of S&P, Moody's or Fitch[, or any other nationally recognized securities rating agency designated by the City, with notice to the Trustee].

"Record Date" for the 2016 Bonds means, with respect to any Interest Payment Date, the fifteenth (15th) calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

"Registration Books" means the records maintained by the Trustee pursuant to Section 2.07 for the registration and transfer of ownership of the Bonds.

"Related Contract" means any Contract relating to one or more Series of Additional Bonds as designated by the City therein.

"Reserve Account Credit Facility" means a letter of credit, insurance policy, surety bond, other credit facility provided to the Trustee by a bank, insurance company or other financial institution whose senior unsecured debt obligations are, or whose claims-paying ability is, at the time of the delivery of such Reserve Account Credit Facility, rated in one of the top two rating categories (without giving effect to any numerical or other modifiers) by any Rating Agency, which provides for payment when due, in accordance with the terms thereof, of the principal or redemption price of and/or interest on one or more Series of Bonds.

"Reserve Account" means each account of that name within the Reserve Fund established pursuant to Section 4.04 hereof, which account may secure one or more Series of Bonds as provided herein or in the Supplemental Indenture providing for the creation thereof.

"Reserve Fund" means the fund of that name established pursuant to Section 4.04 hereof.

"Reserve Requirement" means, (a) with respect to the Common Reserve Series, the least of (i) 10% of the issue price of the Common Reserve Series, (ii) the Maximum Annual Debt Service on the Common Reserve Series, and (iii) 125% of the average annual debt service on the Common Reserve Series, and (b) with respect to any other Series of Bonds, such amount as shall be specified in the Supplemental Indenture authorizing the issuance of such Series of Bonds.

"S&P" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns or, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized securities rating agency designated by the City, with notice to the Trustee.

"Securities Depositories" means DTC and its successors and assigns or if (i) the then Securities Depository resigns from its functions as depository of the Bonds or (ii) the Authority discontinues use of the then Securities Depository pursuant to Section 2.11, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Bonds and which the Authority may designate in a Written Request (at the direction of the City) delivered to the Trustee.

"Serial Bonds" means Bonds for which no sinking fund payments are provided.

"Series" shall mean all Bonds designated by descriptive title or otherwise as a series and prepared and issued in a simultaneous transaction, and any Bonds thereafter prepared and issued in lieu of or in exchange or substitution for such Bonds, pursuant to the provisions of this Indenture, regardless of variations in maturity, interest rate or other provisions.

"State" means the State of California.

"Supplemental Indenture" means any indenture, agreement or other instrument hereafter duly executed by the Authority and the Trustee in accordance with the provisions of Article III or Article VII hereof.

"Tax Certificate" shall mean the *Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986* relating to the 2016 Bonds, executed and delivered by the Authority and the City on the Delivery Date, as amended or supplemented from time to time.

"Term Bonds" means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

"Treasury Regulations" means temporary and permanent regulations promulgated under or with respect to section 103 and sections 141 through 150, inclusive, of the Code.

"Trustee" means U.S. Bank National Association and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in Article VI.

"Written Request" means a written instrument signed by an Authorized City Representative or an Authorized Authority Representative, as the case may be.

"2016 Bonds" means the $_____ aggregate principal amount of the California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project) authorized by and at any time outstanding pursuant to the Act and this Indenture.

"2016 Project" means the components of the Enterprise to be financed with the net proceeds of the 2016 Bonds, as described in the Installment Purchase Agreement.

"2016 Purchase Payments" means the payments so designated in the Installment Purchase Agreement.

Section 1.02 Rules of Construction. All references in this Indenture to "Articles," "Sections," and other subdivisions are to the corresponding Articles, Section or subdivisions of this Indenture; and the words "herein," "hereof," "hereunder," and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Section 1.03 Authorization and Purpose of Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all things, conditions, and acts required by law to exist, happen and be performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now authorized under the Act and each and every requirement of law, to issue the Bonds in the manner and form provided

in this Indenture. Accordingly, the Authority hereby authorizes the issuance of the Bonds pursuant to the Act and this Indenture.

Section 1.04 Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

Section 1.05 Conditions Precedent Satisfied. Each party hereto represents that all acts, conditions and things required of it by law to exist, happen and be performed by it precedent to and in connection with the execution and entering into of this Indenture have happened and have been performed in regular and due time, form and manner as required by law, and each party hereto represents that it is now duly empowered to execute and enter into this Indenture.

Section 1.06 Exhibits. The following Exhibits are attached to and by this reference made a part of this Indenture:

Exhibit A: Form of 2016 Bond

Exhibit B : Form of Requisition.

ARTICLE II

ISSUANCE OF THE 2016 BONDS

Section 2.01 Terms of the 2016 Bonds.

(a) Generally. The 2016 Bonds authorized to be issued by the Authority under and subject to the Act and the terms of this Indenture shall be designated the "California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project)" and shall be issued in the original aggregate principal amount of _____ Dollars ($_____).

(b) Terms of 2016 Bonds. The 2016 Bonds shall be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof, so long as no 2016 Bond shall have more than one maturity date.

The 2016 Bonds shall be dated the Delivery Date, and shall mature on August 1 in each of the years and in the amounts, and shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

Maturity Date (August 1)	Principal Amount	Interest Rate Per Annum

Interest on the 2016 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Owner at the address of such owner as it appears on the Registration Books as of the preceding Record Date; provided, however, that at the written request of the Owner of at least $1,000,000 in aggregate principal amount of Outstanding 2016 Bonds filed with the Trustee prior to any Record Date, interest on such 2016 Bonds shall be paid to such owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the continental United States designated in such written request (any such written request shall remain in effect until rescinded in writing by such Owner). Principal of and premium (if any) on any 2016 Bond shall be paid upon presentation and surrender thereof, at maturity, at the corporate Trust Office of the Trustee. The principal of and interest and premium (if any) on the 2016 Bonds shall be payable in lawful money of the United States of America.

Interest with respect to the 2016 Bonds shall accrue on overdue principal at the same rate borne by the particular 2016 Bonds. Each 2016 Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is executed on a February 1 or August 1, in which event interest shall accrue from the date of execution thereof; (b) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (c) it is authenticated on or before _____ 15, 2017, in which event it shall bear interest from its dated date; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or if no interest has been paid, from its dated date.

The Authority and the Trustee may treat the registered owner of any 2016 Bond or 2016 Bonds as the absolute owner thereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

Section 2.02 Redemption of 2016 Bonds.

(a) *Optional Redemption of 2016 Bonds*. Prior to August 1, 20__, the Authority shall not have the option to redeem the 2016 Bonds prior to maturity. From and after August 1, 20__, the Authority shall have the option, at the direction of the City, to redeem the 2016 Bonds maturing on or after August 1, 20__, in whole or in part on any date, in Authorized Denominations, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

(b) *Mandatory Sinking Account Redemption of 2016 Bonds.* The 2016 Bonds maturing on August 1, ____ are subject to mandatory redemption, in part, from sinking account payments set forth in the following schedule commencing August 1, ____, and on August 1 in each year thereafter to and including August 1, ____ at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption.

Redemption Date (August 1)	Principal Amount To be Redeemed

* Maturity

(c) *Revised Schedule of 2016 Purchase Payments.* Upon redemption pursuant to this Section 2.02, the City shall provide the Trustee and the Authority with a revised Exhibit B to the Installment Purchase Agreement reflecting such redemption.

(d) *Notice of Redemption.* The Trustee on behalf and at the expense of the Authority shall mail (by first-class mail) notice of any redemption to the respective Owners of any 2016 Bonds designated for redemption, at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to the Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such 2016 Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the Redemption Date, the redemption place and the redemption price and shall designate the CUSIP numbers, the 2016 Bond numbers (but only if less than all of the Outstanding 2016 Bonds are to be redeemed) and the maturity or maturities in the event of redemption of all of the 2016 Bonds of such maturity or maturities in whole of the 2016 Bonds to be redeemed, and shall require that such 2016 Bonds be then surrendered at the Corporate Trust Office for redemption at the redemption price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the redemption date and with regard to optional redemption in the event that funds required to pay the redemption price are not on deposit under the Indenture at the time the notice of redemption is sent, a statement to the effect that the redemption is conditioned upon the receipt of the appropriate funds required to pay the redemption price by the Trustee on or prior to the redemption date.

(e) *Partial Redemption of 2016 Bonds.* In the event only a portion of any 2016 Bond is called for redemption, then upon surrender of such 2016 Bond the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2016 Bond or 2016 Bonds of the same maturity date, of Authorized Denominations in aggregate principal amounts equal to the unredeemed portion of the 2016 Bond to be redeemed.

(f) *Effect of Redemption.* From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the 2016 Bonds so called for redemption shall have been duly provided, such 2016 Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the principal, interest accrued to the Redemption Date, and premium, if any, and no interest shall accrue thereon from and after the Redemption Date specified in such notice.

All 2016 Bonds redeemed in whole or in part pursuant to the provisions of this Article II shall be canceled by the Trustee and destroyed, and the Trustee shall certify in writing as to their destruction.

Section 2.03 Form of 2016 Bonds. The 2016 Bonds, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, shall be in the form set forth in Exhibit A attached hereto, as applicable, and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

Section 2.04 Execution of 2016 Bonds. The 2016 Bonds shall be signed in the name and on behalf of the Authority with the manual or facsimile signature of its Chairman, Vice Chairman or Treasurer and attested with the manual or facsimile signature of its Secretary or any assistant duly appointed by the Board, and shall be delivered to the Trustee for authentication by it. In case any officer of the Authority who shall have signed any of the 2016 Bonds shall cease to be such officer before the 2016 Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the Authority, such 2016 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though the individual who signed the same had continued to be such officer of the Authority. Also, any 2016 Bond may be signed on behalf of the Authority by any individual who on the actual date of the execution of such 2016 Bond shall be the proper officer although on the nominal date of such 2016 Bond such individual shall not have been such officer.

Only such of the 2016 Bonds as shall bear thereon a certificate of authentication in the form set forth in Exhibit A manually executed by the Trustee shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the 2016 Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.05 Transfer of 2016 Bonds. Any 2016 Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his attorney duly authorized in writing, upon surrender of such 2016 Bond for cancellation at the Corporate Trust Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed by the registered owner or his duly authorized attorney. No service charge shall be made for any transfer of 2016 Bonds, but the Trustee shall require the Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing 2016 Bonds and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the City. Whenever any 2016 Bond or 2016 Bonds shall be surrendered for transfer, the Authority shall execute and the Trustee shall authenticate and deliver to the transferee a new 2016 Bond or 2016 Bonds of Authorized Denomination or Denominations of like tenor, maturity and aggregate principal amount.

Section 2.06 Exchange of 2016 Bonds. The 2016 Bonds may be exchanged upon surrender thereof at the Corporate Trust Office of the Trustee for an equal aggregate principal amount of 2016 Bonds of other authorized denominations and of the same tenor and maturity. No service charge shall be made for any exchange of 2016 Bonds, but the Trustee shall require the Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing 2016 Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the City.

Section 2.07 Registration Books. The Trustee will keep or cause to be kept at its Corporate Trust Office sufficient records for the ownership, registration, transfer, and exchange of the 2016 Bonds, which shall at all reasonable times during regular business hours be open to inspection by the Authority,

the City and its designated agent or any owner or his agent duly authorized in writing with reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said records, 2016 Bonds as hereinbefore provided.

Section 2.08 2016 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016 Bond shall become mutilated, the Authority, at the expense of the Owner of said 2016 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like Series, tenor and authorized denomination in exchange and substitution for the 2016 Bond so mutilated, but only upon surrender to the Trustee at the Corporate Trust Office of the 2016 Bond so mutilated. Every mutilated 2016 Bond so surrendered to the Trustee shall be cancelled by it and destroyed. If any 2016 Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Authority, at the expense of the 2016 Bond Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like tenor in lieu of and in substitution for the 2016 Bond so lost, destroyed or stolen (or if any such 2016 Bond shall have matured, instead of issuing a substitute 2016 Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The Trustee may require payment of a reasonable fee for each new 2016 Bond issued under this Section and of the expenses which may be incurred by the Authority and the Trustee. Any 2016 Bond issued under the provisions of this Section in lieu of any 2016 Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the Authority whether or not the 2016 Bond alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other 2016 Bonds secured by this Indenture.

Section 2.09 Temporary 2016 Bonds. (a) Until definitive 2016 Bonds are prepared, the Authority may sign and may direct the Trustee to authenticate, in the same manner as is provided in this Article II, in lieu of definitive 2016 Bonds, one or more temporary 2016 Bonds substantially of the tenor of the definitive 2016 Bonds in lieu of which such temporary 2016 Bond or 2016 Bonds are issued, in denominations authorized hereunder, so long as no such 2016 Bond shall have its principal becoming payable in more than one year, and with such omissions, insertions and variations as may be appropriate to temporary 2016 Bonds. At the expense of the Authority, the Authority shall prepare and execute and the Trustee shall authenticate and, upon the surrender of such temporary 2016 Bonds and the cancellation of such surrendered temporary 2016 Bonds, the Trustee shall without charge to the Owner thereof, in exchange therefor, deliver definitive 2016 Bonds, of the same principal amount, series and maturity as the temporary 2016 Bonds surrendered. Until so exchanged, the temporary 2016 Bonds shall in all respects be entitled to the same benefits and security as definitive 2016 Bonds issued pursuant to this Indenture.

(b) If the Authority shall request the issuance of temporary 2016 Bonds in more than one denomination, the Owner of any temporary 2016 Bond or 2016 Bonds may, at his option, surrender the same to the Trustee in exchange for another temporary 2016 Bond or 2016 Bonds of like principal amount, series and maturity of any other authorized denomination or denominations, and thereupon the Trustee shall issue, in exchange for the temporary 2016 Bond or 2016 Bonds so surrendered and upon payment of any taxes, fees and charges provided for herein, a temporary 2016 Bond or 2016 Bonds of like aggregate principal amount, series and maturity in such other authorized denomination or denominations as shall be requested by such owner.

(c) All temporary 2016 Bonds surrendered in exchange either for another temporary 2016 Bond or 2016 Bonds or for a definitive 2016 Bond or 2016 Bonds shall be forthwith cancelled by the Trustee and destroyed, and the Trustee shall certify in writing as to their destruction.

Section 2.10 Cancellation of 2016 Bonds. All 2016 Bonds paid, either at or before maturity, shall be delivered to the Trustee when such payment is made and such 2016 Bonds shall thereupon be promptly cancelled and destroyed, and the Trustee shall certify in writing as to their destruction.

Section 2.11 Book-Entry Only System. DTC shall act as the initial Depository for the 2016 Bonds. One 2016 Bond for each maturity of the 2016 Bonds shall be initially executed, authenticated, and delivered as set forth herein with a separate fully registered certificate (in printed or typewritten form). Upon initial execution, authentication, and delivery, the ownership of the 2016 Bonds shall be registered in the Bond Register kept by the Trustee for the 2016 Bonds in the name of Cede & Co., as nominee of DTC or such nominee as DTC shall appoint in writing.

The representatives of the Authority and the Trustee are hereby authorized to take any and all actions as may be necessary and not inconsistent with this Indenture to qualify the 2016 Bonds for the Depository's book-entry system, including the execution of the Depository's required representation letter by the Authority.

With respect to 2016 Bonds registered in the Bond Register in the name of Cede & Co., as nominee of DTC, neither the Authority nor the Trustee shall have any responsibility or obligation to any broker-dealer, bank, or other financial institution for which DTC holds 2016 Bonds as Depository from time to time (the "DTC Participants") or to any person for which a DTC Participant acquires an interest in the 2016 Bonds (the "Beneficial Owners"). Without limiting the immediately preceding sentence, neither the Authority nor the Trustee shall have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the 2016 Bonds, (ii) the delivery to any DTC Participant, any Beneficial Owner, or any other person, other than DTC, of any notice with respect to the 2016 Bonds, (iii) the payment to any DTC Participant, any Beneficial Owner, or any other person, other than DTC, of any amount with respect to the principal of or interest on the 2016 Bonds, or (iv) any consent given or other action taken by the Depository as owner of the 2016 Bonds.

Except as set forth above, the Authority and the Trustee may treat as and deem DTC to be the absolute Owner of each 2016 Bond for which DTC is acting as Depository for the purpose of payment of the principal of and interest on such 2016 Bonds, for the purpose of giving notices of matters with respect to such 2016 Bonds, for the purpose of registering transfers with respect to such 2016 Bonds, and for all purposes whatsoever, and the Authority and the Trustee shall not be affected by any notice to the contrary. The Trustee shall pay all principal of and interest on the 2016 Bonds only to or upon the order of the owners as shown on the Bond Register, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to the principal of and interest on the 2016 Bonds to the extent of the sums or sums so paid.

No person other than an Owner, as shown on the Bond Register, shall receive a physical 2016 Bond. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the transfer provisions in Section 2.05 hereof, references to "Cede & Co." in this Section 2.11 shall refer to such new nominee of DTC.

DTC may determine to discontinue providing its services with respect to the 2016 Bonds at any time by giving written notice to the Trustee during any time that the 2016 Bonds are Outstanding, and discharging its responsibilities with respect thereto under applicable law. The Authority may terminate the services of DTC with respect to the 2016 Bonds if it determines that DTC is unable to discharge its responsibilities with respect to the 2016 Bonds or that continuation of the system of book-entry transfers through DTC is not in the best interest of the Beneficial Owners, and the Authority shall mail notice of such termination to the Trustee.

Upon the termination of the services of DTC as provided in the previous paragraph, and if no substitute Depository willing to undertake the functions hereunder can be found which is willing and able to undertake such functions upon reasonable or customary terms, or if the Authority determines that it is in the best interest of the Beneficial Owners of the 2016 Bonds that they be able to obtain certificated 2016 Bonds, the 2016 Bonds shall no longer be restricted to being registered in the Bond Register of the Trustee in the name of Cede & Co., as nominee of DTC, but may be registered in whatever name or name the Owners shall designate at that time, in accordance with Section 2.05.

To the extent that the Beneficial Owners are designated as the transferee by the Owners, in accordance with Section 2.05, the 2016 Bonds will be delivered to such Beneficial Owners as soon as practicable.

Section 2.12 Issuance of 2016 Bonds. The Authority is directed to prepare, and upon the execution and delivery of this Indenture, the Authority shall execute the 2016 Bonds, and the Authority shall deliver the 2016 Bonds to the Trustee for authentication and delivery to the original purchaser thereof upon the Written Request of the Authority.

Section 2.13 Application of Proceeds of Sale of 2016 Bonds. In order to induce the City to enter into the Installment Purchase Agreement, and to ensure that the 2016 Project will be available for use, the Authority is entering into this Indenture. Upon the receipt of payment for the 2016 Bonds on the Delivery Date, the Authority will cause the Trustee to apply the proceeds of sale thereof, as follows:

(a) to the California Infrastructure and Economic Development Bank, the amount of $_____, to the account specified in a Written Request of the City;

(b) to the Acquisition Fund, the amount of $_____;

(c) to the Common Reserve Account of the Reserve Fund, the amount of $_____, representing the Reserve Requirement with respect to the 2016 Bonds;

(d) to the Costs of Issuance Fund, the amount of $_____, constituting an amount sufficient to pay Costs of Issuance with respect to the 2016 Bonds; and

(e) to the Purchase Payment Fund, the amount of $_____, constituting an amount sufficient to pay interest on the 2016 Bonds through and including August 1, 2019.

Section 2.14 Validity of 2016 Bonds. The validity of the authorization and issuance of the 2016 Bonds shall not be affected in any way by any proceedings taken by the City with respect to the application of the proceeds of the Installment Purchase Agreement, and the recital contained in the 2016 Bonds that the same are issued pursuant to the Act shall be conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE III

ISSUANCE OF ADDITIONAL BONDS

Section 3.01 Conditions for the Issuance of Additional Bonds. The Authority may at any time issue Additional Bonds payable from Project Revenues as provided herein and secured by a pledge of and charge and lien upon Project Revenues as provided herein equal to the pledge, charge and lien securing the Outstanding Bonds theretofore issued hereunder, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained herein and shall not be in default hereunder.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Indenture which shall specify the following:

(i) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for (i) the purpose of financing the completion of the 2016 Project or financing an Additional Project, including payment of all costs incidental to or connected with such financing, and/or (ii) the purpose of refunding any Bonds then Outstanding, or any Contract, or any other obligation of the City relating to the Enterprise as the City may determine, including payment of all costs incidental to or connected with such refunding;

(ii) The authorized principal amount and designation of such Additional Bonds;

(iii) The date and the maturity dates of and the sinking fund payment dates, if any, for such Additional Bonds, which maturity dates and sinking fund payment date shall be on August l of the years specified;

(iv) The interest rates payable on such Additional Bonds, which shall be fixed rates of interest, payable on February 1 and August l, and the first interest payment date for such Additional Bonds;

(v) The denomination or denominations of and method of numbering such Additional Bonds;

(vi) The redemption premiums, if any, and the redemption terms, if any, of such Additional Bonds;

(vii) Whether such Additional Bonds are a Common Reserve Series and, if not, the Reserve Requirement for such Additional Bonds or whether such Additional Bonds are not secured by any reserve fund;

(viii) Whether interest on such Additional Bonds shall be excluded from the gross income of the Owners thereof for federal income tax purposes, and if so, the related tax covenants of the Authority and the City;

(ix) The allocation of the proceeds of sale of such Additional Bonds;

(x) The forms of such Additional Bonds; and

(xi) Such other provisions (including the requirements of a book-entry bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

(c) The provisions of Section 7.01 of the Installment Purchase Agreement shall have been satisfied and either (1) the Installment Purchase Agreement shall have been amended so as to modify the 2016 Purchase Payments payable by the City thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due or (2) the City shall have entered into a Related Contract providing for the City to make Purchase Payments in amounts sufficient

to pay the interest on and principal of such Additional Bonds, and in each case such amendment or such Related Contract shall be consistent with Section 7.01 of the Installment Purchase Agreement.

(d) Immediately following the issuance of such Additional Bonds, the amount on deposit in each Reserve Account shall be at least equal to the Reserve Requirement for the applicable Series of Bonds.

(e) There shall be no uncured default in the payment of Policy Costs due under any Reserve Account Credit Facility.

Nothing contained herein shall limit the issuance of any bonds of the Authority payable from Project Revenues and secured by a pledge of and charge and lien upon Project Revenues if after the issuance and delivery of such bonds none of the Bonds theretofore issued hereunder will be Outstanding.

Section 3.02 Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, the Authority shall execute such Additional Bonds for issuance hereunder and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority (at the direction of the City), but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee:

(a) A certified copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) A Written Request of the Authority (at the direction of the City) as to the authentication and delivery of such Additional Bonds;

(c) An opinion of Bond Counsel to the effect that (1) the Authority has the right and power under the Act to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Authority, is in full force and effect and is valid and binding upon the Authority and no other authorization for the execution and delivery hereof is required, (2) the Indenture as supplemented by the Supplemental Indenture creates the valid pledge of and charge and lien upon the Project Revenues which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted hereby, and (3) such Additional Bonds are valid and binding limited obligations of the Authority entitled to the benefits of the Act and hereof, and such Additional Bonds have been duly and validly issued in accordance with the Act and herewith;

(d) A Certificate of the Authority containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained herein; and

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

ARTICLE IV

PROJECT REVENUES; FLOW OF FUNDS

Section 4.01 Pledge of Project Revenues; Assignment of Rights. The Bonds shall be secured by a pledge (which shall be effected in the manner and to the extent hereinafter provided), charge and lien upon Project Revenues and a pledge of all of the moneys in the Purchase Payment Account, including all amounts derived from the investment of such moneys. The Bonds are also secured by (i) all moneys deposited and held from time to time by the Trustee in the funds and accounts established hereunder; and (ii) income and gains with respect to the investment of amounts on deposit in the funds and accounts established hereunder, except as otherwise provided herein. The Bonds shall be equally secured by a pledge of, charge and lien upon, the Project Revenues and such moneys without priority for number, date of Bonds, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds shall be and are secured by an exclusive pledge, charge and lien upon the Project Revenues and such moneys, except as otherwise provided herein. So long as any of the Bonds are Outstanding, the Project Revenues and such moneys shall not be used for any other purpose; except that out of the Project Revenues and such moneys there may be apportioned such sums, for such purposes, as are expressly permitted by this Indenture.

The Authority hereby transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Project Revenues and all of the right, title and interest of the Authority in and to the Installment Purchase Agreement (other than the Unassigned Rights). The Trustee hereby accepts such assignment and transfer; provided, however, that such assignment shall not confer any rights nor impose any duties, obligations or responsibilities upon the Trustee beyond those expressly provided herein. The Trustee shall be entitled to and shall receive all of the Purchase Payments, and any Purchase Payments collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions hereof, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all the rights of the Authority and all of the obligations of the City under the Installment Purchase Agreement and any Related Contract.

Section 4.02 Establishment of Project Revenues Trust Fund. There is hereby established with the Trustee a special trust fund for the Bonds, which special trust fund shall be designated as the "Project Revenues Trust Fund." The Trustee shall keep the Project Revenues Trust Fund separate and apart from all other funds and moneys held by it. Within the Project Revenues Trust Fund, there are hereby established the following funds: the Purchase Payment Fund, the Costs of Issuance Fund and the Acquisition Fund.

Section 4.03 Purchase Payment Fund.

(a) The Trustee shall deposit in the Purchase Payment Fund the following:

(i) On the Delivery Date, proceeds of the 2016 Bonds deposited pursuant to Section 2.13(d) hereof, to be applied by the Trustee to pay interest on the 2016 Bonds through and including August 1, 2019;

(ii) when received, 2016 Purchase Payments made by the City pursuant to Section 4.02 of the Installment Purchase Agreement;

(iii) when received, Purchase Payments made by the City pursuant to any Related Contract;

(iv) when received, moneys transferred from the Costs of Issuance Fund pursuant to Section 4.05(b) hereof;

(v) when received, moneys transferred from the Acquisition Fund pursuant to Section 4.06 hereof; and

(vi) all other moneys received by the Trustee under and pursuant to the provisions of the Installment Purchase Agreement or any Related Contract which are required to be or which are accompanied by directions that such moneys are to be paid into the Purchase Payment Fund.

(b) The Trustee shall withdraw moneys from the Purchase Payment Fund at such times and in such amounts as are necessary to make payments of principal, interest or premium, if any, with respect to the Bonds.

(c) If, on the day after any Installment Payment Date (i) all transfers have been made pursuant to Section 4.03(b) hereof, and (ii) there are moneys on deposit in the Purchase Payment Fund, then the Trustee shall (A) at the Written Request of the Authority (at the direction of the City), transfer such funds to the City or (B) apply such funds to reduce the next succeeding Purchase Payment payable by the City.

Section 4.04 Reserve Fund.

(a) The Reserve Fund and the Reserve Accounts therein shall be held and administered by the Trustee, and shall be used solely for the purpose of paying the Bonds secured by the Reserve Accounts in the manner provided herein.

(b) The Authority hereby establishes the Common Reserve Account and may establish one or more additional accounts in the Reserve Fund (each, a "Reserve Account"), each of which may secure one or more Series of Bonds pursuant hereto and to the Supplemental Indenture authorizing the issuance thereof. The 2016 Bonds shall be a Common Reserve Series. Promptly upon receipt thereof the Trustee shall deposit in each Reserve Account proceeds of sale of each Series of Bonds to be secured thereby or Reserve Account Credit Facility or Facilities, or any combination of the foregoing, in such amount as shall be necessary to bring the amount on deposit therein to the Reserve Requirement for such Series of Bonds.

(c) Each Reserve Account shall thereafter be maintained at all times at the respective Reserve Requirements of the Bonds secured by such Reserve Account by additional deposits into such Reserve Account from the Purchase Payment Fund as provided in Section 4.03. Each Reserve Account shall be replenished in the following priority: first, to make all payments required under all reimbursement agreements with the providers of Reserve Account Credit Facilities credited to such Reserve Account (and if there is not sufficient money on deposit in such Reserve Account to make all such payments, then on a pro rata basis to each provider); and second, after all such payments are made in full, the amount necessary to make the money and Reserve Account Credit Facility or Facilities or any combination of the foregoing deposited in or credited to such Reserve Account equal to the aggregate Reserve Requirements of the Bonds secured by such Reserve Account. If at any time there is not sufficient money to make all of the foregoing payments, such payments shall be made to the extent of available money into each Reserve Account in the same ratio as the principal amount of the Outstanding

Bonds secured thereby bears to the aggregate principal amount of all Outstanding Bonds secured by the Reserve Fund.

(d) In the event of a deficiency in the Purchase Payment Fund for Bonds secured by a Reserve Account, the Trustee shall make up such deficiency from such Reserve Account in the following priority: first, by the withdrawal of cash held therein; second, by the sale or redemption of Permitted Investments held therein; and third, from draws upon the Reserve Account Credit Facility or Facilities credited thereto, on a pro rata basis, in sufficient amounts to make up such deficiency. Such draws shall be made at such times and under such conditions as provided in such Reserve Account Credit Facility or Facilities.

(e) At the option of the Authority (at the direction of the City), amounts on deposit in a Reserve Account may be substituted at any time, in whole or in part, by the deposit with the Trustee of a Reserve Account Credit Facility or Facilities in a stated amount equal to the amounts so substituted. Any amounts released from a Reserve Account as a result of such substitution shall be transferred to the City and applied for any lawful purpose of the City, consistent with the Tax Certificate.

(f) Subject to paragraph (g) below, each Reserve Account may be drawn upon for the sole purpose of paying the principal and redemption price of and interest on the Series of Bonds secured by such Reserve Account. Money set aside from time to time with the Trustee for the payment of such principal, redemption price, or interest shall be held in trust equally and ratably for the relevant Holders.

(g) If at any time no event of default has occurred and is continuing and the amount on deposit in a Reserve Account is greater than the applicable Reserve Requirement, the Trustee shall, upon receipt of a Written Request of the Authority (at the direction of the City), withdraw such excess and apply such amount as directed in such Written Request of the Authority, consistent with the Tax Certificate.

(h) If the Trustee receives any amounts from the City consisting of Additional Purchase Payments to pay Policy Costs, the Trustee shall forthwith apply such amounts to pay such Policy Costs as and when the same shall become due and payable.

Section 4.05 Costs of Issuance Fund. (a) The Trustee shall deposit in the Costs of Issuance Fund on the Delivery Date, from the proceeds of the sale of the 2016 Bonds, the amount set forth with respect to the Costs of Issuance Fund in Section 2.13 hereof. The Trustee shall also deposit in the Costs of Issuance Fund from the proceeds of any Additional Bonds, the amounts set forth in any Supplemental Indenture providing for the issuance of such Additional Bonds.

(b) Costs of Issuance shall be paid from amounts on deposit in the Costs of Issuance Fund. The Trustee shall make such payments in the amounts, at the times, in the manner, and on the other terms and conditions set forth herein. No such payment shall be made until the Trustee shall have received a requisition, in substantially the form attached hereto as Exhibit B, signed by an Authorized City Representative stating with respect to each payment to be made: (1) the sequential requisition number, (2) the name and address of the person, firm, corporation or agency to which payment is due or has been made, (3) the amount to be paid, (4) identification of the item to which such payment is to be applied, and (5) that each obligation mentioned therein is a proper charge against the Costs of Issuance Fund and has not been the basis of any previous withdrawal from the Costs of Issuance Fund. In addition, each requisition shall have attached a copy of each invoice, statement or other billing documentation for which payment is claimed. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon the determination of the City that all Costs of Issuance for the 2016 Bonds or any Series of Additional Bonds, as applicable,

have been paid in full, any amount then remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Purchase Payment Fund, in accordance with a Written Request of the City.

Section 4.06 Acquisition Fund. There is hereby established with the Trustee a special trust fund for the Bonds designated as the "Acquisition Fund." The Trustee shall keep the Acquisition Fund separate and apart from all other funds and moneys held by it. The Trustee shall pay Project Costs from amounts on deposit in the Acquisition Fund. The Trustee shall make such payments in the amounts, at the times, in the manner, and on the other terms and conditions set forth herein. No such payment shall be made until the Trustee shall have received a requisition, in substantially the form attached hereto as Exhibit B, signed by an Authorized City Representative stating with respect to each payment to be made: (1) the sequential requisition number, (2) the name and address of the person, firm, corporation or agency to which payment is due or has been made, (3) the amount to be paid, (4) identification of the item to which such payment is to be applied, and (5) that each obligation mentioned therein is a proper charge against the Acquisition Fund and has not been the basis of any previous withdrawal from the Acquisition Fund. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon the City's determination that all Project Costs to be funded with proceeds of the 2016 Bonds or any Series of Additional Bonds, as applicable, have been paid in full, any amount then remaining in the Acquisition Fund shall be transferred by the Trustee to the Purchase Payment Fund, in accordance with a Written Request of the City.

Section 4.07 Deposits of Money. All moneys held by or deposited with the Trustee under the provisions of this Indenture shall be held in trust and applied only in accordance with the provisions of this Indenture, and the funds and accounts established by this Indenture shall be a trust fund for the purposes thereof. All moneys deposited with the Trustee shall be credited to the particular account to which such moneys belong.

Section 4.08 Investments. (a) All moneys in any of the funds or accounts established with the Trustee pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments pursuant to the Written Request of the Authority (at the direction of the City) given to the Trustee in advance of the making of such investments and promptly confirmed in writing, as to any such direction given by facsimile. Each such Written Request shall contain the representation of the Authority that the investments identified therein constitute Permitted Investments hereunder. In the absence of any such direction from the Authority, the Trustee shall invest any such moneys in clause (D) of the definition of Permitted Investments. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

(a) All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder upon the Written Request of the Authority (at the direction of the City). The Trustee may (but shall not be obligated to) act as principal or agent in the acquisition of any investment. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section.

(b) Moneys in the Purchase Payment Account shall be invested and reinvested by the Trustee to the fullest extent practicable in Permitted Investments which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such accounts and in any event not later than the final maturity of the Bonds. The Trustee shall make all such investments of moneys held by it in accordance with instructions, confirmed in writing, received from an Authorized Authority Representative (at the direction of the City).

(c) Nothing in this Indenture shall prevent any Government Obligations acquired as investments of funds held under this Indenture from being issued or held in book-entry form on the books of the Department of the Treasury of the United States of America.

(d) Except as otherwise provided in this Indenture, the Trustee shall sell or present for prepayment or transfer as provided in the next sentence any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized City Representative to do so or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any account held by it. In lieu of such sale or presentment for prepayment, the Trustee may, in making the payment or transfer from any account mentioned in the preceding sentence, transfer such investment obligations or interest appertaining thereto at its acquisition cost if such investment obligations shall mature or be collectable at or prior to the time the proceeds thereof shall be needed and such transfer of investment obligations may be made in book-entry form. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment. The Trustee shall hold all investments in its name as trustee.

(e) The Authority (and the City by its execution of the Installment Purchase Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or Authority the right to receive brokerage confirmations of security transactions as they occur, the City and Authority specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the City and Authority periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder. The Trustee or its affiliate may act as principal or agent in the acquisition or disposition of any investment in accordance herewith and shall be entitled to its customary charges therefor.

(f) Any investment of moneys in any fund established under this Indenture may be purchased from or through, or sold to, the Trustee or any affiliate of the Trustee, and any such investment made through the purchase of shares in a fund described in the definition of Permitted Investments may be in a fund for which the Trustee or an affiliate of the Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee received fees from such funds for services rendered, (ii) the Trustee charges and collects fees for services rendered pursuant to this Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Indenture may at times duplicate those provided to such funds by the Trustee or its affiliates.

Section 4.09 Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account established hereunder, the value of investments credited to such fund or account shall be calculated at the par amount thereof, or any other valuation established by prior agreement between the Authority and the Trustee. Obligations purchased as an investment of moneys in any account created under the provisions of this Indenture shall be deemed at all times to be a part of such account or subaccount and any profit realized from the liquidation of such investment and any income or interest received on account of such investment shall be credited to, and any loss resulting from the liquidation of such investment shall be charged to, such account.

ARTICLE V

COVENANTS OF THE AUTHORITY

Section 5.01 Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, interest and premium (if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but

only out of Project Revenues and the funds and accounts pledged for such payment as provided in this Indenture.

Section 5.02 Extension of Payment of Bonds. Neither the Authority nor the Trustee shall directly or indirectly extend or assent to the extension of the payment dates of any of the Purchase Payments, the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Section 5.03 Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Project Revenues and the funds and accounts pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Section 5.04 Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Purchase Payments, the Installment Purchase Agreement, any Related Contract and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Purchase Payment and other assets and all the rights of the Bond Owners under this Indenture against all claims and demand of all persons whomsoever.

Section 5.05 Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Purchase Payments and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during regular business hours with reasonable prior notice.

Section 5.06 [reserved]

Section 5.07 Tax Covenants. The Authority hereby covenants as follows:

(a) Special Definitions. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986.

"Computation Date" has the meaning set forth in section 1.148-1(b) of the Treasury Regulations.

"Gross Proceeds" means any proceeds as defined in section 1.148-1(b) of the Treasury Regulations (referring to sales, investment and transferred proceeds), and any replacement proceeds as defined in section 1.148-1(c) of the Treasury Regulations, of the 2016 Bonds.

"Investment" means (i) any security (within the meaning of section 165(g)(2)(A) or (B) of the Code), (ii) any obligation (notwithstanding that such obligation may be a tax-exempt bond), (iii) any annuity contract, (iv) when allocated to a bond other than a private activity bond, any residential rental property for family units that is not located within the jurisdiction of the issuer and that is not acquired to implement a court ordered or approved housing desegregation plan, or (v) any investment-type property (as defined in section 1.148-1(e) of the Treasury Regulations).

"Nonpurpose Investment" means any investment other than a tax-exempt bond that is not a specified private activity bond (within the meaning of section 57(a)(5)(C) of the Code), in which Gross Proceeds of that issue are invested and that is not acquired to carry out the governmental purposes of that issue.

"*Proceeds*," with respect to an issue of governmental obligations, has the meaning set forth in has the meaning set forth in section 1.148-1(b) of the Treasury Regulations (referring to sales, investment and transferred proceeds, but not replacement proceeds, of that issue).

"Rebate Amount" has the meaning set forth in section 1.148-1(b) of the Treasury Regulations.

"Treasury Regulations" means the United States Treasury Regulations promulgated pursuant to sections 103 and 141 through 150 of the Code.

"Yield" of (i) any Investment has the meaning set forth in section 1.148-5 of the Treasury Regulations; and (ii) the 2016 Bonds has the meaning set forth in section 1.148-4 of the Treasury Regulations.

(b) Not to Cause Interest to Become Taxable. The Authority shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the 2016 Bonds to fail to be excluded pursuant to section 103 of the Code from the gross income of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exclusion from gross income of interest on any 2016 Bond, the Authority shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as would not cause any 2016 Bond to become a "private activity bond" within the meaning of section 141 of the Code and the Treasury Regulations and rulings thereunder, the Authority shall at all times prior to the payment and cancellation of the last 2016 Bond to be paid and canceled:

(i) ensure that the City exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the 2016 Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency,

department and instrumentality thereof) other than a state or local government, or agency or instrumentality thereof, unless such use is solely as a member of the general public;

(ii) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the 2016 Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, of the type described in clause (i) foregoing, other than taxes of general application within the jurisdiction of the City; and

(iii) where the 2016 Bonds are refunded, the Authority will apply the foregoing restrictions taking cognizance of the provisions of sections 1.141-3(g) and 1.141-4(c)(2)(ii) of the Treasury Regulations and of any subsequently adopted rules or regulations applicable to such a refunding.

(d) No Private Loan. Except as would not cause any 2016 Bond to become a "private activity bond" within the meaning of section 141 of the Code and the Treasury Regulations and rulings thereunder, the Authority shall not use Gross Proceeds of any 2016 Bond to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if such Gross Proceeds are provided to such a person or entity under circumstances that create an indebtedness of that person or entity under local law or for federal income tax purposes, but also if: (a) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (b) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (c) indirect benefits of such Gross Proceeds, or burdens and benefits of ownership of any property acquired, constructed or improved with such Gross Proceeds, are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause any 2016 Bond to become an "arbitrage bond" within the meaning of section 148 of the Code and the Treasury Regulations and rulings thereunder, the Authority shall not, at any time prior to the final maturity of the 2016 Bonds, directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment or class of Investments acquired with Gross Proceeds, whether then held or previously disposed of, would materially exceed the Yield of such 2016 Bond within the meaning of said section 148 and Treasury Regulations and rulings.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Treasury Regulations and rulings thereunder, the Authority shall not take or omit to take any action that would cause any 2016 Bond to be "federally guaranteed" within the meaning of section 149(b) of the Code and the Treasury Regulations and rulings thereunder. Without limitation of the foregoing, the Authority and the City will not permit any portion of the debt service on the 2016 Bonds to be guaranteed (in whole or in part) by the United States, or more than 5% of the proceeds of the 2016 Bonds to be loaned to any person under which the obligation of that person to repay such loan is guaranteed (in whole or in part) by the United States, or more than 5% of the proceeds of the 2016 Bonds to be invested (directly or indirectly) in federally insured deposits or accounts. For this purpose, a guarantee or insurance by an agency or instrumentality of the United States will be treated as though made or provided by the United States.

(g) Information Report. The Authority shall timely file any information required by section 149(e) of the Code with respect to the 2016 Bonds with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Treasury Regulations and rulings thereunder in order to assure that no 2016 Bond is treated as an arbitrage bond:

(i) The Authority shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last 2016 Bond is discharged. However, to the extent permitted by law, the Authority or the City may commingle Gross Proceeds of the 2016 Bonds with its other money, provided that the Authority separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(ii) Not less frequently than each Computation Date, the Authority shall calculate or retain the services of a qualified rebate analyst to calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Treasury Regulations and rulings thereunder. The Trustee may rely conclusively upon the Authority's determinations, calculations and certifications with regard to the calculation of rebate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the Authority's calculations hereunder. The Authority shall maintain a copy of the calculation with its official transcript of proceedings relating to the issuance of the 2016 Bonds until six years after the final Computation Date.

(iii) In order to assure the excludability of the interest on the 2016 Bonds from the gross income of the owners thereof for federal income tax purposes, the Authority shall pay to the United States the amount that when added to the future value of previous rebate payments made for the 2016 Bonds equals (A) in the case of a Final Computation Date as defined in section 1.148-3(e)(2) of the Treasury Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (B) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, such rebate payments shall be made by the Authority at the times and in the amounts as are or may be required by section 148(f) of the Code and the Treasury Regulations and rulings thereunder, and shall be accompanied by Form 8038-T prepared by the Authority or such other forms and information as is or may be required by section 148(f) of the Code and the Treasury Regulations and rulings thereunder for execution and filing by the Authority.

(iv) The Authority shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (i) and (ii) above, and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) or other provision of the Treasury Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Treasury Regulations and rulings thereunder, the Authority shall not, at any time prior to the final maturity of the 2016 Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to paragraph (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield on the 2016 Bonds not been relevant to either party.

(j) 2016 Bonds Not Hedge Bonds.

(i) The Authority represents that none of the 2016 Bonds are or will become "hedge bonds" within the meaning of section 149(g) of the Code.

(ii) Without limitation of paragraph (i) above, with respect to the 2016 Bonds: (A) on the date of issuance of the 2016 Bonds, the Authority reasonably expects that at least 85% of the spendable proceeds of the 2016 Bonds will be expended within the three-year period commencing on such date of issuance, and (B) no more than 50% of the proceeds of the 2016 Bonds will be invested in Nonpurpose Investments having a substantially guaranteed yield for a period of four years or more.

(k) Use of Proceeds; Weighted Average Maturity. The Authority hereby represents and covenants that it will apply the proceeds of the 2016 Bonds in a manner so that the weighted average maturity of the 2016 Bonds does not exceed 120% of the average reasonably expected remaining economic life of the facilities financed or refinanced therewith (all determined in accordance with the provisions of section 147(b) of the Code).

(l) Elections. The Authority hereby directs and authorizes any Authorized Authority Representative to make elections permitted or required pursuant to the provisions of the Code or the Treasury Regulations, as such Authorized Authority Representative (after consultation with Bond Counsel) deems necessary or appropriate in connection with the 2016 Bonds, in the Tax Certificate or similar or other appropriate certificate, form or document.

(m) Closing Certificate. The Authority agrees to execute and deliver in connection with the issuance of 2016 Bonds the Tax Certificate or similar document containing additional representations and covenants pertaining to the excludability of interest from the gross income of the Owners for federal income tax purposes, which representations and covenants are incorporated as though expressly set forth herein.

Section 5.08 Further Assurances. The Authority will adopt, make, execute and deliver or cause to be executed and delivered any and all other and further documents, resolutions, instruments and assurances and promptly do or cause to be done all such other and further things as may be necessary or reasonably required to carry out the purposes or intentions or to facilitate the performance of this Indenture, and for preserving and protecting the rights and interests of the Owners.

Section 5.09 Amendment of Installment Purchase Agreement and Related Contracts. The Authority shall not consent to the amendment, alteration or modification, in whole or in part, of the Installment Purchase Agreement or any Related Contract except (a) to the extent such amendment, alteration or modification shall cure an ambiguity, supply an omission, or cure or correct a defect or inconsistent provision therein, (b) to the extent such amendment, alteration or modification shall insert such provisions clarifying matters or questions arising thereunder as are necessary or desirable and are not contrary to or inconsistent with the Indenture, (c) if, in the opinion in writing of Bond Counsel addressed

to the Trustee, such amendment, alteration or modification does not materially adversely affect the rights of the Owners of the Bonds, or (d) with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of issuer-owned or City-owned Bonds. Any such written consent shall be obtained in the manner provided herein for amendments to the Indenture. No such amendment, alteration or modification shall be effective unless and until there shall have been filed with the Trustee an opinion in writing of Bond Counsel addressed to the Trustee stating that such amendment, alteration or modification has been duly and lawfully entered into by the parties thereto, is authorized or permitted by this Indenture and is valid and binding upon the parties thereto in accordance with its terms. For purposes of this Indenture, no change to or revision of Exhibit A of the Installment Purchase Agreement made pursuant to Section 3.02 of the Installment Purchase Agreement shall constitute an amendment, alteration or modification of the Installment Purchase Agreement.

Section 5.10 Enforcement of Installment Purchase Agreement and Related Contracts. The Trustee, as assignee of the Authority's rights pursuant to Section 4.01, shall promptly collect all amounts due from the City pursuant to the Installment Purchase Agreement and any Related Contract and, subject to the provisions hereof, shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all the rights of the Authority thereunder and for the enforcement of all the obligations of the City thereunder.

ARTICLE VI

THE TRUSTEE AND PAYING AGENT

Section 6.01 Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or duties 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), 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 prudent man would exercise or use under the circumstances in the conduct of his own affairs.

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

Without limiting the duties of the Trustee stated above, during the existence of any Event of Default hereunder (which has not been cured) and in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such certificate or opinion which by any provisions hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture.

At all times, regardless of whether or not any Event of Default shall exist:

(a) the Trustee shall not be liable for any error of judgment made in good faith by an Authorized Officer or Officers of the Trustee unless it shall be proved that the Trustee was negligent in ascertaining and/or failing to ascertain the pertinent facts;

(b) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of Outstanding Bonds representing not less than a majority in aggregate principal amount of Outstanding Bonds relating to the time, method and

place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture; and

(c) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the owners pursuant to the provisions of this Indenture, including, without limitation, the provisions of Article VI hereof, unless such Owners shall have offered to the Trustee security or indemnity satisfactory to it against the costs, expenses and liabilities which may be incurred therein or thereby.

The Trustee shall not be deemed to have knowledge of and shall not be required to take any action with respect to, any Event of Default or event which would, with the giving of notice, the passage of time or both, constitute an Event of Default unless the Trustee shall have actual knowledge of such event or shall have been notified in writing of such event by the City, the Authority or the owners of a majority of the Bonds Outstanding. Without limiting the generality of the foregoing, the Trustee shall not be required to ascertain, monitor or inquire as to the performance or observance by the City of the terms, conditions, covenants or agreements set forth in the Installment Purchase Agreement or any Related Contract, other than the covenants of the City to make payments with respect to the Purchase Payments when due as set forth in the Installment Purchase Agreement or any Related Contract.

No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, coupon or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Authority, personally or by agent or attorney.

The Trustee shall not be responsible for:

(a) the application and handling by the City of any other fund or account designated to be held by the City hereunder or under the Installment Purchase Agreement; or

(b) any error or omission by the Authority in making any computation or giving any instruction pursuant to Section 5.07 hereof and may rely conclusively on the rebate instructions and any computations or instructions furnished to it by the Authority in connection with the requirements of Section 5.07 and the Tax Certificate.

The Trustee shall not be bound to ascertain or inquire as to the observance or performance of any covenants, agreements or obligations on the part of the City or the Authority under the Installment Purchase Agreement or this Indenture except as set forth herein, but the Trustee may require of the City or the Authority full information and advice as to the observance or performance of those covenants, agreements and obligations.

Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VI.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the

exercise of any of its rights or powers if there shall be reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Every provision of this Indenture that in any way relates to the Trustee is subject to all the paragraphs of this Article.

The Trustee may execute any of the trusts or powers hereof and perform any of its duties by and through attorneys, agents, receivers or employees but shall not be answerable for the conduct of the same if selected with reasonable care, and shall be entitled to advice of counsel concerning all matters of trusts hereof and duties hereunder, and may in all cases pay such reasonable compensation or any attorney, agent, receiver or employee retained or employed by it in connection herewith. The Trustee may act upon the opinion or advice of an attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care or, if selected or retained by the City or the Authority, approved by the Trustee in the exercise of such care. The Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

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

The Trustee may become the Owner of Bonds secured hereby with the same rights which it would have if not the Trustee.

The Trustee shall be protected in acting upon any requisition, notice, request, consent, certificate, order, affidavit, letter or other paper or document believed in good faith to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon such owner and all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof or on registration or transfer thereof.

At any reasonable time after reasonable notice has been provided, the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right (but no duty or obligation) to inspect fully any and all of the property herein conveyed, and to take such memoranda from and with regard thereto as may be desired provided no undue interruption results therefrom.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority or City elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. 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 instructions conflict or are inconsistent with a subsequent written instruction. The Authority and the City agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions 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.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Bond Owners pursuant to the provisions of this Indenture unless such Bond Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

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

From the effective date of this Indenture, the Trustee, or any successor in interest, shall not be considered in breach of or in default in its obligations with respect to any obligations created hereunder or progress in respect thereto, in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of God, or of the public enemy, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation and unusually severe weather or delays of supplies or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

Section 6.02 Right of Trustee to Rely upon Documents, Etc. Except as otherwise provided in Section 6.01 hereof:

(a) the Trustee may rely and shall be fully protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, certificate or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties; and shall not be bound to investigate the facts of matters stated therein, but, in the discretion of the Trustee, may make such further inquiry or investigation as to such facts or matters as it deems appropriate;

(b) any notice, request, direction, election, order or demand of the Authority or the City mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the Authority or of the City by an Authorized Authority Representative or an Authorized City Representative, respectively;

(c) the Trustee may consult with counsel (who may be counsel for the Authority or the City) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel; and

(d) whenever in the administration of the trusts of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized City Representative or an Authorized Authority Representative, as appropriate; and such certificate shall be full warrant to the Trustee for any action taken or suffered by it under the provisions of this Indenture upon the faith thereof.

The Trustee shall have the right, but shall not be required, to demand any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action, by the Trustee deemed desirable with respect to the withdrawal of any cash under this Indenture, or the taking of any other action by the Trustee.

The Trustee may, but shall be under no duty to, require of the City or the Authority full information and advice as to the performance of the covenants, conditions and agreements in this Indenture. However, the Trustee shall have no obligation to perform any of the duties of the City or the Authority under this Indenture.

The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the 2016 Bonds.

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 2016 Bonds. All indemnifications and releases from liability granted herein to the Trustee shall extend to the directors, officers, employees and agents of the Trustee.

Section 6.03 Trustee Not Responsible for Recitals. The recitals contained herein and in the Bonds shall be taken as the statements of the Authority and the City, and the Trustee assumes no responsibility for the validity or correctness of the same. The Trustee makes no representation as to the validity or sufficiency of this Indenture or of the Bonds or as to the sufficiency of the Project Revenues or the priority of any lien thereon, or as to the financial or technical feasibility of the Enterprise or any portion thereof and shall not incur any responsibility in respect of any such matter, other than in connection with the duties or obligations expressly provided herein. The Trustee shall not be accountable for the use or application of any of the Bonds delivered hereunder or of the proceeds of such Bonds except as expressly provided herein.

Section 6.04 Right of Trustee to Acquire Bonds. The Trustee and its officers and directors may acquire and hold, or become the pledgee of, Bonds and otherwise deal with the Authority and the City in the manner and to the same extent and with like effect as though it were not the Trustee hereunder.

Section 6.05 Moneys Received by Trustee to be Held in Trust. All moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other trust funds except to the extent specifically required by this Indenture or required by law. The Trustee shall be obligated to invest all moneys received by it hereunder in accordance with Section 4.08 hereof. Any interest allowed on any such moneys shall be deposited in the account to which such moneys are credited.

Section 6.06 Compensation and Indemnification of Trustee. The Authority covenants to cause the Trustee to be paid from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee pursuant to the separate agreement entered into between the Authority and the Trustee, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Authority will cause the Trustee to be paid or reimbursed, upon request of the Trustee for all expenses and disbursements incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ, but excluding any fees, expenses and disbursements incurred in connection with the appointment of a separate trustee or co-trustee, which shall be paid by the Trustee). The Authority also covenants to indemnify the Trustee, its directors, officers and employees for, and to hold each of them harmless against, any loss, liability, expense (including reasonable legal fees and expenses) or advance incurred or made without negligence or willful misconduct on the part of the Trustee, arising out of or in connection with (i) the acceptance or administration of this trust, (ii) the condition, management, maintenance or use of or from any work or thing done in connection with the

Enterprise by the Authority, (iii) any act of negligence or willful misconduct of the City or the Authority or any of their agents, contractors, employees, invitees, licensees or officers in connection with the Enterprise, (iv) the delivery or sale of the Bonds and the carrying out of any of the transactions contemplated by the Bonds, this Indenture, the Installment Purchase Agreement or any Related Contract; and (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other disclosure document utilized in connection with the delivery or sale of the Bonds including the fees, costs and expenses of defending itself against any claim of liability. The obligations of the Authority under this Section 6.06 and Section 6.13 hereof to cause the Trustee to be compensated for services and to be paid or reimbursed for expenses, disbursements and liabilities shall constitute additional obligations hereunder. Such additional obligations shall have priority over the Bonds in respect of all property and funds held or collected by the Trustee as such, except funds held by the Trustee for the benefit of the Owners of particular Bonds and except funds held in the Purchase Payment Account. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect, even though all obligations secured hereby may have been fully paid and satisfied and this Indenture may have been released and discharged and the resignation or removal of the Trustee.

Section 6.07 Qualifications of Trustee. There shall at all times be a trustee hereunder which shall be a bank, national banking association, corporation or trust company organized and doing business under the laws of the United states or any of the states of the United States, authorized under such laws to exercise corporate trust powers, subject to supervision or examination by federal or state authority and, if required by law, qualified to do business in the State. Any successor Trustee to U.S. Bank National Association shall have a combined capital and surplus of at least $50,000,000. If such bank, national banking association, corporation or trust company publishes reports 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 6.07, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. For purposes of this Section 6.07, a bank, national banking association or trust company shall be considered to have a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000 if it is a wholly-owned subsidiary of a corporation having a combined capital (exclusive of borrowed capital) and surplus of at least $50,000,000 and such corporation guarantees in writing the performance of such bank, national banking association, corporation or trust company of its obligations hereunder. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.07, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.08 hereof.

Section 6.08 Resignation and Removal of Trustee and Appointment of Successor Trustee. (a) The Trustee may at any time resign by giving written notice to the Authority and the City and by giving to the Owners of the Bonds notice by mail of such resignation. Upon receiving such notice of resignation, the Authority, at the direction of the City (which direction shall not be unreasonably withheld), shall promptly appoint a successor trustee by an instrument in writing executed by an Authorized Authority Representative. If no successor trustee shall have been so appointed and shall have accepted appointment within 60 days after the mailing of such notice of resignation, the resigning trustee may at the expense of the Authority petition any court of competent jurisdiction for the appointment of a successor trustee, or any Owner may, on behalf of himself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case any of the following shall occur --

(i) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.07 hereof and shall fail to resign after written request therefor by the Authority or by any owner who has been a bona fide Owner of a Bond for at least six months,

(ii) the Trustee shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or a receiver of the Trustee or substantially all of its property shall be appointed, or any public officer shall take charge or control of the Trustee or substantially all of its property or affairs for the purpose of rehabilitation, conservation or liquidation, or

(iii) at such time as there is no Event of Default hereunder, the City shall determine to remove the Trustee,

then, in any such case, the Authority, with the written approval of the City (which approval shall not be unreasonably withheld), may remove the Trustee and appoint a successor trustee by an instrument in writing executed by an Authorized Authority Representative, or any such Owner may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The Owners of Outstanding Bonds representing a majority in aggregate principal amount of Outstanding Bonds may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by such Owners.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 6.08 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.09 hereof.

Section 6.09 Acceptance of Trust by Successor Trustee. Any successor Trustee appointed as provided in Section 6.08 hereof shall execute, acknowledge and deliver to the Authority, to the City and to its predecessor Trustee an instrument accepting such appointment hereunder, to which instrument the predecessor Trustee shall be a party, effectively releasing the predecessor Trustee of its obligations hereunder and containing such terms and conditions as the predecessor Trustee may reasonably request, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the Written Request of the Authority executed by an Authorized Authority Representative or of the City executed by an Authorized City Representative or on the request of the successor Trustee, the Trustee ceasing to act shall execute and deliver an instrument transferring to such successor Trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor Trustee, the Authority shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and duties.

No successor Trustee shall accept appointment as provided in this Section 6.09 unless at the time of such acceptance such successor Trustee shall be eligible under the provisions of Section 6.07 hereof. If no successor Trustee shall have been appointed and have accepted appointment within 45 days of giving notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of itself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and

such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

Upon acceptance of appointment by a successor Trustee as provided in this Section 6.09, notice of the succession of such Trustee to the trusts hereunder shall be given by the successor Trustee by first class mail to each Rating Agency, as applicable, having a rating in effect for the Bonds.

Section 6.10 Merger or Consolidation of Trustee. Any entity into which the Trustee may be merged or with which it may be consolidated, or any entity resulting from any merger or consolidation to which the Trustee shall be a party, or any entity succeeding to the business of the Trustee, or any entity to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding, provided that such successor Trustee shall be eligible under the provisions of Section 6.07 hereof.

Section 6.11 Obligations of Trustee. Upon payment in full of all Bonds within the meaning of Section 10.03 hereof, the Trustee shall execute any certificate which the Authority or the City may reasonably request to evidence payment in full of the Purchase Payments under the terms of the Installment Purchase Agreement or any Related Contract.

Section 6.12 Appointment of Co-Trustee. (a) It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of corporations or associations to transact business as trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture or the Installment Purchase Agreement, and in particular in case of the enforcement of either on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights or remedies herein granted to the Trustee or hold title to the properties, in trust, as herein granted, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-trustee. The following provisions of this Section are adapted to these ends.

(b) In the event that the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and shall vest in such separate trustee or co-trustee but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights and remedies, and every covenant and obligation necessary to the exercise thereof by such separate trustee or co-trustee shall run to and be enforceable by either or both of the Trustee and such separate trustee or co-trustee.

(c) Should any instrument in writing from the Authority be required by the separate trustee or co-trustee so appointed by the Trustee for more fully and certainly vesting in and confirming to him or it such properties, right, powers, trusts, duties and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Authority. In case any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new trustee or successor to such separate trustee or co-trustee.

(d) Any appointment by the Trustee of an individual or institution as a separate trustee or co-trustee shall be made only with the prior written consent of the Authority, which consent shall not be unreasonably withheld, or upon court order.

Section 6.13 Paying Agent for Bonds. The Trustee is hereby appointed as the paying agent (the "Paying Agent") for the Bonds.

The Paying Agent shall perform such duties and only such duties as are specifically authorized by the Trustee and in exercising such duties shall be entitled to the immunities and standard of care applicable to the Trustee prior to an Event of Default and after the curing of an Event of Default.

The Authority covenants to cause the Paying Agent to be paid from time to time, and the Paying Agent shall be entitled to, reasonable compensation for all services rendered by it pursuant to the agreement entered into between the Authority and the Paying Agent, subject to the provisions of Section 6.06 hereof, in the exercise and performance of any of the powers and duties hereunder of the Paying Agent, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Authority will cause the Paying Agent to be paid or reimbursed, upon request of the Paying Agent for all expenses and disbursements incurred or made by the Paying Agent in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense or disbursement as may arise from its own negligence or willful misconduct. The Authority also covenants to indemnify the Paying Agent for, and to hold it harmless against, any loss, liability, expense (including reasonable legal fees and expenses) or advance incurred or made without negligence or willful misconduct on the part of the Paying Agent, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises.

In the event of the resignation or removal of the Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there is no successor, to the Trustee.

Section 6.14 Resignation or Removal of Paying Agent; Appointment of Successor. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by this Indenture by giving at least sixty (60) days written notice to the Trustee, the Authority and the City. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee. Any successor Paying Agent shall be appointed by the Authority, at the direction of the City, and shall be a bank, corporation or trust company duly organized under the laws of the United States or any state or territory thereof, having a capital stock and surplus aggregating at least $10,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Indenture.

In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE VII

MODIFICATION AND AMENDMENT OF THE INDENTURE

Section 7.01 Amendment Hereof. This Indenture and the rights and obligations of the Authority, of the Owners of the Bonds and of the Trustee may be modified or amended at any time by a Supplemental Indenture which shall become binding upon its execution and delivery by the Authority (solely at the request of the City) and the Trustee, without consent of any Bond Owners, to the extent permitted by law but only:

(a) to provide for the issuance of one or more Series of Additional Bonds pursuant to Article III hereof;

(b) to add to the covenants and agreements of the Authority contained in this Indenture, other covenants and agreements hereafter 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 Authority;

(c) 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 any other respect whatsoever, as the Authority may deem necessary or desirable;

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification of this Indenture 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;

(e) to amend any provision hereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under the Code, in the opinion of Bond Counsel; or

(f) if, in the written opinion of Bond Counsel, such amendment or modification does not materially adversely affect the rights of the Owners of the Bonds.

Except as set forth in the preceding paragraph of this Section 7.01, this Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may only be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (determined in accordance with Section 10.08) are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or premium (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Whenever a modification or amendment requires the consent of the Owners and the Trustee, the Authority may at any time enter into a Supplemental Indenture making a modification or amendment permitted by the provisions of this Section 7.01 to take effect when and as provided in this Section 7.01. A copy of such supplemental Indenture (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to owners for their consent thereto in form satisfactory to the

Trustee, shall be mailed by the Trustee to the Owners (but failure to mail such copy and request shall not affect the validity of the supplemental Indenture when consented to as in this Section 7.01 provided). Such Supplemental Indenture shall not be effective unless and until (a) there shall have been filed with the Trustee (i) the written consents of Owners of the percentages of outstanding Bonds specified in this Section 7.01 and (ii) an opinion of Bond Counsel stating that such Supplemental Indenture has been duly and lawfully entered into by the parties thereto and filed with the Authority, the City and the Trustee in accordance with the provisions of this Indenture, is authorized or permitted by this Indenture, and is valid and binding upon the parties thereto in accordance with its terms. Each such consent shall be effective only if accompanied by proof of the Owner, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 10.06 hereof. A certificate or certificates executed by the Trustee and filed with the City and the Authority stating that it has examined such proof and that such proof is sufficient in accordance with Section 10.06 hereof shall be conclusive that the consents have been given by the owners of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Owner of the Bonds giving such consent and, anything in Section 10.06 hereof to the contrary notwithstanding, upon any subsequent Owner of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Owner thereof has notice thereof). At any time after the Owners of the required percentages of Bonds shall have filed their consents to the Supplemental Indenture, the Trustee shall make and file with the Authority and the City a written statement that the Owners of such required percentages of Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, a notice stating in substance that the Supplemental Indenture (which may be referred to as a Supplemental Indenture entered into by the parties thereto on a stated date, a copy of which is on file with the Trustee) has been consented to by the Owners of the required percentages of Bonds and will be effective as provided in this Section 7.01, shall be given to owners by the Trustee at the expense of the Authority by mailing such notice to Owners (but failure to mail such notice shall not prevent such Supplemental Indenture from becoming effective and binding as in this Section 7.01 provided). The Trustee shall file with the Authority and the City proof of the mailing of such notice. A record, consisting of the certificates or statements required or permitted by this Section 7.01 to be made by the Trustee, shall be proof of the matters therein stated. Such Supplemental Indenture making such amendment or modification shall be deemed conclusively binding upon the Authority, the City and the Trustee and the Owners of all Bonds at the expiration of forty (40) days after the filing by the Trustee of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced within such forty (40) day period; provided, however, that the Trustee, the Authority and the city during such forty (40) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

Section 7.02 Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to this Article VII, this Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties hereto or thereto and all Owners of Outstanding Bonds, as the case may be, shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 7.03 Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as hereinabove provided, the Authority may determine that the Bonds shall bear a notation, by endorsement in form approved by the Authority, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the Corporate Trust Office of the Trustee, a suitable notation as to such action

shall be made on such Bond. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Corporate Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then outstanding, upon surrender of such Outstanding Bonds.

Section 7.04 Amendment by Mutual Consent. The provisions of this Article VII shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided that due notation thereof is made on such Bond.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01 Events of Default. The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable.

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

(c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in this Indenture or in the Bonds, other than as referred to in the preceding clauses (a) and (b), for a period of sixty (60) days, after written notice, specifying such failure and requesting that it be remedied has been given to the Authority, by the Trustee; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such sixty (60) day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Authority within such sixty (60) day period and diligently pursued until such failure is corrected.

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the Authority seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, 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 Authority or of the whole or any substantial part of its property.

(e) The occurrence of any Event of Default under the Installment Purchase Agreement or any Related Contract.

Section 8.02 Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the owners of a majority in aggregate principal amount of the Bonds at the time Outstanding (determined in accordance with Section 10.08), and upon being indemnified to the Trustee's satisfaction, shall, upon notice in writing to the Authority and the City, pursue any available remedy at law or in equity to enforce the payment of the principal of and interest and premium (if any) on the Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture; provided, that, such remedies shall not include any remedy of acceleration.

If an Event of Default shall have occurred and be continuing and if requested so to do by the owners of a majority in aggregate principal amount of Outstanding Bonds (determined in accordance with Section 10.08) and indemnified as provided in Section 6.01, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power occurring upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Section 8.03 Application of Project Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture or held in any fund or account established by this Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid:

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of this Article VIII and incurred in and about the performance of its powers and duties under this Indenture, including reasonable compensation to its agents, attorneys and counsel; and

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

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

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

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

Section 8.04 Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (determined in accordance with Section 10.08), it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request

signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Section 8.05 Appointment of Receivers. Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Project Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

Section 8.06 Non-Waiver. Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Project Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owner 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. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Act or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

Section 8.07 Rights and Remedies of Bond Owners. No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, the Installment Purchase Agreement or the Bonds, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding (determined in accordance with Section 10.08) shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding (determined in accordance with Section 10.08).

Such notification, request, tender of indemnity and refusal and omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner

whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

Section 8.08 Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Bond Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

ARTICLE IX

[RESERVED.]

ARTICLE X

MISCELLANEOUS

Section 10.01 Limited Liability of Authority. Notwithstanding anything in this Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Project Revenues, and the funds and accounts pledged or assigned under this Indenture, for the payment of principal of or interest on the Bonds, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Project Revenues, and the funds and accounts pledged or assigned under this Indenture, or otherwise from amounts payable under the Installment Purchase Agreement). The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the Project Revenues and other funds as in this Indenture provided. Neither the general fund of the Authority nor the general fund of the City is liable, and the credit of the Authority and the City is not pledged, for the payment of the interest and premium (if any) on or principal of the Bonds. The Owners of the Bonds shall never have the right to compel the forfeiture of any property of the Authority or the City. The principal of and interest on the Bonds shall not be a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or the City or upon any of its income, receipts or revenues except the Project Revenues and other funds pledged to the payment thereof as in this Indenture provided.

Section 10.02 Benefits of Indenture Limited. Nothing in this Indenture, expressed or implied, is intended to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations,

promises or agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Trustee, the City and the Owners of the Bonds.

Section 10.03 Discharge of Indenture. If the Authority shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

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

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to this Indenture, the Installment Purchase Agreement and any Related Contracts, is fully sufficient to pay such Bonds, including all principal, interest and premium (if any); or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Defeasance Securities in such amount as Bond Counsel or an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to this Indenture, the Installment Purchase Agreement and any Related Contracts, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal and interest) at or before their respective maturity dates;

then, upon the Written Request of the Authority (at the direction of the City), and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Project Revenues and other funds provided for in this Indenture with respect to such Bonds, and all other pecuniary obligations of the Authority under this Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Any funds held by the Trustee following any payment or discharge of the Outstanding Bonds pursuant to this Section 10.03, which are not required for said purposes and the payment of the fees and expenses of the Trustee, shall be paid over to the Authority.

Section 10.04 Successor Is Deemed Including in All References to Predecessor. Whenever in this Indenture or any Supplemental Indenture the Authority is named or referred to, such reference shall be deemed to include the successor and assignee to the powers, duties and functions, with respect to the management, administration and control of the affairs of the Authority, that are presently vested in the Authority, and all the covenants, agreements and provisions contained in this Indenture by or on behalf of the Authority shall bind and inure to the benefit of its successors and assigns whether so expressed or not.

Section 10.05 Content of Certificates. Every certificate with respect to compliance with a condition or covenant provided for in this Indenture shall include (a) a statement that the person or persons making or giving such certificate have read such covenant or condition and the definitions herein relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate are based; (c) 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 covenant or condition has been complied with; and (d) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Authority may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his

certificate may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion or representation made or given by counsel may be based, insofar as it relates to factual matters, on information with respect to which is in the possession of the Authority, or upon the certificate or opinion of or representations by an officer or officers of the Authority, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate, opinion or representation may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

Section 10.06 Execution of Documents by Bond Owners. Any request, consent or other instrument required by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent writings of similar tenor and may be signed or executed by such Bond Owners in person or by their attorneys duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such attorney, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section 10.06, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution, by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Bonds shall be proved by the Registration Books. Any request, consent or vote of the owner of any Bond shall bind every future owner of the same Bond and the Owner of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in pursuance of such request, consent or vote. In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bond Owners upon such notice and in accordance with such rules and obligations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Section 10.07 Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City or the Authority (but excluding Bonds held in any employees retirement fund) shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided, however, that for the purpose of determining whether the Trustee shall be protected in relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned or held shall be disregarded. At the time of any consent or other action taken under this Indenture, the Authority and the City shall furnish the Trustee a certificate of an Authorized Authority Representative and Authorized City Representative, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 10.08 Determination of Percentage of Bond Owners; Exclusion of Bonds. Whenever in this Indenture the consent, direction or other action is required or permitted to be given or taken by a percentage of the Owners of an aggregate principal amount of Outstanding Bonds (including by the Owners of a majority in aggregate principal amount of the Outstanding Bonds), such percentage shall be calculated on the basis of the principal amount of the Outstanding Bonds determined as of the next succeeding Interest Payment Date.

Section 10.09 Waiver of Personal Liability. No officer, agent or employee of the Authority shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but

nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

Section 10.10 Partial Invalidity. If any one or more of the covenants or agreements, or portions thereof, provided in this Indenture on the part of the Authority (or of the Trustee) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed severable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Indenture or of the Bonds; but the Bond Owners shall retain all rights and benefits accorded to them under the Act or any other applicable provisions of law. The Authority hereby declares that it would have entered into this Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.11 Destruction of Cancelled Bonds. Whenever in this Indenture provision is made for the surrender to the Trustee of any Bonds pursuant to the provisions of this Indenture, the Trustee shall promptly cancel and destroy such Bonds and shall certify in writing as to such destruction.

Section 10.12 Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the accounting records of the Authority or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the Authority shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with industry practices; in each case with due regard for the protection of the security of the Bonds and the rights of every Owner thereof. Any fund or account required by this Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the form of multiple funds, accounts or subaccounts therein. Notwithstanding any other provision in this Indenture, the Trustee shall only be required to open new funds or accounts when it receives, or is notified that it will receive, funds or moneys to be deposited and maintained in such funds or accounts.

Section 10.13 Recording and Filing. The Authority shall file, record, register, renew, refile and rerecord all documents as may be required by law in order to maintain the Installment Purchase Agreement and this Indenture, in such manner, at such times and in such places as required and to the extent permitted by law in order to fully perfect, preserve and protect the rights and interests of the owners.

Section 10.14 Payment on Business Days. Whenever in this Indenture any amount is required to be paid on a day which is not a Business Day, such payment shall be required to be made on the Business Day immediately following such day, provided that interest shall cease to accrue as of such day.

Section 10.15 Notices. Any notice, certificate, request, complaint, demand or other communication (other than payments by the Authority) under this Indenture shall be in writing and shall be sufficiently and shall be deemed given when delivered or mailed by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy or other form of telecommunication, (b) 48 hours after deposit in the United States mail,

postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority:	California Municipal Finance Authority 2111 Palomar Airport Road, Suite 320 Carlsbad, California 92011
If to the City:	City of San Bernardino Municipal Water Department 300 North "D" Street San Bernardino, California 92418 Attention: General Manager
If to the Trustee:	U.S. Bank National Association 633 West Fifth Street Los Angeles, California 90071 Attention: Corporate Trust

Section 10.16 Payments of Bonds; Unclaimed Moneys. (a) If and when the principal and interest on the Bonds issued pursuant hereto shall become due and payable in accordance with their terms, all amounts payable to the Trustee and the Paying Agent have been paid and the whole amount of the principal and interest due and payable on all of the Bonds shall have been paid or set aside for payment with the Trustee or a Paying Agent, then and in that case, the right, title and interest of the Trustee under this Indenture shall thereupon cease, terminate and become void, and the Trustee shall convey all property, other than money held by the Trustee or paying Agent for the payment of unpresented Bonds, and interest therein which it obtained under this Indenture free and clear of all liens thereon which the Trustee may have.

(b) Anything in this Indenture to the contrary notwithstanding, subject to the laws of the State, any moneys held by the Trustee in trust for the payment and discharge of the principal and interest on the Bonds which remain unclaimed for one year after the date when such payments have become due and payable, if such moneys were held by the Trustee at such date, or for one year after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Trustee shall, at the expense of the Authority, cause to be mailed to the Owners of all such Bonds, at their respective addresses appearing on the Registration Books, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

Section 10.17 Governing Law. This Indenture shall be governed by and construed in accordance with the laws of the State of California.

Section 10.18 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 10.19 Consent of Parties. Whenever the consent or approval of any party to this Indenture is required by the terms of this Indenture, the consent or approval of such party shall not be unreasonably withheld.

Section 10.20 Headings. Headings preceding the text of the several Articles and Sections hereof, and the table of contents, are solely for convenience of reference and shall not constitute a part of this Indenture or affect its meaning, construction or effect.

IN WITNESS WHEREOF, the CALIFORNIA MUNICIPAL FINANCE AUTHORITY has caused this Indenture to be signed in its name by its [Chairman], and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

By _____
[Chairman]

[SEAL]

Attest:

By _____
Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

EXHIBIT A

FORM OF 2016 BOND

No.

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange or payment and any Bond 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.

NEITHER THE PAYMENT OF THE PRINCIPAL OR ANY PART THEREOF NOR ANY INTEREST THEREON CONSTITUTES A DEBT OF THE CITY OF SAN BERNARDINO WITHIN THE MEANING OF ANY CONSTITUTIONAL DEBT LIMITATION OR RESTRICTION.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Water Revenue Bond, Series 2016
(City of San Bernardino Municipal Water Department Water Facilities Project)

INTEREST RATE:	MATURITY DATE:	DATED DATE:	CUSIP:
	August 1, _____	October __, 2016	

REGISTERED OWNER: CEDE & CO. (TAX I.D. # 13-2555119)

PRINCIPAL AMOUNT:

The CALIFORNIA MUNICIPAL FINANCE AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Project Revenues and other moneys and securities hereinafter referred to) to the registered owner identified above or registered assigns (the "Registered Owner"), on the maturity date identified above, the principal amount identified above in lawful money of the United States of America; and to pay interest thereon at the rate of interest identified above in like money semiannually on each February 1 and August 1, commencing _____ 1, 2017 (each, an "Interest Payment Date") until payment of such principal amount in full. This Bond shall bear interest from the Interest Payment Date next preceding the date of authentication hereof (unless this Bond is executed on February 1 or August 1, in which event interest shall accrue from the date of execution hereof, or unless this Bond is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Bond is authenticated on or prior to _____ 15, 2017, in which event it shall bear interest from the dated date hereof; provided, however, that if, as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest hereon has previously been paid, or made available for payment or if no interest has been paid, from the dated date hereof). Capitalized terms

employed herein which are not defined herein shall have the same meanings as in the Indenture of Trust, dated as of October 1, 2016 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), or the Installment Purchase Agreement.

The principal amount hereof and premium hereon, if any, is payable upon presentation and surrender hereof at the Corporate Trust Office (the "Trust Office") of the Trustee, in Los Angeles, California or such other place as designated by the Trustee. Interest hereon is payable by check or draft of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Registered Owner hereof at the address of the Registered owner as it appears on the Registration Books of the Trustee as of the fifteenth calendar day of the month preceding such Interest Payment Date; except that at the written request of the Registered Owner of at least $1,000,000 in aggregate principal amount of outstanding Bonds filed with the Trustee prior to the fifteenth calendar day of the month preceding any Interest Payment Date, interest on such Bonds shall be paid to such Registered Owner on each succeeding Interest Payment Date by wire transfer of immediately available funds to an account in the continental United States designated in such written request.

This Bond is one of a duly authorized issue of bonds of the Authority designated the "California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water Department Water Facilities Project)" (the "Bonds"), limited in principal amount to _____ Dollars ($_____), secured by the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Bonds, of the nature and extent of the Project Revenues (as that term is defined in the Indenture), of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder; and all of the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the Registered Owner hereof, and to all of the provisions of which Indenture the Registered owner hereof, by acceptance hereof, assents and agrees.

The Bonds are authorized to be issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"). The Bonds are special obligations of the Authority and, as and to the extent set forth in the indenture, are payable solely from and secured by a pledge, charge and lien upon the Project Revenues, which consist of 2016 Purchase Payments to be made by the City under the Installment Purchase Agreement, and certain other moneys and securities held by the Trustee as provided in the Indenture. All of the Bonds are equally secured by a pledge of, and charge and lien upon, all of the project Revenues and such other moneys and securities, and the Project Revenues and such other moneys and securities constitute a trust fund for the security and payment of the principal of and interest and premium (if any) on the Bonds. The full faith and credit of the Authority and the City is not pledged for the payment of the principal of or interest on the Bonds. The Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or the City or any of its income, receipts, or revenues except the Project Revenues and such other funds as provided in the Indenture.

The Bonds are issuable as fully registered Bonds without coupons in denominations of $5,000 or any integral multiple thereof. Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, Bonds may be exchanged at the Trust Office of the Trustee or such other place as designated by the Trustee for an equal aggregate principal amount of Bonds of other authorized denominations and of the same tenor, series and maturity.

This Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office of the Trustee or such other place as designated by the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon such surrender for transfer a new

Bond or Bonds, of authorized denomination or denominations, of like tenor, series, maturity and aggregate principal amount will be issued to the transferee in exchange herefor. Except as set forth in the Indenture, the Authority and the Trustee may treat the Registered owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority and of the Registered Owners of the Bonds and of the Trustee may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or premium (if any) at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Registered Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

It is hereby certified that all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of California and by the Act.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the Authority has caused this Bond to be executed in its name and on its behalf by the facsimile signatures of its [Chairman] and Secretary, all as of the dated date identified above.

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

By _____
[Chairman]

Attest:

By _____
Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Bonds described in the within-mentioned indenture and registered on the Registration Books.

Dated: October __, 2016

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Signatory

(FORM OF ASSIGNMENT)

For value received the undersigned hereby sells, assigns and transfers unto

_____

_____
(Name, Address and Tax Identification a Social Security Number of Assignee)

the within-registered Bond and hereby irrevocably constitutes and appoints

_____

attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

_____
Note: 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.

Signature:

_____
Note: The signature on this assignment must correspond with the name(s) as written on the face of the within registered Bond in every particular without alternation or enlargement or any change whatsoever.

EXHIBIT B

FORM OF REQUISITION

$_____
CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT
WATER FACILITIES PROJECT)

REQUISITION FOR DISBURSEMENT

U.S. Bank National Association
633 West Fifth Street
Los Angeles, California 90071
Attention: Corporate Trust

Subject: [COSTS OF ISSUANCE FUND] [ACQUISITION FUND]
REQUISITION FOR PAYMENT NO. _____

Ladies and Gentlemen:

Pursuant to Section [4.05][4.06] of the Indenture of Trust, dated as of October 1, 2016, by and between the California Municipal Finance Authority and you, as Trustee, the undersigned hereby requests payment of the following [Costs of Issuance][Project Costs] (as defined in said Indenture of Trust) to the persons listed on Attachment A hereto.

The undersigned further states that the obligation in the stated amount is an item of [Costs of Issuance][Project Costs] and is a proper charge against the [Costs of Issuance Fund][Acquisition Fund], and has not been the basis of any previous withdrawal from the [Costs of Issuance Fund][Acquisition Fund].

Dated: _____ CITY OF SAN BERNARDINO

By _____
Authorized City Representative

cc:

ATTACHMENT A

PAYEE NAME AND ADDRESS	PURPOSE	AMOUNT

(SEE ATTACHED SUPPORTING DOCUMENTATION)

OH&S
9/26/16
DRAFT

$_____
CALIFORNIA MUNICIPAL FINANCE AUTHORITY
WATER REVENUE BONDS, SERIES 2016
(CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT WATER FACILITIES PROJECT)

BOND PURCHASE AGREEMENT

_____, 2016

California Municipal Finance Authority
2111 Palomar Airport Road, Suite 320
Carlsbad, California 92011

City of San Bernardino, acting by and through
the City of San Bernardino Municipal Water Department
300 North "D" Street
San Bernardino, California 92418

Ladies and Gentlemen:

Raymond James & Associates, Inc. (the "Underwriter") hereby offers to enter into this Bond Purchase Agreement (this "Bond Purchase Agreement") with the California Municipal Finance Authority (the "Authority"), a joint exercise of powers entity duly organized and existing under the laws of the State of California (the "State"), and the City of San Bernardino, California (the "City"), a municipal corporation and charter city duly organized and existing under the laws of the State, acting by and through the City of San Bernardino Municipal Water Department (the "Department"), which upon written acceptance of this offer will be binding upon the Authority, the City and the Underwriter. This offer is made subject to the Authority's and the City's written acceptance hereof on or before 11:59 p.m., California time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the Authority and the City at any time prior to the acceptance hereof by the Authority and the City.

Capitalized terms used and not defined herein shall have the same meanings as set forth in the Indenture (as defined below).

1. Purchase and Sale of the Bonds

Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Authority, and the Authority hereby agrees to sell and deliver to the Underwriter, all (but not less than all) of the $_____ aggregate principal amount of the California Municipal Finance Authority Water Revenue Bonds, Series 2016 (City of San Bernardino Municipal Water

Department Water Facilities Project) (the "Bonds"). The Bonds will be issued on the Closing Date (as hereinafter defined), in the principal amount of $_____. The Bonds will bear interest at the rates and will mature on the dates, and will be subject to redemption, all set forth on Schedule I attached hereto. The purchase price for the Bonds shall be $_____, being the principal amount of the Bonds, plus [net] original issue premium of $_____, and less an Underwriter's discount of $_____.

The Authority and the City each acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Bond Purchase Agreement is an arm's-length commercial transaction between the Authority and the City, on one hand, and the Underwriter, on the other; (ii) in connection with such transaction, including the process leading thereto, the Underwriter is acting solely as a principal and not as an agent or a fiduciary of the Authority or the City; (iii) the Underwriter has neither assumed an advisory or fiduciary responsibility in favor of the Authority or the City with respect to the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the Authority or the City on other matters) nor has it assumed any other obligation to the Authority or the City except the obligations expressly set forth in this Bond Purchase Agreement; (iv) the Underwriter has financial and other interests that differ from those of the Authority and the City; and (v) the Authority and the City have each consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

2. Description and Purpose of the Bonds

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable as provided in the Indenture of Trust, dated as of _____, 2016 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The Bonds are authorized to be issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of the State. The Bonds are special obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from and secured by a pledge, charge and lien upon the Project Revenues (as defined in the Indenture), which consist of 2016 Purchase Payments to be made by the City under that certain Installment Purchase Agreement, dated as of _____, 2016 (the "Installment Purchase Agreement"), between the Authority and the City, and certain other moneys and securities held by the Trustee as provided in the Indenture.

The proceeds of the Bonds will be used to (i) finance the acquisition and construction of certain water system capital improvements (the "Project"); (ii) refund and defease in full the Enterprise Fund Installment Sale Agreement between the City of San Bernardino Municipal Water Department (the "Department") and the California Infrastructure and Economic Development Bank ("CIEDB"), dated as of April 30, 2002, as amended, the Enterprise Fund Installment Sale Agreement between the Department and the CIEDB, dated as of July 1, 2007, as amended, and the Enterprise Fund Installment Sale Agreement between the Department and the CIEDB, dated as of May 15, 2012 (collectively, the "IBank Debt"); (iii) [fund a reserve fund]; and (iv) pay the costs of issuance of the Bonds.

3. Public Offering

The Underwriter agrees to make a bona fide public offering of all the Bonds initially at the public offering prices (or yields) set forth on Schedule I attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds, provided that the Underwriter shall not change the interest rates set forth on Schedule I. The Bonds may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement; Continuing Disclosure

(a) Preliminary Official Statement. The Authority and the City have delivered or caused to be delivered to the Underwriter prior to the execution of this Bond Purchase Agreement, copies of the preliminary official statement with respect to the Bonds, dated _____, 2016 (the "Preliminary Official Statement"). Such Preliminary Official Statement is the official statement deemed final by the City for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934 (the "Rule") and approved by the City for distribution by the Underwriter by the Department Resolution (as defined herein). As authorized by the Department Resolution and the Authority Resolution (as defined herein), the City hereby ratifies and confirms its authorization of the use by the Underwriter before the date hereof of the Preliminary Official Statement.

(b) Final Official Statement. Within seven (7) business days from the date hereof, and in any event not later than two business days prior to the Closing Date, the City shall deliver to the Underwriter a final Official Statement, executed on behalf of the City by authorized representatives of the City and on behalf of the Authority by authorized representatives of the Authority, which shall include information permitted to be omitted from the Preliminary Official Statement by paragraph (b)(1) of the Rule and with such other amendments or supplements as shall have been approved by the Authority, the City and the Underwriter (the "Final Official Statement") and such additional conformed copies thereof as the Underwriter may reasonably request to meet potential customer requests for copies of the Official Statement to comply with the Rule and rules of the Municipal Securities Rulemaking Board (the "MSRB"). It is acknowledged by the Authority and the City that the Underwriter may deliver the Preliminary Official Statement and a Final Official Statement electronically over the internet and in printed paper form. For purposes of this Bond Purchase Agreement, the printed paper form of the Preliminary Official Statement and the Official Statement are deemed controlling. The Underwriter agrees to file a copy of the Official Statement, including any supplements prepared by the City, with the MSRB on its Electronic Municipal Markets Access ("EMMA") system. The Official Statement shall be in substantially the same form as the Preliminary Official Statement and, other than information previously permitted to have been omitted by the Rule, the Authority and the City shall only make such other additions, deletions, revisions and recent developments in the Official Statement as shall be approved by the Underwriter. The Underwriter hereby agrees to cooperate and assist in the preparation of the Official Statement. The Authority and the City hereby agree to deliver to the Underwriter an electronic copy of the Official Statement in a form that permits the Underwriter to satisfy its obligations under the rules and regulations of the MSRB and the U.S. Securities and Exchange Commission ("SEC"). The

Authority and the City hereby authorize the Underwriter to use the Official Statement and the information contained therein in connection with the offering and sale of the Bonds. The Final Official Statement, including the cover pages, the appendices thereto and all information incorporated therein by reference are hereinafter referred collectively to as the "Official Statement."

(c) Continuing Disclosure Agreement. To enable the Underwriter to comply with the Rule, the City will execute a Continuing Disclosure Agreement concurrently with issuance of the Bonds substantially in the form attached as Appendix E to the Official Statement (the "Continuing Disclosure Agreement").

5. Closing

At 8:30 a.m. California time on _____, 2016, or such other time as shall be agreed upon by the Underwriter, the Authority and the City (the "Closing Date"), the City will deliver or cause to be delivered to the Underwriter at the offices of Norton Rose Fulbright US LLP, bond counsel to the Authority ("Bond Counsel") in Los Angeles, California (or such other location as may be designated by the Underwriter and approved by the Authority and the City) the closing documents hereinafter mentioned and, through the facilities of The Depository Trust Company, the Bonds in the form of registered book-entry bonds evidenced by one certificate for each maturity, interest rate and series of Bonds (which may be typewritten) in denominations of $5,000 or any multiple thereof, duly executed by the Authority and authenticated by the Trustee, and subject to the terms and conditions hereof the Underwriter will accept delivery of the Bonds in book-entry form, and the Underwriter will pay the purchase price of the Bonds set forth in Section 1 by Federal Funds wire (such delivery and payment being herein referred to as "Closing").

6. Representations, Warranties and Agreements of the Authority

The Authority represents, warrants and covenants with the Underwriter that:

(a) the Authority is a joint exercise of powers entity duly organized and existing under the laws of the State of California, with full legal right, power and authority to issue, sell and deliver the Bonds to the Underwriter pursuant to the Indenture, and execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Indenture, the Installment Purchase Agreement and the Bonds (collectively, the "Authority Legal Documents") and to carry out and consummate all transactions contemplated by each of the aforesaid documents and the Official Statement, and compliance with the provisions of the Authority Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the Authority is a party or it or any of its assets may be otherwise subject;

(b) the resolution adopted by the Authority on _____, 2016 approving and authorizing the issuance of the Bonds and the execution and delivery by the Authority of the Authority Legal Documents and the preparation and distribution of the Preliminary Official

Statement and the Official Statement (the "Authority Resolution") was duly adopted at a meeting of the governing board of the Authority called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(c) when delivered by the Authority and paid for by the Underwriter in accordance with the provisions of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed and delivered and will constitute the valid and binding limited obligations of the Authority in conformity with, and entitled to the benefit and security of, the Indenture;

(d) the Authority has duly authorized and approved the issuance of the Bonds and the execution and delivery of the Authority Legal Documents and when executed and delivered, the Authority Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, as applicable, will constitute the legally valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(e) at the date hereof and as of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the Authority will be in compliance with the covenants and agreements contained in the Authority Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(f) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the Authority of its obligations under the Authority Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(g) the Authority will comply with the requirements of the Tax Certificate executed by the Authority in connection with the delivery of the Bonds;

(h) any certificate signed by any officer of the Authority and delivered to the Underwriter pursuant to the Authority Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(i) the Indenture creates a valid pledge of and grant of a first, direct and exclusive charge and lien on the Project Revenues (as defined in the Indenture) purported to be pledged thereby, subject to no prior pledges, liens or security interests;

(j) the information under the headings "THE AUTHORITY" and "LITIGATION – The Authority" in the Preliminary Official Statement as of its date and as of the date hereof, and in the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Official Statement contains and up to and including the Closing will contain no misstatement of any

material fact and does not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading;

(k) the Authority will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The Authority will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds;

(l) as of the time of acceptance hereof and as of the time of the Closing, the Authority is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Authority is a party or it or any of its assets is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the Authority's performance under the Authority Legal Documents; and, as of such times, except as disclosed in the Preliminary Official Statement and the Official Statement, the authorization, execution and delivery of the Authority Legal Documents and the Bonds and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument to which the Authority (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Bonds and the Authority Legal Documents; and

(m) as of the time of acceptance hereof and the Closing, except as disclosed in the Preliminary Official Statement and the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best of the Authority's knowledge after reasonable investigation, threatened (i) in any way questioning the corporate existence of the Authority or the titles of the officers of the Authority to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds, the Authority Legal Documents or the consummation of the transactions contemplated thereby or hereby, or contesting the exclusion of the interest on the Bonds from gross income for Federal income tax purposes or contesting the powers of the Authority or its authority to issue the Bonds; (iii) which may result in any material adverse change relating to the Authority; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any

supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

All representations, warranties and agreements of the Authority shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriter's behalf, and shall survive the delivery of the Bonds.

7. Representations, Warranties and Agreements of the City

The City represents, warrants and covenants with the Underwriter that:

(a) the City is a municipal corporation and charter city duly organized and existing under the laws of the State of California and the Department is created by City Charter to act on behalf of the City with regard to the Water System;

(b) the City, acting by and through the Department, has full legal right, power and authority to execute, deliver and perform its obligations, as the case may be, under this Bond Purchase Agreement, the Installment Purchase Agreement and the Continuing Disclosure Agreement (collectively, the "City Legal Documents") and to carry out and consummate all transactions contemplated by each of the aforesaid documents and the Official Statement, and compliance with the provisions of the City Legal Documents will not materially conflict with or constitute a breach of or default under any applicable constitutional provision, law, administrative regulation, court order or consent decree or any applicable judgment or decree or any loan agreement, note, resolution, indenture, agreement or other instrument to which the City is a party or it or any of its assets may be otherwise subject;

(c) the resolution adopted by the Board of Water Commissioners of the Department on _____, 2016 approving and authorizing the execution and delivery by the City of the City Legal Documents and the preparation and distribution of the Preliminary Official Statement and the Official Statement (the "Department Resolution") was duly adopted at a meeting of the Board of Water Commissioners of the Department called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(d) by adoption of the Department Resolution, the City has duly authorized and approved the execution and delivery by the City of the City Legal Documents and when executed and delivered, the City Legal Documents, assuming due authorization, execution and delivery by the other respective parties thereto, as applicable, will constitute the legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or affecting creditors' rights generally;

(e) at the date hereof and as of the Closing Date, except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the City will be in compliance with

the covenants and agreements contained in the City Legal Documents, and no event of default and no event has occurred and is continuing which, with the passage of time or giving of notice, or both, would constitute an event of default thereunder shall have occurred and be continuing;

(f) all approvals, consents and orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the due performance by the City of its obligations under the City Legal Documents have been duly obtained or made, and are, and will be as of the Closing Date, in full force and effect;

(g) the City will comply with the requirements of the Tax Certificate executed by the City in connection with the delivery of the Bonds;

(h) any certificate signed by any officer of the City and delivered to the Underwriter pursuant to the City Legal Documents or any document contemplated hereby or thereby shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein and that such officer shall have been duly authorized to execute the same;

(i) to the best knowledge of the City and excluding the bankruptcy court approval of the City's pending bankruptcy plan, there is no public vote or referendum pending or proposed, the results of which could materially adversely affect the transactions contemplated by the City Legal Documents or the Official Statement or the validity or enforceability of the Bonds;

(j) the Installment Purchase Agreement creates a valid pledge of and grant of a first, direct and exclusive charge and lien on the Net Revenues (as defined in the Installment Purchase Agreement) purported to be pledged thereby, subject to no prior pledges, liens or security interests;

(k) the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Official Statement contains and up to and including the Closing will contain no misstatement of any material fact and does not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (excluding therefrom the information relating to DTC and its book-entry only system and under the caption "UNDERWRITING," as to which no representations or warranties are made);

(l) the City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds;

(m) as of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument relating to the Enterprise to which the City is a party or it or any of its

Enterprise assets is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a default or event of default under any such instrument which breach or default would materially adversely affect the security of the Bonds or the City's performance under the City Legal Documents; and, as of such times, except as disclosed in the Preliminary Official Statement and the Official Statement, the authorization, execution and delivery of the City Legal Documents and the Bonds and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance agreement or other instrument relating to the Enterprise to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its Enterprise properties is bound; nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its Enterprise assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Bonds and the City Legal Documents;

(n) as of the time of acceptance hereof and the Closing, except as disclosed in the Preliminary Official Statement and the Official Statement, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best of the City's knowledge after reasonable investigation, threatened (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the issuance, sale or delivery of any of the Bonds, or the payment or collection of any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contesting or affecting the validity of the Bonds, the City Legal Documents or the consummation of the transactions contemplated thereby or hereby; (iii) which may result in any material adverse change relating to the City; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence;

(o) for purposes of the Rule, the City has heretofore deemed final the Preliminary Official Statement prior to its use and distribution by the Underwriter, except for the information specifically permitted to be omitted by paragraph (b)(1) of the Rule;

(p) except as otherwise disclosed in the Preliminary Official Statement and the Official Statement, the City has not previously failed to comply in any material respect with any continuing disclosure obligation undertaken pursuant to the Rule; and

(q) except for information which is permitted to be omitted pursuant to the Rule, the Preliminary Official Statement is, as of its date and as of the date hereof (excluding therefrom the information relating to DTC and its book-entry only system and under the caption

"UNDERWRITING," as to which no representations or warranties are made) was and is true and correct in all material respects and did not and does not contain any untrue or misleading statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

All representations, warranties and agreements of the City shall remain operative and in full force and effect, regardless of any investigations made by or on the Underwriter's behalf, and shall survive the delivery of the Bonds.

8. Conditions to the Obligations of the Underwriter

The Underwriter hereby enters into this Bond Purchase Agreement in reliance upon the representations and warranties of the Authority and the City contained herein and the representations and warranties to be contained in the documents and instruments to be delivered on the Closing Date and upon the performance by the Authority, the City and the Trustee of their respective obligations both on and as of the date hereof. Accordingly, the Underwriter's obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy of the representations and warranties of the Authority and the City contained herein as of the date hereof and as of the Closing Date, to the accuracy of the statements of the officers and other officials of the Authority, the City and the Trustee made in any certificate or document furnished pursuant to the provisions hereof, to the performance by the Authority, the City and the Trustee of their respective obligations to be performed hereunder and under the Authority Legal Documents and the City Legal Documents to which it is a party at or prior to the date hereof and at or prior to the Closing Date, and also shall be subject to the following additional conditions:

(a) On the Closing Date, the Authority Legal Documents shall have been duly authorized, executed and delivered by the Authority and the City Legal Documents shall have been duly authorized, executed and delivered by the City, all in substantially the forms heretofore submitted to the Underwriter, with only such changes as shall have been agreed to in writing by the Underwriter, and shall be in full force and effect; and there shall be in full force and effect such resolutions of the governing board of the Authority and the Board of Water Commissioners of the Department as, in the opinion of the Bond Counsel, shall be necessary or appropriate in connection with the transactions contemplated hereby;

(b) On the Closing Date, all necessary action of the Authority and the City relating to the issuance and sale of the Bonds will have been taken and will be in full force and effect and will not have been amended, modified or supplemented;

(c) On or prior to the Closing Date, the Underwriter shall have received the following documents, in each case satisfactory in form and substance to the Underwriter:

(i) one copy of the Bond Purchase Agreement, the Indenture, the Installment Purchase Agreement and the Continuing Disclosure Agreement, each duly executed and delivered by the respective parties thereto;

(ii) the Official Statement, executed on behalf of the Authority and the City by an authorized representative of the Authority and the City;

(iii) the approving opinion, dated the date hereof and addressed to the Authority and the City, of Bond Counsel in substantially the form of Appendix C to the Official Statement, and a letter of such counsel, dated the Closing Date, and addressed to the Underwriter to the effect that such opinion may be relied upon by the Underwriter to the same extent as if such opinion were addressed to them;

(iv) a supplemental opinion or opinions of Bond Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(A) the Authority and the City have each duly and validly executed the Bond Purchase Agreement, and the Bond Purchase Agreement constitutes the legal, valid and binding agreement of the Authority and the City, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in appropriate cases;

(B) the statements contained in the Preliminary Official Statement and the Official Statement on the cover page and under the captions "DESCRIPTION OF THE 2016 BONDS (other than information relating to DTC and its book-entry only system, as to which no opinion need be expressed)," "SECURITY AND SOURCES OF PAYMENT FOR THE 2016 BONDS," "TAX MATTERS," and in Appendices C and D thereto, insofar as such statements expressly summarize certain provisions of the Bonds, the Indenture, the Installment Purchase Agreement and Bond Counsel's final approving opinion relating to the Bonds, are accurate in all material respects; and

(C) the Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(v) a letter of Orrick, Herrington & Sutcliffe LLP, disclosure counsel to the City ("Disclosure Counsel"), dated the date of the Closing, addressed to the Authority, the City and the Underwriter substantially to the following effect: On the basis of the information made available to such firm in the course of its participation in the preparation of the Preliminary Official Statement and the Official Statement (but without having undertaken to determine or verify independently, or assuming any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Preliminary Official Statement and the Official Statement), no facts have come to the attention of the personnel in such firm directly involved in rendering legal advice and assistance to the City as Disclosure Counsel, including in connection with the preparation

of the Preliminary Official Statement and the Official Statement, which cause such firm to believe that the Preliminary Official Statement, as of its date or as of the date hereof, or the Official Statement as of its date and the Closing Date (excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; information relating to the Depository Trust Company and the book-entry only system); as to all of which such firm expresses no view) contains any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(vi) the opinion of Jones Hall, APLC, as Issuer's Counsel to the Authority dated the Closing Date and addressed to the Underwriter, in form and substance acceptable to the Underwriter;

(vii) the opinion of the City Attorney to the City dated the Closing Date and addressed to the Underwriter, to the effect that:

(A) the City is a municipal corporation and charter city duly organized and existing under the laws of the State of California;

(B) the Department is created by City Charter to act on behalf of the City with regard to the Water System;

(C) the Department Resolution was duly adopted at a meeting of the Board of Water Commissioners of the Department that was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and is in full force and effect and has not been amended or repealed;

(D) other than as otherwise disclosed in the Preliminary Official Statement and the Official Statement, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or, to the best knowledge of such counsel after reasonable investigation, threatened against or affecting the City, to restrain or enjoin the execution, delivery or sale of the Bonds or the collection or payment of Net Revenues that are the source of security under the Installment Purchase Agreement, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the City Legal Documents, or in any way contesting or affecting the existence of the City or the title of any official of the City to such person's office, or contesting the power of the City or its authority with respect to the City Legal Documents or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or

omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(E) the execution and delivery by the City of the City Legal Documents, the adoption of the Department Resolution, and compliance by the City with the provisions of the foregoing, under the circumstances contemplated thereby, do not and will not in any material respect conflict with or constitute on the part of the City a breach or default under any agreement or other instrument to which the City is a party or by which it is bound or by any existing law, regulation, court order or consent decree to which the City or any of its assets is subject;

(F) as authorized by the Department Resolution, the City Legal Documents have been duly authorized, executed and delivered by the City and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute legal, valid and binding agreements of the City enforceable in accordance with their respective terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and the limitations on legal remedies against public agencies in the State of California and the application of equitable principles if equitable remedies are sought; and

(G) no authorization, approval, consent, or other order of the United States of America, the State of California, or any other governmental authority or agency within the State of California having jurisdiction over the City is required for the valid authorization, execution, delivery and performance by the City of the Legal Documents or for the adoption of the Department Resolution which has not been obtained;

(viii) a certificate of a duly authorized representative of the Authority, dated the Closing Date, in form and substance satisfactory to the Underwriter, to the effect that the Authority's representations and warranties contained in the Authority Legal Documents are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date;

(ix) a certificate of a duly authorized official of the City, dated the Closing Date, in form and substance satisfactory to the Underwriter, to the effect that (A) the City's representations and warranties contained in the City Legal Documents are true and correct on and as of the Closing Date with the same effect as if made on the Closing Date; (B) the City Legal Documents have been executed and are in full force and effect; (C) the City has complied or is then in compliance with all agreements and has satisfied all conditions on its part to be observed or satisfied under each City Legal Document at or before the Closing; and (D) no event has occurred since the date of the Official Statement

which either makes untrue or incorrect in any material respect as of the Closing Date any statement or information contained in the Official Statement, as then supplemented or amended or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect;

(x) a certificate of a duly authorized official of the Trustee, dated the Closing Date, to the effect that: (A) the Trustee is a national banking association organized and existing under and by virtue of the laws of the United States, having the full power and being qualified to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to the Underwriter; (B) the Trustee is duly authorized to enter into the Indenture and to authenticate and deliver the Bonds to the Underwriter pursuant to the Indenture; (C) when delivered to and paid for by the Underwriter at the Closing, the Bonds will have been duly authenticated and delivered by the Trustee; (D) the execution and delivery of the Indenture and compliance with the provisions on the Trustee's part contained therein, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, indenture, note, resolution, agreement or other instrument to which the Trustee is a party or is otherwise subject (except that no representation, warranty or agreement is made with respect to any federal or state securities or blue sky laws or regulations), which conflict, breach or default would materially impair the ability of the Trustee to perform its obligations under the Indenture, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the properties or assets held by the Trustee pursuant to the lien created by the Indenture under the terms of any such law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument, except as provided by the Indenture; and (E) to the best of the knowledge of the Trustee, it has not been served with any action, suit, proceeding, inquiry or investigation in law or in equity, before or by any court, governmental agency, public board or body, nor is any such action or other proceeding threatened against the Trustee, affecting the existence of the Trustee, or the titles of its officers to their respective offices or seeking to prohibit, restrain, or enjoining the execution and delivery of the Bonds or the collection of revenues to be applied to pay the principal, premium, if any, and interest with respect to the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Indenture, or contesting the powers of the Trustee or its authority to enter into, adopt or perform its obligations under any of the foregoing to which it is a party, wherein an unfavorable decision, ruling or funding would materially adversely affect the validity or enforceability of the Indenture or the power and authority of the Trustee to enter into and perform its duties under the Indenture and to authenticate and deliver the Bonds to or upon the order of the Underwriter;

(xi) the opinion, dated the Closing Date and addressed to the Underwriter and the City, of Counsel to the Trustee, to the effect that: (A) the Trustee has been duly organized as a national banking association under the laws of the United States with trust powers, having full power and authority to enter into and to perform its duties as Trustee under the Indenture; (B) the Trustee has duly authorized, executed and delivered the Indenture, and by all proper corporate action has authorized the acceptance of the trusts

of the Indenture; (C) the Indenture constitutes the legally valid and binding agreement of the Trustee, enforceable against the Trustee in accordance with its terms, and (D) the Bonds have been validly authenticated and delivered by the Trustee;

(xii) one certified copy of the general resolution of the Trustee authorizing the execution and delivery of the Indenture;

(xiii) one copy of the Authority Resolution, together with a certificate of the Secretary of the Authority, dated as of the Closing Date, to the effect that such resolution is a true and complete copy of the Authority;

(xiv) one copy of the Department Resolution, together with a certificate of the Secretary of the Board of Water Commissioners, dated as of the Closing Date, to the effect that such resolution is a true and complete copy of the Department Resolution;

(xv) a Tax Certificate of the Authority and the City in form and substance acceptable to Bond Counsel;

(xvi) evidence that the federal tax information form 8038-G has been prepared for filing;

(xvii) a copy of the Notice of Proposed Sale and Report of Final Sale required to be delivered to the California Debt and Investment Advisory Commission pursuant to Section 8855(g) of the California Government Code;

(xviii) a copy of the Authority's executed Blanket Letter of Representation to The Depository Trust Company;

(xix) evidence that the ratings on the Bonds as set forth in the Official Statement are in full force and effect as of the Closing Date;

(xx) evidence that the City's obligations relating to the IBank Debt have been prepaid in full; and

(xxi) such additional legal opinions, certificates, instruments or evidences thereof and other documents as the Counsel to the Underwriter or Bond Counsel may request to evidence the due authorization, execution and delivery of the Bonds and the conformity of the Bonds, the Authority Legal Documents and the City Legal Documents with the terms of the Bonds and the descriptions thereof in the Official Statement.

(d) the Underwriter shall have the right to terminate this Bond Purchase Agreement, without liability therefor, by notification to the Authority and the City if at any time at or prior to the Closing:

(i) any event shall occur or facts are discovered which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the

Official Statement, in the light of the circumstances under which they were made, not misleading; or

(ii) the marketability of the Bonds or the market price thereof, in the reasonable opinion of the Underwriter, has been materially and adversely affected by disruptive events, occurrences or conditions in the securities or debt markets, including but not limited to, an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Bond Purchase Agreement in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release, other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any Federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the Authority or the City, or the interest on bonds or notes or obligations of the general character of the Bonds; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the Bonds; or

(iv) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the issuance, offering or sale of the Bonds, including all underlying obligations, as contemplated hereby or by the Preliminary Official Statement or the Official Statement, is in violation or would be in violation of, or that obligations of the general character of the Bonds, or the Bonds, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Indenture needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(v) there shall have occurred any outbreak or escalation of hostilities or terrorist activities or other local, national or international calamity or crisis, or a default

with respect to the debt obligations of, or the institution of proceedings under the federal bankruptcy laws by or against, any state of the United States or agency thereof, or any city in the United States having a population of over one million, the effect of which on the financial markets of the United States will be such as in the Underwriter's reasonable judgment, makes it impracticable for the Underwriter to market the Bonds or enforce contracts for the sale of the Bonds; or

(vi) there shall have occurred or any notice shall have been given of any intended downgrading, suspension, withdrawal or negative change in credit watch status by any national rating service to the City's Enterprise obligations; or

(vii) the commencement of any action, suit or proceeding described in Paragraph 6(m) or Paragraph 7(n) hereof which, in the reasonable judgment of the Underwriter, materially adversely affects the market price of the Bonds; or

(viii) the declaration of a general banking moratorium by federal, New York or California authorities, the general suspension of trading on any national securities exchange or a material disruption in securities settlement, payment or clearance services, which event, in the reasonable judgment of the Underwriter, would materially adversely affect the market price of the Bonds; or

(ix) the imposition by the New York Stock Exchange or other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to obligations of the general character of the Bonds or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to net capital requirements of, the Underwriter, which, in the judgment of the Underwriter, would materially adversely affect the market price of the Bonds; or

(x) there shall have been any materially adverse change in the affairs of the Authority or the City which in the Underwriter's reasonable judgment materially adversely affects the ability of the Underwriter to market the Bonds.

If the Authority or the City shall be unable to satisfy the conditions contained in this Bond Purchase Agreement, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Bond Purchase Agreement, this Bond Purchase Agreement shall terminate and neither the Underwriter nor the Authority or the City shall be under further obligation hereunder, except as further set forth in Section 9 and Section 10 hereof.

9. Expenses

The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Authority Legal Documents and the City Legal Documents and the cost of preparing, printing, issuing and delivering the definitive Bonds, (b) the fees and disbursements of any counsel, financial advisors, accountants, verification agents or other experts or consultants retained by the City, (c) the fees and disbursements of Issuer's

Counsel to the Authority and Bond Counsel, (d) the fees and disbursements of Disclosure Counsel, (e) the fees and disbursements of the Trustee, and (f) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement and any supplements and amendments thereto, including the requisite number of copies thereof for distribution by the Underwriter. The City and the Underwriter intend that the City will pay all expenses of the City's employees that are incidental to implementing this Bond Purchase Agreement, including, but not limited to, meals, transportation, and lodging, of those employees, and the City shall reimburse the Underwriter if the Underwriter pays for any of such expenses on behalf of the City.

All out-of-pocket expenses of the Underwriter, including the California Debt and Investment Advisory Commission fee, fees and expenses of Underwriter's counsel, and other expenses (except as provided above), shall be paid by the Underwriter from the Underwriter's discount set forth in Section 1.

10. Covenants of the City

The City covenants with the Underwriter that:

(a) If between the date hereof and the date which is not less than 25 days after the End of the Underwriting Period for the Bonds (as defined below), an event occurs, or facts or conditions become known of which the City has knowledge which in the opinion of counsel to the Underwriter or counsel to the City, might or would cause the information contained in the Official Statement, as then supplemented or amended, to contain an untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading, the City will notify the Underwriter, and, if in the opinion of the Underwriter, such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will forthwith prepare and furnish to the Underwriter (at the expense of the City) a reasonable number of copies of an amendment of or supplement to the Official Statement (in the form and substance satisfactory to the Underwriter) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to prospective purchasers, not misleading. If such notification shall be after the Closing, the City shall forthwith provide to the Underwriter such certificates as the Underwriter may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement. For the purposes of this subsection, between the date hereof and the date which is 25 days after the End of the Underwriting Period for the Bonds, the City will furnish such information with respect to itself as the Underwriter may from time to time reasonably request;

(b) If the information contained in the Official Statement is amended or supplemented pursuant to subparagraph (a) of this Section 10, at the time of such supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such subparagraph) at all times subsequent thereto up to and including the date which is 25 days after the End of the Underwriting Period for the Bonds, the portions of the Official Statement so

supplemented or amended (including any financial and statistical data contained therein), excluding therefrom the information relating to DTC and its book-entry only system and under the caption "UNDERWRITING"), will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information therein, in the light of the circumstances under which it was made, not misleading;

(c) As used herein and for the purposes of the foregoing, the term "End of Underwriting Period" for the Bonds shall mean the earlier of (i) the Closing Date unless the City shall have been notified in writing to the contrary by the Underwriter on or prior to the Closing Date or (ii) the date on which the End of the Underwriting Period for the Bonds has occurred under the Rule, provided, however, that the City may treat as the End of the Underwriting Period for the Bonds the date specified as such in a notice from the Underwriter stating the date which is the End of the Underwriting Period;

(d) The City will advise the Underwriter immediately of receipt by the City of any notification with respect to the suspension of the qualification of the Bonds for sale in any jurisdiction or the initiation or threat of any proceeding for that purpose;

(e) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; provided, however, that the City shall not be required to register as a dealer or broker or foreign corporation in any such state or jurisdiction or consent to service of process therein; and

(f) The City will perform all actions as may be requested by the Underwriter (including delivery of an appropriate certificate with respect to the Preliminary Official Statement) in order for the Underwriter to comply with the applicable provisions of the Rule.

(g) Between the date hereof and the Closing Date, without the prior written consent of the Underwriter, the City will not have issued any bonds, notes, or other obligations for borrowed money, in each case payable from Revenues.

11. Notices

Any notice or other communication to be given to the Authority and the City under this Bond Purchase Agreement may be given by delivering the same in writing at the Authority's and the City's addresses set forth above and any such notice or other communication to be given to the Underwriter shall be delivered to the following address:

Raymond James & Associates, Inc.
One Embarcadero, Suite 650
San Francisco, CA 94111
Attention: Wing-See L. Fox
Telephone: (415) 616-8939
Facsimile: (415) 616-8070

12. Parties in Interest

This Bond Purchase Agreement is made solely for the benefit of the Authority, the City and the Underwriter and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations and warranties of the parties hereto contained in this Bond Purchase Agreement shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter, the Authority or the City until the earlier of (a) delivery of and payment for the Bonds hereunder and (b) any termination of this Bond Purchase Agreement.

13. Counterparts

This Bond Purchase Agreement may be executed in any number of counterparts, each of which shall be an original, and all of which shall constitute but one and the same instrument.

14. Effectiveness

This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution by the Underwriter and the acceptance hereof by the duly authorized representatives of the Authority and the City and shall be valid and enforceable as of the time of such acceptance.

15. Choice of Law

The validity, interpretation and performance of this Bond Purchase Agreement shall be governed by the laws of the State of California, without regard to conflicts of law.

16. Severability

In the event any provision of this Bond Purchase Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

17. Entire Agreement

The Bond Purchase Agreement, when accepted by the Authority and the City in writing as heretofore specified, shall constitute the entire agreement among the Authority, the City and the Underwriter.

18. Headings

The headings of the sections of this Bond Purchase Agreement are inserted for convenience only and shall not be deemed to be part hereof.

19. No Assignment

The rights and obligations created by this Bond Purchase Agreement shall not be subject to assignment by the Underwriter, the Authority or the City without the prior written consent of the other parties hereto.

[The remainder of this page intentionally left blank.]

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

RAYMOND JAMES & ASSOCIATES, INC.

By:_____
Vice President

Accepted at ____ as of the date hereof:

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

By:_____
Name:
Title:

CITY OF SAN BERNARDINO, acting by and through the City of San Bernardino Municipal Water Department

By:_____
Name:
Title:

SCHEDULE I

Maturity Date (_____)	Principal Amount	Interest Rate	Yield	Price

[ADD REDEMPTION PROVISIONS]

RESOLUTION NO. 898

A RESOLUTION OF THE BOARD OF WATER COMMISSIONERS OF THE CITY OF SAN BERNARDINO RECOGNIZING DONALD YORK FOR THIRTY-SIX YEARS OF DEDICATED SERVICE TO THE CITY OF SAN BERNARDINO MUNICIPAL WATER DEPARTMENT.

SEP 27 2016

WHEREAS, Donald first entered into employment as a Heavy Laborer on May 19, 1980; and

WHEREAS, Donald promoted to Water Utility Maintenance Painter Helper, promoted to Water Utility Maintenance Painter, promoted to Senior Water Utility Maintenance Painter, Title Change to Water Utility Construction Mechanic II, promoted to Water Utility Maintenance Leadperson, promoted to Water Utility Construction Supervisor, Title Change to Water Utility Maintenance Supervisor, and Title Change to Water Utility Supervisor; and

WHEREAS, Donald was instrumental in assisting with the maintenance of a large, complex water system, his years of experience greatly contributed to the overall success of the Operations Section; and

WHEREAS, Donald obtained a Grade II Water Treatment Operator Certificate, a Grade III Water Distribution Operator Certificate, and received numerous other safety and professional training certificates; and

WHEREAS, Donald formally retired from the City of San Bernardino Municipal Water Department on August 15, 2016.

NOW, THEREFORE, BE IT RESOLVED that the Board of Water Commissioners of the City of San Bernardino Municipal Water Department hereby commends Donald York for his dedicated service to the City of San Bernardino Municipal Water Department and wishes him a long and rewarding retirement.

BE IT FURTHER RESOLVED that this Resolution be presented to Donald York.

I HEREBY CERTIFY that the foregoing resolution was duly adopted by the Board of Water Commissioners of the City of San Bernardino at a regular meeting thereof, held on the 6 day of September, 2016.

Toni Callicott, President

Judith Valles, Commissioner

Louis A. Fernández, Commissioner

Wayne Hendrix, Commissioner

David Mlynarski, Commissioner